

NPR FOUNDATION

FINANCIAL STATEMENTS

for the years ended September 30, 2006 and 2005

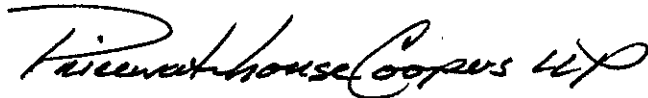
AND

REPORT THEREON

Report of Independent Auditors

To the Board of Trustees
NPR Foundation:

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of NPR Foundation ("the Foundation") at September 30, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements, and in our report dated November 23, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



December 14, 2006

NPR FOUNDATION
 Statements of Financial Position
 As of September 30, 2006 (with comparative totals for 2005)

	2006				2005
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
ASSETS					
Cash and cash equivalents	\$ 2,765,398	\$ -	\$ -	\$ 2,765,398	\$ 77,646
Investments	62,670,470	-	195,358,625	258,029,095	239,715,987
Receivables, net	506,282	463,355	-	969,637	2,237,985
Prepaid assets	4,946	-	-	4,946	8,050
Interfund (payable)/receivable	(219,999)	219,999	-	-	-
TOTAL ASSETS	\$ 65,727,097	\$ 683,354	\$ 195,358,625	\$ 261,769,076	\$ 242,039,668
LIABILITIES AND NET ASSETS					
Due to National Public Radio	\$ 199,889	\$ -	\$ -	\$ 199,889	\$ 16,653
Accrued expenses	29,025	-	-	29,025	30,750
TOTAL LIABILITIES	228,914	-	-	228,914	47,403
NET ASSETS	65,498,183	683,354	195,358,625	261,540,162	241,992,265
TOTAL LIABILITIES AND NET ASSETS	\$ 65,727,097	\$ 683,354	\$ 195,358,625	\$ 261,769,076	\$ 242,039,668

NPR FOUNDATION
Statements of Activities
Year Ended September 30, 2006 (with comparative totals for 2005)

	2006				2005
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUES					
Contributions	\$ 4,126,515	\$ 430,640	\$ -	\$ 4,557,155	\$ 4,077,472
Net assets released from restrictions	1,185,000	(1,185,000)	-	-	-
Return on investments	24,212,896	-	16,860	24,229,756	12,406,856
Donated goods & services	-	-	-	-	6,000
Other revenue	49,835	-	-	49,835	-
TOTAL REVENUES	29,574,246	(754,360)	16,860	28,836,746	16,490,328
EXPENSES					
Support services	1,005,101	-	-	1,005,101	866,005
TOTAL EXPENSES	1,005,101	-	-	1,005,101	866,005
CHANGES IN NET ASSETS BEFORE CONTRIBUTIONS TO NATIONAL PUBLIC RADIO	28,569,145	(754,360)	16,860	27,831,645	15,624,323
Contributions to National Public Radio	8,283,748	-	-	8,283,748	5,385,039
CHANGE IN NET ASSETS	20,285,397	(754,360)	16,860	19,547,897	10,239,284
NET ASSETS, BEGINNING OF YEAR	45,212,786	1,437,714	195,341,765	241,992,265	231,752,981
NET ASSETS, END OF YEAR	\$ 65,498,183	\$ 683,354	\$ 195,358,625	\$ 261,540,162	\$ 241,992,265

NPR FOUNDATION
 Statements of Cash Flows
 Year Ended September 30, 2006 (with comparative totals for 2005)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ 19,547,897	\$ 10,239,284
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH		
FLAWS PROVIDED BY OPERATING ACTIVITIES:		
Unrealized/realized gain on investments	(19,323,276)	(8,667,491)
Decrease in receivables	1,268,348	355,694
Decrease (increase) in prepaid assets	3,104	(8,050)
Decrease in due from National Public Radio	-	619,682
Increase in due to National Public Radio	183,236	16,653
Decrease in accrued expenses	(1,725)	(44,794)
Investment return restricted for endowment purposes	(16,860)	(33,803)
	1,660,724	2,477,175
Net cash flows provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
INVESTMENTS:		
Purchases	(73,998,331)	(109,156,243)
Sales and Maturities	75,008,499	103,734,084
	1,010,168	(5,422,159)
Net cash flows provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Investment return restricted for endowment purposes	16,860	33,803
	16,860	33,803
Net cash flows provided by financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,687,752	(2,911,181)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,646	2,988,827
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,765,398	\$ 77,646

NPR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

NPR Foundation (the Foundation), a supporting organization of National Public Radio, Inc. (NPR), was founded in 1992 with the purpose of raising charitable contributions for the benefit of NPR, disbursing funds to NPR for the operation, promotion, development, capital expansion, and other valid purposes of NPR, and conducting fundraising efforts and engaging in related activities for the benefit of NPR.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements of the Foundation are presented on the accrual basis of accounting.

The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's audited financial statements for the year ended September 30, 2005, from which the summarized information was derived.

Classification of Net Assets - Net assets are reported separately by class as follows:

- a. Permanently restricted net assets - Contributions and other inflows of assets whose use is limited by donor-imposed stipulations that the resources must be maintained permanently; however, as specified by the donor income may be used by the Foundation (Note 8).
- b. Temporarily restricted net assets - Contributions and other inflows of assets whose use is limited by donor-imposed stipulations that will expire by donor payment of an Endowment for Excellence pledge, passage of time, or can be fulfilled and removed by actions of the entity, such as usage for specific programs.
- c. Unrestricted net assets - Unrestricted net assets result from revenues derived from unrestricted contributions, return on investments, and other inflow of assets whose use is not limited by donor-imposed restrictions less expenditures. Earnings from the Endowment for Excellence, as well as its principal, are available to support the unrestricted activities of the Foundation, including disbursing funds to NPR.

Contributions - Contribution revenue is recognized when assets or commitments of unconditional promises to give are received. Contributions of assets other than cash are recorded at fair value at the date of donation. Contributions restricted in perpetuity are classified as permanently restricted. Contributions that are restricted by the donor for a specific time or purpose, or unpaid contributions not explicitly designated as available to support current operations, are reported as temporarily restricted contributions, except those contributions whose restrictions are met in the current fiscal year are recognized as unrestricted revenue. When a donor-stipulated time restriction ends or purpose restriction is accomplished, or when an endowment pledge not designated for current year use is paid, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

All unconditional promises to give, which are expected to be received beyond one year, are discounted to their net present value, as well as reduced for any estimated uncollectible amounts.

Cash and Cash Equivalents - Cash and cash equivalents reflect amounts that approximate fair value due to the short maturity of these instruments. Operating checking accounts, sweep accounts, interest bearing liquid investment accounts, and repurchase agreements are included in cash and cash equivalents.

Interfund (payable) receivable - Certain assets held in unrestricted, temporarily restricted, and permanently restricted accounts as of the fiscal year end are reflected as interfund payable/receivable on the statement of financial position.

Donated Goods and Services – The Foundation receives contributions of goods and services from various sources. These contributions are recorded at the fair value of the goods and services. Revenue is recognized as goods and services are received and the related expenses are reflected in the appropriate functional area that received the benefits of the good or service provided.

Investments – Investment balances, income, and net appreciation are reported as either restricted or unrestricted, in accordance with donor specifications. Unrestricted, temporarily restricted, and permanently restricted funds are invested in a commingled (pooled) manner. The Foundation employs a time-weighted dollar value accounting method for pooled general investments. Income and net appreciation are distributed proportionately based on value that each fund participates in the investment pool.

Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the statement of activities. Equities and fixed income securities listed or traded on a securities exchange are valued at the last sale price on the primary exchange where the security is traded. Marketable securities held by a custodian, either in the organization's name or held for the organization's account in a street name, are valued at the custodian's valuation using a valuation methodology similar to above. Money market accounts are valued as determined by the bank or money market manager. Alternative investments, principally private equity, real estate, and hedge and absolute return funds, are valued using the most recent valuation available by the respective external fund manager. The estimated fair value of certain alternative investments such as private equity interests, is based on valuations provided by external investment managers as of a prior quarter, adjusted for cash receipts, cash disbursements, and securities distributions through September 30. The organization believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Typically private equities and real estate are valued at the lower of cost or market until external events substantiate the change in value or a reasonable methodology exists to capture and quantify changes in value.

Investments are managed in accordance with Board approved investment and spending policies. The policies, including the policy establishing the portion of the portfolio to be spent annually, are designed to preserve the value of the portfolio in real terms (after inflation) and to generate a reliable flow of earnings for support of NPR. The portion of the Foundation portfolio that is distributed each year is based on a rate that is approved by the Foundation Board of Trustees. This rate is not set based on a specific formula, nor is it directly tied to current investment returns. Rather, it reflects expectation about long-term returns and inflation rates, and seeks to maintain a consistent distribution rate based upon the portfolio's twelve-quarter rolling average market value ending on the 31st of March preceding each fiscal year. Should the portfolio's yields prove to be insufficient to support the annual spending policy, the balance is provided from prior year's total investment return or unrestricted funds, subject to donor limitations. Should the portfolio's yields exceed the amounts necessary to maintain this objective, the balance is reinvested in the portfolio.

Concentration of Business Activity – Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist primarily of cash, cash equivalents, receivables, and investments. The Foundation maintains cash and cash equivalents and investments with high quality institutions and has established guidelines relative to diversification and maturities that limit the amount placed with any single investment manager. The Foundation has not incurred any losses due to the credit risk on these instruments or receivables.

Income Taxes - The Foundation is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income. No provision for income tax is required for 2006 and 2005.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

The accounting policy concerning investment valuations relies on data from fund managers that cannot be substantiated by third parties, and it is considered to have the largest potential for significant financial impact. Valuations for investments, principally alternative investments, are subjective and require

judgment regarding significant matters such as the comparability to similar investments, liquidity, interest rates, and the determination of external events adequate to quantify changes in value. Changes in assumptions could have a significant effect on the fair value of these instruments.

3. RELATED PARTIES

Most expenses are initially paid for by NPR and periodically throughout the year the Foundation will reimburse NPR for the expenses paid on its behalf. The amounts due to/from NPR, if any, are reflected in the accompanying financial statements.

Members of the Board of Trustees are significant contributors to the Foundation. Their gifts amounted to \$2,522,242 and \$2,405,611 in fiscal years 2006 and 2005, respectively.

4. INVESTMENTS

The Foundation's investments at September 30, 2006 and 2005, stated at fair value, are comprised of the following:

	<u>2006</u>	<u>2005</u>
Equities	\$ 91,991,427	\$ 74,155,509
Fixed income	84,272,647	99,893,992
Money market funds	1,179,578	3,420,680
Alternative investments and private equities:		
Hedge funds	75,714,991	61,290,456
Real estate	4,522,447	498,946
Private equities	<u>348,005</u>	<u>456,404</u>
Total	<u>\$ 258,029,095</u>	<u>\$ 239,715,987</u>

The estimated net realizable value of stock in Overseas Partners Ltd. (OPL), a Bermuda-based reinsurance company, is \$114,074 and \$608,539 as of September 30, 2006 and 2005, respectively, and is included in private equities. OPL has announced its sale effective September 21, 2005. The amount and timing of the final distribution will be determined after the results of the regulatory review process are known and the sale is concluded. OPL made payments of liquidating distributions of \$441,427 and \$630,610 in 2006 and 2005, respectively.

The Foundation had outstanding commitments of \$26,287,454 and \$10,000,000 as of September 30, 2006 and 2005, respectively. These commitments represented amounts expected to be drawn by investment fund managers in the Alternative Investments and Private Equities category of the portfolio. The commitments will be funded by liquidating other investments.

5. RETURN ON INVESTMENTS (LOSS)

For the years ended September 30, 2006 and 2005 investment return (loss) was comprised of the following:

	<u>2006</u>	<u>2005</u>
Dividends and interest	\$ 4,906,480	\$ 3,739,365
Realized gain/(loss)	1,794,822	(173,055)
Unrealized gain	<u>17,528,454</u>	<u>8,840,546</u>
Total	<u>\$ 24,229,756</u>	<u>\$ 12,406,856</u>

Dividends and interest are reported net of internal and external investment services fees. Investment service fees totaled \$906,790 and \$444,423 in fiscal years 2006 and 2005, respectively.

6. RECEIVABLES, NET

As of September 30, 2006 and 2005, contributors to the Foundation have pledged within five years as follows:

	<u>2006</u>	<u>2005</u>
Less than one year	\$ 570,133	\$ 2,307,771
One to five years	<u>492,500</u>	<u>75,000</u>
Total	1,062,633	2,382,771
Allowance for doubtful accounts	(63,850)	(115,000)
Discount to present value	<u>(29,146)</u>	<u>(29,786)</u>
Total	<u>\$ 969,637</u>	<u>\$ 2,237,985</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, consisting primarily of future year Endowment for Excellence pledges, are all time restricted and total \$683,354 and \$1,437,714 as of September 30, 2006 and 2005, respectively.

8. PERMANENTLY RESTRICTED NET ASSETS

Several years ago, the Foundation received contributions totaling \$1,000,000, with donor stipulations that permanently limit the use of assets. Under the terms of the contributions, the amount of each contribution was to establish a permanently restricted fund. The return on investments from the funds is to be used for the support of cultural programming. Further, one contribution required a portion of investment earnings to be added to the principal annually in order to preserve the purchasing power of the fund. In fiscal years 2006 and 2005, respectively, \$16,860 and \$33,803 were added for this purpose. The remaining return on investments is permitted to be used to support current operations.

During the year ended September 30, 2004, the Foundation received a contribution of cash and investments totaling \$194,259,782 establish a permanently restricted endowment for the support of NPR operations. Under the terms of the contribution, the income and net appreciation of the endowment are available to support the mission of NPR. Therefore, the income and net appreciation of the endowment are recorded as unrestricted revenue as earned.

9. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

For the years ended September 30, 2006 and 2005 net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, passage of time, or by occurrence of other events specified by donors as follows:

	<u>2006</u>	<u>2005</u>
Endowment for excellence	\$ 1,175,000	\$ 1,333,450
Fund for new initiatives	<u>10,000</u>	<u>15,000</u>
Total restrictions released	<u>\$ 1,185,000</u>	<u>\$ 1,348,450</u>