

**NPR FOUNDATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

**NPR FOUNDATION  
TABLE OF CONTENTS  
YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>2</b>
<b>STATEMENTS OF ACTIVITIES</b>	<b>3</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>4</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>5</b>



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
NPR Foundation  
Washington, D.C.

We have audited the accompanying statement of financial position of the NPR Foundation as of September 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 financial statements of the NPR Foundation as of September 30, 2006, which were audited by other auditors whose report dated December 14, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the NPR Foundation as of September 30, 2007, and the changes in its net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP

Arlington, VA  
December 20, 2007



(1)  
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NPR FOUNDATION  
 Statements of Financial Position  
 As of September 30, 2007 (with comparative totals for 2006)

	2007				2006
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,603,646	\$ -	\$ -	\$ 1,603,646	\$ 2,765,398
Investments	98,093,838	-	195,417,448	293,511,286	258,029,095
Receivables, net	273,334	1,016,339	28,393	1,318,066	969,637
Prepaid assets	-	-	-	-	4,946
Interfund (payable)/receivable	(140,031)	140,031	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 99,830,787</b>	<b>\$ 1,156,370</b>	<b>\$ 195,445,841</b>	<b>\$ 296,432,998</b>	<b>\$ 261,769,076</b>
<b>LIABILITIES AND NET ASSETS</b>					
Due to National Public Radio	\$ 613,452	\$ -	\$ -	\$ 613,452	\$ 199,889
Accrued expenses	17,399	-	-	17,399	29,025
<b>TOTAL LIABILITIES</b>	<b>630,851</b>	<b>-</b>	<b>-</b>	<b>630,851</b>	<b>228,914</b>
<b>NET ASSETS</b>	<b>99,199,936</b>	<b>1,156,370</b>	<b>195,445,841</b>	<b>295,802,147</b>	<b>261,540,162</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 99,830,787</b>	<b>\$ 1,156,370</b>	<b>\$ 195,445,841</b>	<b>\$ 296,432,998</b>	<b>\$ 261,769,076</b>

NPR FOUNDATION  
Statements of Activities  
Year Ended September 30, 2007 (with comparative totals for 2006)

	2007				2006
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
<b>REVENUES</b>					
Contributions	\$ 3,790,318	\$ 769,514	\$ 58,379	\$ 4,618,211	\$ 4,557,155
Net assets released from restrictions	296,497	(296,497)	-	-	-
Return on investments	41,994,680	-	28,837	42,023,517	24,229,756
Other revenue	66,380	-	-	66,380	49,835
<b>TOTAL REVENUES</b>	<b>46,147,875</b>	<b>473,017</b>	<b>87,216</b>	<b>46,708,108</b>	<b>28,836,746</b>
<b>EXPENSES</b>					
Support services	1,285,173	-	-	1,285,173	1,005,101
<b>TOTAL EXPENSES</b>	<b>1,285,173</b>	<b>-</b>	<b>-</b>	<b>1,285,173</b>	<b>1,005,101</b>
<b>CHANGE IN NET ASSETS BEFORE CONTRIBUTIONS TO NATIONAL PUBLIC RADIO</b>	<b>44,862,702</b>	<b>473,017</b>	<b>87,216</b>	<b>45,422,935</b>	<b>27,831,645</b>
Contributions to National Public Radio	11,160,950	-	-	11,160,950	8,283,748
<b>CHANGE IN NET ASSETS</b>	<b>33,701,752</b>	<b>473,017</b>	<b>87,216</b>	<b>34,261,985</b>	<b>19,547,897</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>65,498,184</b>	<b>683,353</b>	<b>195,358,625</b>	<b>261,540,162</b>	<b>241,992,265</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 99,199,936</b>	<b>\$ 1,156,370</b>	<b>\$ 195,445,841</b>	<b>\$ 295,802,147</b>	<b>\$ 261,540,162</b>

NPR FOUNDATION  
Statements of Cash Flows  
Year Ended September 30, 2007 (with comparative totals for 2006)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
CHANGE IN NET ASSETS	\$ 34,261,985	\$ 19,547,897
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Unrealized/realized gain on investments	(35,394,846)	(19,323,276)
(Increase) decrease in receivables	(348,430)	1,268,348
Decrease in prepaid assets	4,946	3,104
Increase in due to National Public Radio	413,563	183,236
Decrease in accrued expenses	(11,626)	(1,725)
Investment return restricted for endowment purposes	(28,837)	(16,860)
	(1,103,245)	1,660,724
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
INVESTMENTS:		
Purchases	(36,495,226)	(73,998,331)
Sales and maturities	36,407,882	75,008,499
	(87,344)	1,010,168
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Investment return restricted for endowment purposes	28,837	16,860
	28,837	16,860
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,161,752)	2,687,752
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,765,398	77,646
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,603,646	\$ 2,765,398

## 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, 2006, 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.

Functional Expenses- Contributions to National Public Radio, Inc are considered programmatic costs of the Foundation. Support services are predominantly comprised of General and Administrative expenses.

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 statements of financial position.

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 statements 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, are 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. 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. The asset allocation of the Foundation's portfolio is intended to provide exposure to a diverse set of markets. These markets are subject to various risks such as interest rate, market, sovereign, and credit risks. The Foundation anticipates that the value of its investments may, from time to time, fluctuate as a result of these risks and anticipates that the structured diversification will provide counter-fluctuations within the portfolio to mitigate market risks. The organization believes the carrying amount of these financial instruments is a reasonable estimate of fair 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 31<sup>st</sup> 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 years' 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. As of September 30, 2007 and 2006, substantially all of the balances were in excess of the Federal Deposit Insurance Corporation insurance limit. The Foundation has established guidelines relative to diversification and maturities of long-term investments to 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 2007 and 2006.

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 \$2,218,245 and \$2,722,242 in fiscal years 2007 and 2006, respectively.

### 4. INVESTMENTS

The Foundation's investments at September 30, 2007 and 2006, stated at fair value, are comprised of the following:

	<u>2007</u>	<u>2006</u>
Equities	\$ 145,446,287	\$ 119,117,420
Fixed income	59,463,136	84,272,651
Money market funds	3,058,236	1,179,578
Alternative investments		
Hedge funds	63,250,929	40,256,775
Real estate and other assets	19,548,917	12,854,666
Private equities	<u>2,743,781</u>	<u>348,005</u>
Total	<u>\$ 293,511,286</u>	<u>\$ 258,029,095</u>

The estimated net realizable value of stock in Overseas Partners Ltd. (OPL), a Bermuda-based reinsurance company, is \$125,334 and \$114,074 as of September 30, 2007 and 2006, respectively, and is included in private equities. OPL has announced its sale effective September 21, 2006. 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 \$0 and \$441,427 in 2007 and 2006, respectively.

The Foundation had outstanding commitments of \$42,498,278 and \$26,287,454 as of September 30, 2007 and 2006, respectively. These commitments represented amounts expected to be drawn by investment fund managers in the Alternative Investments category of the portfolio. The commitments will be funded by liquidating other investments.

5. RETURN ON INVESTMENTS

For the years ended September 30, 2007 and 2006 investment return was comprised of the following:

	<u>2007</u>	<u>2006</u>
Dividends and interest	\$ 7,734,410	\$ 5,813,270
Realized gain	1,779,031	1,794,822
Unrealized gain	33,615,816	17,528,454
Direct investment services fees	<u>(1,105,740)</u>	<u>(906,790)</u>
Total	<u>\$ 42,023,517</u>	<u>\$ 24,229,756</u>

6. RECEIVABLES, NET

As of September 30, 2007 and 2006, contributors to the Foundation have pledged within five years as follows:

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 316,727	\$ 570,133
One to five years	<u>1,025,972</u>	<u>492,500</u>
Total	1,342,699	1,062,633
Allowance for doubtful accounts	(15,000)	(63,850)
Discount to present value	<u>(9,633)</u>	<u>(29,146)</u>
Total	<u>\$ 1,318,066</u>	<u>\$ 969,637</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, consisting primarily of future year Endowment for Excellence pledges, are time restricted and total \$1,156,370 and \$683,353 as of September 30, 2007 and 2006, 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 2007 and 2006, respectively, \$28,837 and \$16,860 were added for this purpose. The remaining return on investments is permitted to be used to support current operations.

The Foundation received a contribution of cash and investments totaling \$195,445,841 several years ago to 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, 2007 and 2006 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>2007</u>	<u>2006</u>
Endowment for excellence	\$ 286,497	\$ 1,175,000
Fund for new initiatives	<u>10,000</u>	<u>10,000</u>
Total restrictions released	<u>\$ 296,497</u>	<u>\$ 1,185,000</u>

10. COMMITMENTS

During fiscal year 2007, Public Radio Capital (PRC) established the Public Radio Fund (Fund). The Fund is a revolving loan fund that offers licensees of public broadcasting stations the opportunity to obtain short-term financing for the acquisition and expansion of their capital assets. The NPR Board of Directors and the NPR Foundation Board of Trustees approved a \$2.5 million loan to the Fund, which is expected to be funded over several years.

During fiscal year 2008, the NPR Foundation will provide NPR with a \$2.5 million grant, which will cover NPR's loan to the Fund as a senior investor on a draw down schedule based upon the lending requirement of the Fund. Any interest earned on the loan to the Fund will be paid to the NPR Foundation as earned.