NASHVILLE PUBLIC TELEVISION, INCORPORATED

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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Independent Auditors' Report

To the Board of Directors
Nashville Public Television, Incorporated
Nashville, Tennessee

We have audited the statements of financial position of Nashville Public Television, Incorporated (NPT) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NPT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Public Television, Incorporated at June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin, Vaden & Associates, P.C.

October 18, 2006
Nashville, Tennessee

NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	June 30, 2006	June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$1,028,631	$1,338,325
Investments	389,070	350,671
Accounts receivable, net of allowance for doubtful accounts of $15,000 as of June 30, 2006 and 2005	398,859	242,238
Prepaid expenses and other assets	62,424	16,157
Total current assets	1,878,984	1,947,391
Beneficial interest in trusts (Note B)	54,430	54,797
Property, plant and equipment, net (Note C)	3,304,972	3,208,754
Film and program costs (Note D)	-	43,000
Intangible assets, net	15,636	17,374
Long-term investments	48,721	44,596
Total assets	$5,302,743	$5,315,912
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 364,366	$ 262,436
Deferred revenue	-	9,245
Total current liabilities	364,366	271,681
Net assets:		
Unrestricted:		
Undesignated	4,813,330	4,932,434
Board designated	57,735	28,485
Total unrestricted	4,871,065	4,960,919
Temporarily restricted (Note J)	15,000	31,000
Permanently restricted (Note J)	52,312	52,312
Total net assets	4,938,377	5,044,231
Total liabilities and net assets	$5,302,743	$5,315,912

See accompanying notes to financial statements.

NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF ACTIVITIES

	Years Ended June 30, 2006	2005
Changes in unrestricted net assets:		
Operating revenue:		
Contributions	$ 2,875,763	$ 2,948,455
Contributions from state and local governmental units	555,793	430,797
Contributions from the Corporation for Public Broadcasting	1,054,110	919,645
Sale of services, guides, and films	763,855	588,868
In-kind donations (Note E)	297,208	281,500
Grants	180,643	-
Gain on investments	2,780	2,197
(Loss) gain on beneficial interest in trusts	(367)	2,485
Net assets released from restrictions	31,000	6,000
Total operating revenue	5,760,785	5,179,947
Operating expenses:		
Program services:		
Programming and production	2,931,500	3,228,111
Broadcasting	987,014	963,204
Program information	314,732	315,417
Total program services	4,233,246	4,506,732
Supporting services:		
Development and fund raising	1,009,743	961,925
Administration	607,650	600,160
Total supporting services	1,617,393	1,562,085
Total operating expenses	5,850,639	6,068,817
Net decrease in unrestricted net assets	(89,854)	(888,870)
Change in temporarily restricted net assets:		
Grants	15,000	25,000
Net assets released from restrictions	(31,000)	(6,000)
Net (decrease) increase in temporarily restricted net assets	(16,000)	19,000
Net decrease in net assets	(105,854)	(869,870)
Net assets at beginning of year	5,044,231	5,914,101
Net assets at end of year	$ 4,938,377	$ 5,044,231

See accompanying notes to financial statements.

NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2006	2005
Operating activities:		
Net decrease in net assets	$(105,854)	$(869,870)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	433,850	450,648
Loss (gain) on beneficial interest in trusts	367	(2,485)
Gain on investments	(2,780)	(2,197)
Amortization of film and program costs	43,000	330,156
Amortization of intangible assets	1,737	1,737
Loss on sale of equipment	15,230	-
Changes in assets and liabilities:		
(Increase) decrease in receivables, net	(156,621)	68,405
Increase in film and program costs	-	(71,902)
Increase in prepaid expenses	(46,267)	(4,208)
Increase (decrease) in accounts payable and accrued liabilities	101,930	(104,473)
Decrease in deferred revenue	(9,245)	(1,955)
Net cash (used in) provided by operating activities	275,347	(206,144)
Cash flows used in investing activities:		
Purchases of equipment	(545,297)	(31,781)
Purchases of investments	(39,744)	(10,767)
Net cash used in investing activities	(585,041)	(42,548)
Net decrease in cash and cash equivalents	(309,694)	(248,692)
Cash and cash equivalents at beginning of year	1,338,325	1,587,017
Cash and cash equivalents at end of year	$ 1,028,631	$ 1,338,325

See accompanying notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Nashville Public Television, Incorporated (NPT or the Station), a community nonprofit corporation, was incorporated on May 13, 1998 for the purpose of promoting public broadcasting and telecommunications. The Station is the FCC Licensee for WNPT, the public television station in Nashville, Tennessee.

Transfer of Net Assets from WDCN - Channel 8

As a result of a Statement of Understanding and Purpose entered into between the Metropolitan Board of Public Education of the Metropolitan Government of Nashville and Davidson County (MBPE) and the Nashville Public Television Council (NPTC), ownership and operational control of WDCN - Channel 8 was transferred to WDCN Public Television Corporation as of June 30, 1999. The assets and liabilities were transferred at the carrying value as reflected in the accounts of WDCN - Channel 8. The Station changed its legal name from WDCN Public Television Corporation to Nashville Public Television, Incorporated in January 2001. MBPE retains a perpetual right of first refusal in acquiring any broadcast-related assets that MBPE may be eligible to acquire, at such time as NPT might seek disposal.

Accrual Basis and Financial Statement Presentation

The financial statements of the Station have been prepared on the accrual basis of accounting.

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period in which collection is determined to be probable. Substantially all pledges are received within one year. The station classifies its support, revenues, expenses, gains and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Station and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Station and/or the passage of time.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require the assets be maintained permanently by the Station. Generally, the donors of these assets permit the Station to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statements of financial position and the amount of change in each class of net assets is displayed in the statements of activities.

Use of Estimates in the Preparation of Financial Statements

Management of the Station has made certain estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Station considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Current investments consist of a certificate of deposit which matures October 9, 2006. Long-term investments consist of an equity interest in a joint venture created for the purpose of exploring new initiatives in digital television, which is accounted for on the cost basis since the Station's ownership interest in the joint venture is less than 10%.

Deferred Program Costs

Costs incurred to purchase or produce programs not yet broadcast which will not generate revenues through sale or distribution of broadcast rights are deferred and amortized over the life of the program. Grants related to the production of programs not yet broadcast are included in temporarily restricted net assets.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Film and Program Costs

Costs incurred to purchase or produce films and programs, which will generate revenues through sale or distribution of the broadcast rights, are deferred. The Station amortizes these costs of production of films and programs using the individual-film-forecast method under which the costs are amortized in the ratio that revenue earned for the specific title in the current period bears to management's estimate of the total revenues to be realized from all media and markets for the specific title. All exploitation costs, including advertising and marketing costs, are expensed as incurred. Estimates of total gross revenues can change due to a variety of factors, including the level of market acceptance of the production.

Property, Plant, and Equipment

The majority of equipment utilized by the Station was transferred to the Station by WDCN - Channel 8, at cost. These assets are being depreciated on a straight-line basis over their estimated useful lives which range from three to ten years. Costs of maintenance and repairs are charged to expense as incurred.

Intangible Assets

The Station owns the rights to the call letters WNPT. The purchase of the rights to the call letters and any related name registrations occurred effective July 2000 and has been capitalized at cost ($26,055). The copyrights are being amortized over a period of 15 years ($1,737 per year) using the straight-line method.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell. The Station had no impairments of long-lived assets during 2006 or 2005.

Income Taxes

The Station is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; and accordingly no provision for income taxes is included in the accompanying financial statements.

B. BENEFICIAL INTERESTS IN TRUSTS

During 2004, the station received $52,312 in funds held in a trust for the benefit of the Station. The funds have been recorded in the Station's financial statements as beneficial interests in trusts. The Station received immaterial interest or dividend income during 2006 and 2005. Total market value at June 30, 2006 and 2005 was $54,430 and $54,797, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

Classification of property, plant and equipment is as follows:

	2006	2005
Land and buildings	$ 2,044,162	$ 1,996,036
Broadcast equipment	3,551,630	3,231,180
Production equipment	1,645,834	1,608,412
Furniture, fixtures and office equipment	408,121	441,537
	7,649,747	7,277,165
Less accumulated depreciation	(4,344,775)	(4,068,411)
Property, plant and equipment, net	$ 3,304,972	$ 3,208,754

Pursuant to the Statement of Understanding and Purpose between MBPE and NPT, in the event that any of the real property transferred from MBPE to NPT should cease to be used for a public television station or be mortgaged or used as collateral for a loan on or before June 30, 2009, such property is subject to reversion to MBPE under MBPE's perpetual right of first refusal to acquire such broadcast related assets. In addition, certain equipment which was partially funded by governmental grants is subject to lien in the event of sale or disposition to entities other than public broadcasting stations.

D. FILM AND PROGRAM COSTS

During fiscal 2001 the Station produced an educational program for resale with total program costs of $215,000. Amortization expense of $43,000 was recorded for the years ended June 30, 2006 and 2005. The Station realized all remaining revenue on the programs during the fiscal year June 30, 2006.

E. IN-KIND DONATIONS AND DONATED PERSONAL SERVICES VOLUNTEERS

In-kind contributions are recorded as revenue and expenses in the accompanying statements of activities. These contributions consists of services recorded at the estimated fair market value, as determined by the provider, at the date of the gift. Revenue from underwriting and related broadcasting expenses totaled $297,208 and $281,500 for the years ended June 30, 2006 and 2005, respectively.

F. LINE-OF-CREDIT

The Station had an unsecured line-of-credit with a commercial bank in the amount of $500,000, which expires August 13, 2008. Borrowings are at the lender's prime rate (8.25% at June 30, 2006). The Station had no outstanding balance on the line-of-credit at June 30, 2006 or 2005.

G. COMMITMENTS

At June 30, 2006 the Station had the following commitments related to fiscal year 2007.

Purchase of programming from the Public Broadcasting System (PBS)	$735,093
PBS membership dues and interconnect fees	134,920
National Educational Telecommunication Association annual dues	9,745
Tennessee Public Television Council (TPTC) annual dues	15,475
BBC programming	11,858
	$907,091

In the event that the Station should lease, license, sell or convey a portion of its digital television signal to third parties for commercial purposes, the Station is obligated to pay fifty percent of any related net proceeds to MBPE until June 30, 2009.

H. DEFINED CONTRIBUTION RETIREMENT PLAN

The Station has a 403(b) defined contribution retirement plan for eligible employees. Under this plan, the Station contributes a minimum of two percent (for which no employee contribution is required) up to a maximum of eight percent (through matching provisions) of employee salaries, subject to Internal Revenue Service limitations. The total amounts contributed under this plan were $118,567 and $138,108 for 2006 and 2005, respectively.

During fiscal 2005, the station discovered it had been under funding its contribution to its retirement plan due to a misinterpretation of the plan document. As of June 30, 2006, the station accrued a liability of $47,424 to remedy the deficiency.

I. CONCENTRATIONS OF CREDIT RISK

The Station maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. The Station maintains its accounts with high credit quality financial institutions and has never experienced any losses in such accounts.

J. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets at June 30, 2006 and 2005 consisted of the following:

	2006	2005
NPT Family Literacy Project for Refugees	$15,000	$ -
Agency for Instructional Technology Grant	-	6,000
Healthy Habits of Life Program	-	25,000
	$15,000	$31,000

Net assets of $31,000 in fiscal 2006 and $6,000 in fiscal 2005 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services and additional equipment.

Permanently restricted net assets at June 30, 2006 and 2005 consisted of a beneficial interest in a trust.