

EDUCATIONAL MEDIA FOUNDATION

Rocklin, California

**CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

December 31, 2010

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Educational Media Foundation

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Educational Media Foundation
Rocklin, California

We have audited the accompanying consolidated statement of financial position of Educational Media Foundation (EMF) and subsidiaries as of December 31, 2010, and the related consolidated statements of activities, natural expenses, and cash flows for the year then ended. These financial statements are the responsibility of EMF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Educational Media Foundation and subsidiaries as of December 31, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Matson and Isom

April 15, 2011

**CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

Educational Media Foundation

December 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 16,478,657
Unrestricted, unconditional promises to give - net of allowance of \$1,945,360	18,181,335
Prepaid expenses	1,080,436
Notes receivable	591,865
Inventories	590,695
Other receivables	408,314

Total Current Assets 37,331,302

PROPERTY AND EQUIPMENT

Net of accumulated depreciation 32,884,048

OTHER ASSETS

Deposit with trustee	14,000,000
Deposits and other	3,173,448
Notes receivable - net of current portion	665,646
Long-term investments	2,417,000
Bond issuance costs - net	943,031
FCC licenses, permits, and application costs	216,320,141
Trademarks	608,821

Total Other Assets 238,128,087

Total Assets \$ 308,343,437

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 3,121,748
Current portion of bonds and notes payable	14,616,612
Current portion of capital lease obligations	337,047

Total Current Liabilities 18,075,407

LONG-TERM DEBT

Net of current portion 118,446,285

CAPITAL LEASE OBLIGATIONS

Net of current portion -

Total Liabilities 136,521,692

NET ASSETS

Unrestricted net assets:	
Board designated	1,820,000
Undesignated	169,256,745
Temporarily restricted net assets	745,000

Total Net Assets 171,821,745

Total Liabilities and Net Assets \$ 308,343,437

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF
ACTIVITIES***Educational Media Foundation*

Year Ended December 31, 2010

UNRESTRICTED NET ASSETS	
REVENUE AND SUPPORT	
Contributions	\$ 98,216,725
Business underwriting grants	2,324,270
Interest income	61,660
Gain on sale of assets	353,302
Miscellaneous income	756,218
Net assets released from restrictions	39,477
Total Revenue and Support	101,751,652
EXPENSES	
Program services	61,737,868
Supporting services:	
General administration	6,582,857
Fundraising	2,867,168
Total Expenses	71,187,893
Increase in Unrestricted Net Assets	30,563,759
TEMPORARILY RESTRICTED NET ASSETS	
REVENUE AND SUPPORT	
Contributions	620,233
Net assets released from restrictions	(39,477)
Increase in Temporarily Restricted Net Assets	580,756
Increase in Net Assets	31,144,515
Net Assets - Beginning of Year	140,677,230
Net Assets - End of Year	\$ 171,821,745

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF
NATURAL EXPENSES**

Educational Media Foundation

Year Ended December 31, 2010

Payroll and related	\$ 25,835,594
Occupancy	914,676
Listener servicing	2,307,955
Office	2,904,137
Programming	318,189
Website	671,262
Promotion and donor development	494,701
Travel and entertainment	1,521,038
Engineering	2,130,058
Interest	7,011,762
Administrative	1,305,964
Computers and software	847,586
Professional consulting	779,359
Gifts to other ministries	400,000
Depreciation and amortization	7,420,846
Station operations	16,324,766
Total Expenses	\$ 71,187,893

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS*Educational Media Foundation*

Page 1 of 2

Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 31,144,515
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	7,330,971
Amortization	89,875
Expiration of purchase options and write-off of FCC application costs	489,244
Noncash contributions	(515,361)
Write-down of bond issuance costs	118,930
Gain on sale of assets	(353,302)
Net change in operating assets and liabilities:	
Increase in unrestricted, unconditional promises to give	(2,627,793)
Increase in inventories	(590,695)
Decrease in prepaid expenses	673,137
Decrease in other receivables	454,817
Increase in deposits	(30,558)
Decrease in accounts payable and accrued expenses	(660,253)
Net Cash Provided by Operating Activities	35,523,527

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for property and equipment	(7,451,932)
Payments for FCC licenses	(4,406,230)
Deposits paid for future acquisition of FCC licenses	(2,175,000)
Payments for trademark costs	(4,776)
Proceeds from sale of assets	318,057
Principal payments received on notes receivable	26,281
Advances on notes receivable	(42,482)
Net Cash Used by Investing Activities	(13,736,082)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments for bond issuance costs	(36,889)
Principal payments on bonds and notes payable	(13,646,579)
Principal payments on capital lease obligations	(1,571,710)
Net Cash Used by Financing Activities	(15,255,178)

Increase in Cash and Cash Equivalents 6,532,267**Cash and Cash Equivalents - Beginning of Year** 9,946,390**Cash and Cash Equivalents - End of Year** \$ 16,478,657*The accompanying notes are an integral part of these consolidated financial statements.*

CONSOLIDATED STATEMENT OF CASH FLOWS*Educational Media Foundation*

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Year Ended December 31, 2010

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Payments for Interest Expense	\$ 6,952,133
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**SUPPLEMENTAL DISCLOSURES OF NONCASH
INVESTING AND FINANCING ACTIVITIES**

Debt Incurred in the Acquisition of FCC Licenses and Equipment	\$ 10,750,000
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Deposits Applied in the Acquisition of FCC Licenses	\$ 10,000
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Notes Receivable Applied in the Acquisition of FCC Licenses	\$ 1,785,000
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The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Educational Media Foundation (EMF) is a network of contemporary Christian FM and AM radio stations, translators, and affiliates located throughout various communities in the United States, operating as K-LOVE Radio Network and Air 1 Radio Network. EMF is a member of the Evangelical Council for Financial Accountability.

Principles of Consolidation The consolidated financial statements include the accounts of Educational Media Foundation (EMF) and its wholly owned subsidiaries: El Dorado Licenses, Inc., Brockport Licenses, LLC, San Joaquin Broadcasting Company, EMF Corporation, EMF Property Holdings, LLC, and the K-LOVE & Air 1 Foundation Trust. EMF is the sole stockholder of the corporations and the sole member of the LLC's. EMF Corporation is the sole trustee of the K-LOVE & Air 1 Foundation Trust. The subsidiaries have been organized and are operated primarily to support and carry out the purposes of EMF. All material interorganizational transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments The carrying value of cash and cash equivalents, promises to give, notes receivable, deposit with trustee, and other short-term assets and liabilities, approximate fair value as of December 31, 2010, due to the relatively short maturity of these instruments. The fair value of investments in real estate is based on appraised value which approximates its carrying value. The carrying amount of long-term debt reported in the statement of financial position approximates fair value because EMF can obtain similar loans at the same terms.

Inventories Inventories, which consist primarily of broadcasting equipment parts, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Investments Investments in marketable securities with readily determinable fair values are presented in the financial statements at their fair values. Investments in real estate are presented at their appraised values. Unrealized gains and losses are included in the increase in net assets in the accompanying statement of activities.

Notes Receivable Notes receivable are recorded at the amortized amount due. Management has established an allowance for potentially uncollectible notes receivable in the amount of \$379,000 at December 31, 2010. In determining collectibility, management takes into consideration such factors as debtor history, payment history, and existing economic conditions. Once a receivable is deemed uncollectible based on these factors, it is written off.

Property and Equipment Property and equipment purchased by EMF is recorded at cost. EMF capitalizes equipment with an acquisition cost in excess of \$1,500 and a useful life of three years or more. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 15 years for equipment and 39 years for buildings and leasehold improvements.

Intangible Assets EMF classifies intangible assets as definite-lived or indefinite-lived. Definite-lived assets include primarily bond issuance costs. Bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, since the results are not significantly different from the effective interest method. Accumulated amortization of bond issuance costs was \$461,484 at December 31, 2010. Amortization expense was \$89,875 for the year ending December 31, 2010.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

EMF tests for possible impairment of definite-lived assets whenever events and circumstances indicate that amortizable long-lived assets might be impaired. When specific assets are determined to be unrecoverable, the cost basis is reduced to reflect the current fair market value.

EMF's indefinite-lived intangible assets include primarily Federal Communication Commission ("FCC") radio licenses, related construction permits and application costs, and trademarks. FCC radio licenses, construction permits, and application costs are recorded at cost. Construction permits and application costs represent legal and other related costs incurred to date to apply for FCC licenses and in preparation of going on the air.

Trademarks represent legal and other costs incurred in obtaining trademarks for the K-LOVE and Air 1 radio networks.

As of January 1, 2010, EMF adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*, which provides guidance for the accounting treatment of goodwill and other intangibles and provides that goodwill and other intangibles with indefinite useful lives not be amortized; rather, they should be evaluated for impairment annually. Accordingly, EMF ceased amortization of indefinite-lived intangible assets effective January 1, 2010. FASB ASC 350 provides that intangible assets previously deemed to have indefinite lives be amortized over their useful lives once their lives are determined to no longer be indefinite.

EMF performed its annual impairment tests on its indefinite-lived assets on December 31, 2010, which resulted in a non-cash impairment charge of approximately \$438,000. The impairment charge related to two individual stations not carrying the K-LOVE or Air 1 programming.

Income Taxes EMF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. EMF has not entered into any activities that would jeopardize its tax-exempt status. EMF does enter into unrelated trade or business activities that result in unrelated business income; however, the expenses associated with this unrelated business income exceed the income. Accordingly, no provision for income taxes is required.

EMF files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2007 and beyond, and the California returns for tax years 2006 and beyond, remain subject to examination by the taxing authorities.

Contributions EMF receives the majority of its support from contributions received in response to periodic pledge drives for the K-LOVE and Air 1 radio networks. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. EMF reports restricted contributions as unrestricted support if the restrictions are met in the same fiscal year as the contribution is received. Unconditional promises to give are recorded as unrestricted support when received. Certain unconditional promises to give which are due in the next year are reflected as current promises to give and are recorded at their net realizable value.

Contributed Services Many individuals volunteer their time in performing a variety of tasks that assist EMF in its fundraising efforts. However, no amounts have been reflected in the financial statements for donated services as these services do not meet the criteria for recognition as set forth under generally accepted accounting principles.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

Cash and Cash Equivalents EMF considers all investments having an original maturity of three months or less to be cash equivalents.

Deposit with Trustee Deposit with trustee includes bond proceeds restricted for the purpose of refinancing debt incurred in the acquisition of stations, as well as the purchase of additional stations. These proceeds are held and disbursed by a third party.

Underwriting Grants Business underwriting grants represent fees paid by businesses to EMF for concert or special event announcements.

Promotion EMF promotes its stations within local service areas. Promotion costs are expensed as they are incurred.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that EMF has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2010.

Real Estate: Valued at the appraisal value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while EMF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Subsequent Events Management has evaluated subsequent events through April 15, 2011, the date on which the financial statements were available to be issued.

2. PROMISES TO GIVE

The promises to give as of December 31, 2010, are unconditional as they represent future monthly or one-time pledges which have been authorized to be charged automatically against the donor's credit card or withdrawn automatically from the donor's bank account. The promises to give are subject to estimation as of the date of the financial statements; and because of the inherent uncertainties in estimating these amounts, it is at least reasonably possible that the estimates used will change within the near term.

Actual pledge receipts associated with the December 31, 2009, estimated promises to give were less than the estimated promises by approximately \$1,130,000. This had the effect of decreasing contributions revenue and the change in net assets for the year ended December 31, 2010, by this amount.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Broadcast equipment	\$ 56,964,141
Furniture and fixtures	7,444,202
Automobiles	433,667
Software	2,485,748
Buildings	10,791,611
Leasehold improvements	914,986
Land	2,888,239
Capital projects in process	1,496,368
Total	83,418,962
Less: Accumulated depreciation	50,534,914
Property and Equipment - Net	\$ 32,884,048

Depreciation expense was \$7,330,971 for the year ended December 31, 2010.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, EMF's investments at fair value as of December 31, 2010:

	Level 3
Real Estate	\$ 2,417,000

The table below sets forth a summary of changes in the fair value of EMF's Level 3 investments for the years ended December 31, 2010 and 2009:

	Level 3
Balance - December 31, 2008	\$ -
Contribution	2,417,000
Balance - December 31, 2009	2,417,000
Unrealized (gain) loss	-
Balance - December 31, 2010	\$ 2,417,000

5. FCC LICENSES, PERMITS, AND APPLICATION COSTS

Capitalized FCC licenses, permits, and application costs for stations and translators consist of the following:

Operating stations and translators	\$ 213,562,470
Pending stations and translators	2,757,671
FCC License, Permits, and Application Costs	\$ 216,320,141

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

6. LONG-TERM DEBT

Long-term debt consists of the following:

Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging from 4.00% to 9.00%, maturing at various dates through December 2033.	\$ 68,303,224
Tax-exempt bonds payable, secured by commercial deeds of trust and security interests in personal property, due in aggregate monthly payments of approximately \$530,000, including interest at rates ranging from 5.08% to 5.72%, maturing at various dates through June 2023.	50,759,673
Taxable bonds payable, secured by commercial deeds of trust and security interests in personal property, due in monthly payments ranging from \$54,483 to \$229,730, including interest in rates ranging from 4.67% to 7.85%, maturing in January 2018.	14,000,000
Total Long-Term Debt	133,062,897
Less: Current portion	14,616,612
Long-Term Debt - Net	\$118,446,285

Maturities of tax-exempt bonds and notes payable are as follows:

Year Ending December 31	
2011	\$ 14,616,612
2012	16,764,274
2013	16,910,951
2014	18,382,252
2015	14,877,726
Thereafter	51,511,082
Total	\$ 133,062,897

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

EMF has entered into Master Financing Agreements in connection with the tax-exempt bonds which require, among other things, that EMF maintain certain financial covenants, including:

- Leverage ratio of not more than 5.00 to 1.00 at any time.
- Debt service coverage ratio of not less than 1.30 to 1.00 for each fiscal year.

During 2010, EMF entered into a Master Financing Agreement in connection with the \$14,000,000 taxable bonds. Subsequently, in February 2011, these bonds were refinanced and EMF entered into a Master Financing Agreement in connection with tax-exempt bonds in the same amount and under similar terms as the taxable bonds. The Master Financing Agreements for both bonds require, among other things, that EMF maintain certain financial covenants, principally the same as those described above.

7. CAPITAL LEASE OBLIGATIONS

EMF leases broadcast equipment, which are accounted for as capital leases. The following is a schedule by year of future minimum lease payments together with the present value of the net minimum lease payments:

Year Ending December 31	
2011	\$ 344,470
Less: Amount representing interest	7,423
Present Value of Net Minimum Lease Payments	337,047
Less: Current portion	337,047
Capital Lease Obligations - Net of Current Portion	\$ -

The broadcast equipment cost, accumulated depreciation, and depreciation expense for this leased equipment are as follows:

Broadcast equipment	\$ 3,564,999
Less: Accumulated depreciation	3,210,578
Net Book Value	\$ 354,421
Depreciation Expense	\$ 693,743

The above equipment cost and related accumulated depreciation are included with the property and equipment amounts shown in note 3.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

8. OPERATING LEASES

EMF leases office space, radio tower space, land, and satellite equipment under various non-cancelable operating lease agreements. EMF has constructed radio towers on these leased land parcels.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year:

Year Ending December 31	
2011	\$ 3,972,291
2012	3,986,822
2013	3,973,650
2014	4,018,409
2015	4,055,505
Thereafter	71,832,217
Total	\$ 91,838,894

Rent expense was \$5,095,221 for the year ended December 31, 2010.

9. AFFILIATES AND COMMITMENTS

EMF has entered into various affiliate agreements with other radio stations to rebroadcast EMF's radio format through these stations. EMF also has certain rights and obligations related to the purchase of radio stations.

Certain of these stations operate under agreements which require an income split of the nonbusiness cash contributions generated under the stations' listening markets, or under agreements which require an income split of the nonbusiness cash contributions in excess of a base amount, in addition to a flat monthly fee. The remaining affiliate stations operate under agreements which require flat monthly fees and/or operating expense reimbursements.

The following is a schedule of future minimum payments required under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements:

Year Ending December 31	
2011	\$ 3,845,271
2012	3,382,707
2013	2,168,896
2014	1,838,707
2015	671,349
Total	\$ 11,906,930

The total payments made under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements were \$5,175,223 for the year ended December 31, 2010.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

10. DESIGNATED NET ASSETS

The Board of Directors of EMF designates a portion of unrestricted net assets for future acquisitions and general reserves. The amount of this designation was \$1,820,000 at December 31, 2010.

11. CONCENTRATIONS AND CONTINGENCIES

Credit Risk

EMF maintains its cash accounts in depositories that are insured by the FDIC, generally to \$250,000 per institution. Through December 31, 2010, one of EMF's depositories participated in the FDIC Transaction Account Guarantee (TAG) program. EMF's deposits with this depository qualify for and are insured under the TAG program and therefore, are fully guaranteed by the FDIC. As of December 31, 2010, all of EMF's cash accounts in depositories were insured. Subsequent to December 31, 2010, the TAG program expired and interest bearing accounts with depositories will be insured up to \$250,000 by the FDIC. Beginning December 31, 2010, through December 31, 2012, all noninterest bearing cash accounts are completely insured by the FDIC.

12. RETIREMENT PLAN

EMF sponsors a 401(k) defined contribution retirement plan covering all employees who meet the plan's age and service requirements. Eligible employees may elect to make salary deferral contributions to the plan up to certain annual limits. EMF may elect to make discretionary matching contributions based on employee salary deferral contributions, discretionary profit sharing contributions, or a combination of both. Employer contributions to the plan were \$378,782 for the year ended December 31, 2010.

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, EMF closed on the acquisition of a radio station with a purchase price of \$5,750,000. The transaction was closed with a down payment of \$2,000,000 and a note for \$3,750,000, due over 84 months at an interest rate of LIBOR plus 6% with a rate cap of 10.5% adjusted quarterly.

Subsequent to December 31, 2010, EMF is in negotiations to acquire a radio station at a purchase price of \$15,500,000 plus reimbursement of expenses.

As of April 1, 2011, EMF entered into agreements to acquire several radio stations in separate transactions with aggregate purchase prices totaling \$5,500,000. These transactions will require EMF to make aggregate down payments totaling \$1,300,000 and to issue aggregate notes payable totaling \$4,200,000, due over periods of up to 120 months at interest rates ranging from 5% to 6%.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

Educational Media Foundation

December 31, 2010

Subsequent to December 31, 2010, EMF circulated a private placement memorandum offering up to \$25,000,000 in aggregate principal amount of its unsecured subordinated promissory notes in two series. EMF is offering the notes in principal amounts of \$250,000 each to qualified and eligible investors only. The offering will continue until \$25,000,000 in aggregate principal amount of notes are sold or June 30, 2011, whichever is earlier.

Subsequent to December 31, 2010, EMF entered into an agreement in which it receives 100% ownership in a parcel of real estate in which it previously owned a fractional undivided interest. Under the terms of this agreement, EMF exchanged fractional undivided interests in other real estate parcels with other owners to obtain its 100% undivided interest in one parcel.