

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Education
Los Angeles Unified School District

We have audited the accompanying balance sheets of KLCS-TV, a broadcast service of the Los Angeles Unified School District as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and its cash flows for the years then ended. These financial statements are the responsibility of KLCS-TV'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KLCS-TV's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the KLCS-TV financial position and are not intended to present the financial position and results of operations of the Los Angeles Unified School District, in conformity with generally accepted accounting principles in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KLCS-TV as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated [date of report] on our consideration of KLCS-TV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the KLCS-TV's financial statements. The accompanying management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Quezada, Wong & Associates

Pasadena, California
December 21, 2012

**KLCS-TV
A BROADCAST SERVICE OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

The Management's Discussion and Analysis (MD&A) section is prepared by the KLCS management and is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. The MD&A provides the reader with general information on and analysis of the financial activities of KLCS. Readers are encouraged to consider the information presented herein in concert with additional information furnished in the Station's letter of transmittal.

KLCS is the unit of the Los Angeles Unified School District (the District) engaged in the production and broadcast of television programming, and is an account in the District's General Fund. KLCS receives a substantial portion of its annual funding from the District and from the Corporation for Public Broadcasting.

Financial Highlights

- The assets of the Station exceeded its liabilities at the close of the most recent fiscal year by \$2.2 million (net assets).
- The Station's total net assets decreased by \$675,081 from the prior year total, primarily due to depreciation of capital assets.
- The Station's total obligations decreased by \$382,055 (24.1%) during the current fiscal year. The decrease resulted primarily from the reduction in unexpended grants and amounts owed to the District for uncollected revenues.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Station's financial statements. The Station's financial statements comprise of both the financial statements proper and the notes to those financial statements.

The financial statements are designed to provide readers with a broad overview of the Station's finances.

The Balance Sheet presents information on the assets and the liabilities of KLCS, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the Station's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows provide information on income and expenses and cash activities. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data presented in the financial statements.

The financial statements can be found on pages 9-11 of this report.

Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of an entity's financial position. In the case of KLCS, assets exceeded liabilities by \$2.2 million at the close of the most recent year.

By far the largest portion of the Station's net assets (\$1.9 million) reflects its investments in capital assets (e.g. equipment and deferred equipment installation expenses) less depreciation. The Station uses these capital assets to provide television broadcast and production services; consequently, these assets are not available for future expenditure.

The remaining portion of the Station's net assets, its unrestricted net assets (\$263,811), represent resources that are not subject to external restrictions on how they may be used. These resources are mainly derived from activities such as sales of recorded media, program underwriting, and production activities. Unrestricted net assets decreased 4.3% during the year due to budget reductions on the part of the District which caused management to deploy some of these funds despite its policy of retaining as much of the earnings from these activities as possible.

At the end of the 2012 fiscal year, the Station is able to report positive balances in all categories of net assets.

In FY 2012, the Station's capital assets decreased by nearly 26%. This is due primarily to the depreciation of existing assets not being sufficiently offset by new capital acquisitions. Current assets decreased by 21.2% resulting from lower expenditures, offset by lower revenues, as well as differences in timing of payment of liabilities.

The Station's current liabilities (which are its total obligations) decreased by 24.1% during the fiscal year. The decrease resulted primarily from the reduction in unexpended grants and amounts owed to the District for uncollected revenues.

The Station closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year and at year end. The Station continued to experience drastic budget reductions imposed by its licensee, which in the current year represented a nearly 10% reduction, on top of a 20% reduction in the previous year. This resulted in concomitant cuts across most spending categories.

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Summary Statement of Net Assets

As of June 30, 2012 and 2011

	2012	2011	Change from Previous Year
Assets:			
Current Assets	1,466,741	1,860,743	-21.17%
Capital Assets, net	1,897,693	2,560,827	-25.90%
Total Assets	3,364,434	4,421,570	
Liabilities:			
Current Liabilities	1,202,930	1,584,986	-24.10%
Long-term Liabilities	-	-	
Total Liabilities	1,202,930	1,584,986	
Net Assets:			
Invested in capital assets, net of related debt	1,897,693	2,560,826	-25.90%
Unrestricted	263,811	275,758	-4.33%
Total Net Assets	2,161,514	2,836,584	

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Summary Statement of Changes in Net Assets
As of June 30, 2012 and 2011

	2012	2011	Change from Previous Year
Revenues:			
Los Angeles Unified School District appropriations			-9.26%
	3,452,358	3,804,578	
Federal grants			10.41%
	1,140,905	1,033,303	
Production and broadcast services income			-8.71%
	309,523	339,048	
Subscription and membership income			153.16%
	28,665	11,323	
Miscellaneous income			22.76%
	3,792	3,089	
Total Revenues	4,935,244	5,191,341	
Expenses:			
Programming and production			-3.99%
	2,469,715	2,572,362	
Broadcasting			11.41%
	1,068,806	959,366	
Public information and promotion			10.55%
	161,385	145,983	
Management and general			-5.43%
	1,117,487	1,181,611	
Fund raising/member development			27.25%
	34,322	26,971	
Depreciation			-3.37%
	648,746	671,405	
Underwriting/Grant solicitation			27.26%
	6,864	5,394	
Total Expenses	5,507,325	5,563,092	
Excess of Revenues over Expenses	(572,081)	(371,751)	
Other Financing (Uses):			
Operating Transfer to Los Angeles Unified School District	(103,000)	(104,196)	
Total Other Financing (Uses)	(103,000)	(104,196)	
Excess of Revenues over Expenses and Other Uses	(675,081)	(475,947)	
Net Assets, beginning	2,836,583	3,312,531	
Net Assets, ending	2,161,503	2,836,584	

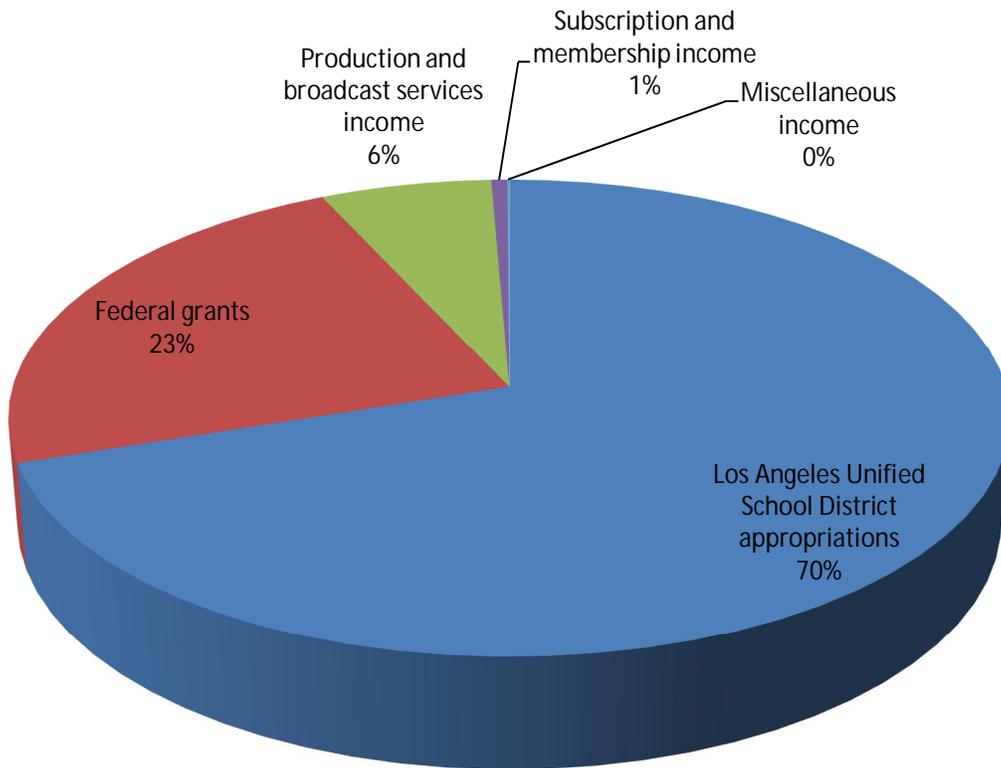
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The Station's net assets decreased by \$675,081 in the current fiscal year, almost exclusively due to depreciation of its capital assets.

The following graph shows that appropriations from the Los Angeles Unified School District and grants from federal funds, primarily through the Corporation for Public Broadcasting, are the main revenue sources of the Station.

Revenues by Source

Year ended June 30, 2012

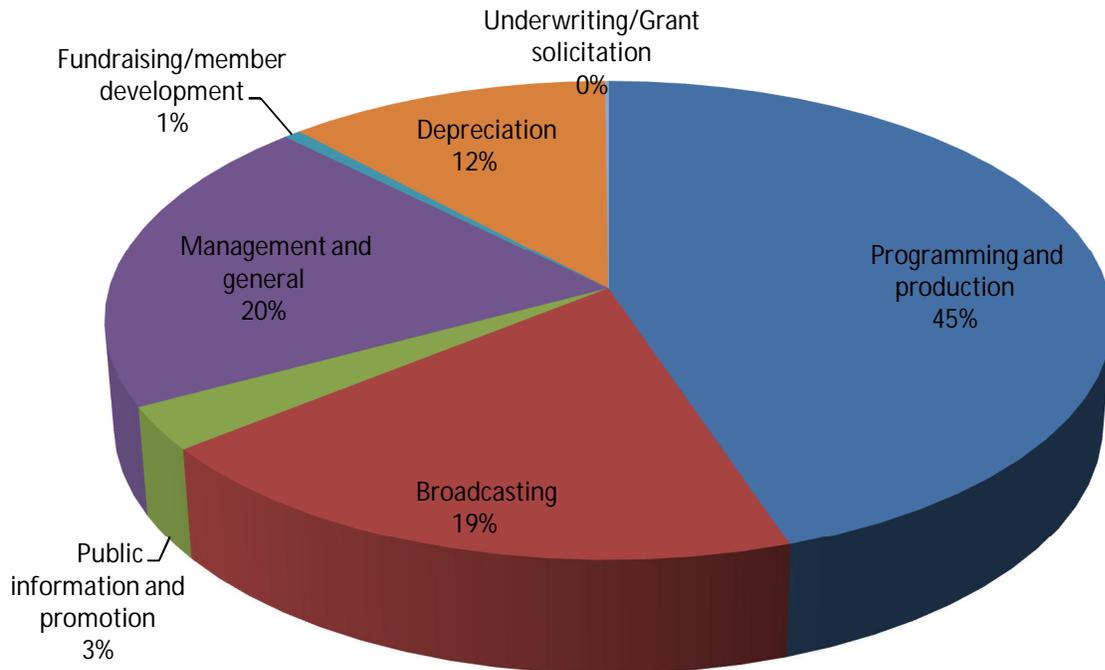


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The following graph shows that programming and production and broadcasting functions are the main expenses of the Station.

Expenses by Function

Year ended June 30, 2012



Requests for Information

This financial report is designed to provide a general overview of the Station's finances for all those with an interest in it. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, KLCS-TV, 1061 West Temple Street, Los Angeles, CA 90012. General information relating to KLCS can be found on its website at www.klcs.org.

KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
BALANCE SHEETS
JUNE 30, 2012 AND 2011

	2012	2011
Assets		
Cash in County	\$ 998,583	\$ 1,246,333
Cash in bank	252,413	275,694
Due from LAUSD and other receivables	11,405	113,524
Prepaid expenses	204,340	225,192
Property and equipment (net of accumulated depreciation of \$8,645,991 and \$8,205,665, respectively)	1,897,693	2,560,826
Total Assets	\$ 3,364,434	\$ 4,421,569
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 204,347	\$ 338,651
Unexpended grants	998,583	1,246,333
Total Liabilities	1,202,930	1,584,984
Net Assets		
Designated for Capital Assets	1,897,693	2,560,826
Unrestricted	263,811	275,759
Total net assets	2,161,504	2,836,585
Total Liabilities and Net Assets	\$ 3,364,434	\$ 4,421,569

The notes to the financial statements are an integral part of these financial statements

KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Revenues		
Support and revenues:		
Los Angeles Unified School District		
General Appropriations	\$ 3,259,564	\$ 3,562,120
Specially funded	-	66,391
Facilities and Administrative Support	192,794	176,068
Corporation for Public Broadcasting - Community Services Grants	1,132,208	987,992
Other grants	8,698	45,310
Subscription and membership income	28,665	11,323
Rental of Facilities	309,523	339,048
Miscellaneous income	3,793	3,089
Total Revenues	4,935,245	5,191,341
Expenses		
Certificated salaries	113,367	110,591
Classified salaries	1,888,919	2,160,789
Employee benefits	886,055	948,598
Indirect administration	155,837	140,502
Contract services	185,983	130,549
Utilities	237,915	161,272
Supplies	104,421	78,147
Membership and dues	106,525	107,759
Rent	290,991	286,696
Equipment rental	763	2,790
Equipment maintenance and repair	111,449	89,279
Non-capital equipment	68,183	12,414
Instructional materials	539,681	540,744
Reprographic services	15,321	13,227
Travel and conference	21,854	8,723
Depreciation and amortization	648,746	671,405
Abandoned unused equipment	91,674	
Miscellaneous	39,642	99,607
Total expenses	5,507,326	5,563,092
Excess (deficiency) of Revenues Over (under Expenses	(572,081)	(371,751)
Other Financing (Uses)		
Operating Transfer to Los Angeles Unified School District	(103,000)	(104,196)
Total Other Financing (Uses)	(103,000)	(104,196)
Excess (deficiency) of Revenues over (under) Expenses and Other Financing (Uses)	(675,081)	(475,947)
Total Net Assets, at beginning of year	2,836,585	3,312,532
Total Net Assets, at end of year	\$ 2,161,504	\$ 2,836,585

The notes to the financial statements are an integral part of these financial statements

KLCS-TV
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Cash received from grants	\$ 4,345,514	\$4,786,123
Cash received from membership	17,267	11,323
Cash received - miscellaneous	3,872	3,029
Cash received from rentals	420,030	311,192
Cash paid for personnel costs	(2,888,341)	(3,219,978)
Cash paid for other operating expenses	(1,989,088)	(1,644,159)
Operating transfer to Los Angeles Unified School District	(103,000)	(104,196)
Net cash provided (used) by operating activities	<u>(193,746)</u>	<u>\$143,334</u>
Cash flows from investing activities:	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(77,285)</u>	<u>(110,904)</u>
Cash flows from non-capital financing activities:	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	(271,031)	32,430
Cash at beginning of year	1,522,027	1,489,597
Cash at end of year	<u>\$ 1,250,996</u>	<u>\$ 1,522,027</u>
Cash components:		
Cash in County	\$ 998,583	\$ 1,246,333
Cash in bank	252,413	275,694
Total cash	<u>\$ 1,250,996</u>	<u>\$ 1,522,027</u>
Reconciliation of excess expenses and other financing over Revenue to net cash provided (used) by operating activities		
Excess of expenses and other financing over revenue	\$ (675,081)	\$ (475,947)
Adjustment to reconcile excess expenses and other financing over revenue to net cash provided by operating activities		
Depreciation and amortization	648,746	671,405
Abandoned unused equipment	91,674	-
(Increase) decrease in accounts receivable	102,119	164,008
(Increase) decrease in prepaid expenses	20,852	2,552
Increase (decrease) in accounts payable	(134,304)	(166,926)
Increase (decrease) in unexpended grants	(247,752)	(51,758)
Net cash provided (used) by operating activities	<u>\$ (193,746)</u>	<u>\$ 143,334</u>

The notes to the financial statements are an integral part of these financial statements

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1 – REPORTING ENTITY

KLCS-TV is a component of the Los Angeles Unified School District (District) and an account within the District's General Fund. These financial statements do not represent the financial position or the results of operations of the District. KLCS-TV receives a substantial portion of its annual funding from the District and the Corporation for Public Broadcasting (CPB).

KLCS-TV's broadcasting license has been renewed by the Federal Communications Commission through December 1, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of KLCS-TV are prepared in accordance with the Government Accounting Standards Board Statement No. 34 and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Government grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash

KLCS-TV maintains the majority of its cash in an account at the District and deposited in the Los Angeles County Treasury.

Property and Equipment

Property and equipment are recorded at cost, or in the case of donated property, at fair value on the date of receipt. Capital assets are depreciated on a straight-line basis using estimated useful lives of 5 years to 20 years.

In-Kind Contributions of Property and Equipment

Contributed property and equipment includes land, buildings, tower site, buildings and building improvements, broadcast equipment, furniture, office equipment and vehicles. Contributions are recorded at fair value upon receipt. Fair value is based on market prices for similar assets, independent appraisals or replacement cost of the asset.

Donated Services, Facilities and Other Assets

In-kind contributions of services and assets are recorded if they meet the criteria established by CPB.

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Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - PROPERTY AND EQUIPMENT

At June 30, 2012, property and equipment consist of the following:

	Balances			Balances
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Studio and other broadcasting equipment	\$ 9,840,929	\$ 77,286	\$ 300,093	\$ 9,618,122
Furniture and equipment	139,104	-	-	139,104
Vehicles	129,600	-	-	129,600
Deferred equipment installation expenses	656,858	-	-	656,858
Total property and equipment	<u>10,766,491</u>	<u>77,286</u>	<u>300,093</u>	<u>10,543,684</u>
Accumulated depreciation and amortization	8,205,665	\$ 648,746	\$ 208,420	8,645,991
Property and equipment, net of accumulated depreciation and amortization	<u>\$ 2,560,826</u>			<u>\$ 1,897,693</u>

The depreciation charge for the year ended June 30, 2012 was \$648,746.

At June 30, 2011, property and equipment consist of the following:

	Balances			Balances
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Studio and other broadcasting equipment	\$ 9,745,501	\$ 95,428	\$ -	\$ 9,840,929
Furniture and equipment	139,104	-	-	139,104
Vehicles	129,600	-	-	129,600
Deferred equipment installation expenses	641,383	15,475	-	656,858
Total property and equipment	<u>10,655,588</u>	<u>110,903</u>	<u>-</u>	<u>10,766,491</u>
Accumulated depreciation and amortization	7,534,260	\$ 671,405	\$ -	8,205,665
Property and equipment, net of accumulated depreciation and amortization	<u>\$ 3,121,328</u>			<u>\$ 2,560,826</u>

The depreciation charge for the year ended June 30, 2011 was \$671,405.

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FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 4 - UNEXPENDED GRANTS

At June 30, 2012 and 2011, unexpended grants are as follows:

	<u>2012</u>	<u>2011</u>
CPB Community Service Grant FY 2010	\$ -	\$ 250,256
CPB Community Service Grant FY 2011	18,519	890,292
CPB Community Service Grant FY 2012	951,894	-
CPB Interconnection FY 2011	18,516	
CPB DDF Round 12	-	57,170
CPB DTV Transition	8,853	8,853
CPB Fiscal Stabilization	801	10,980
PTFP 2010	-	28,782
Total	<u>\$ 998,583</u>	<u>\$ 1,246,333</u>

NOTE 5 - MISCELLANEOUS INCOME

For the years ended on June 30, 2012 and 2011, miscellaneous income was as follows:

	<u>2012</u>	<u>2011</u>
Sales of books and recorded media and other revenues	\$ 1,289	\$ 1,713
Programming - rights, royalties and other payments	2,504	1,376
	<u>\$ 3,793</u>	<u>\$ 3,089</u>

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NOTE 6 – FUNCTIONAL EXPENSES

For the years ended on June 30, 2012 and 2011, functional expenses were as follows:

	<u>2012</u>	<u>2011</u>
Program services:		
Program and production	\$ 2,469,715	\$ 2,572,362
Broadcasting	1,068,806	959,366
Public information and promotion	161,385	145,983
Total program services	<u>3,699,906</u>	<u>3,677,711</u>
Supporting services:		
Management and general	1,117,488	1,181,611
Fundraising / member development	34,322	26,971
Depreciation	648,746	671,405
Underwriting / Grant solicitation	6,864	5,394
Total supporting services	<u>1,807,420</u>	<u>1,885,381</u>
Total program and supporting services	<u>\$ 5,507,326</u>	<u>\$ 5,563,092</u>

The depreciation for the years ended on June 30, 2012 and 2011 were \$648,746 and \$671,405, respectively.

NOTE 7 – RETIREMENT PLAN

KLCS employees are covered by the District's defined benefits pension plan operated by the California Public Employees Retirement System, as well as post-employment health insurance. The required disclosure and other information of these plans can be found in the District's latest Comprehensive Annual Financial Report. This report is available at the District's Office of the Chief Financial Officer.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events evaluation

KLCS-TV evaluated subsequent events through December 21, 2012, which is the date the financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these financial statements.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

Board of Education
Los Angeles Unified School District

We have audited the financial statements of KLCS-TV, a broadcast service of the Los Angeles Unified School District, as of and for the years ended on June 30, 2012 and 2011, and have issued our report thereon dated December 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of KLCS-TV is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the KLCS-TV's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the KLCS-TV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KLCS-TV's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLCS-TV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Quezada, Wong & Associates

Pasadena, California
December 21, 2012