

KVCR FUND

**ANNUAL FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2014

KVCR FUND

June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
KVCR-FM and KVCR-TV
San Bernardino, California

We have audited the accompanying financial statements of San Bernardino Community College District's KVCR Fund as of and for the year ended June 30, 2014, and the related notes to the financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KVCR Fund as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the KVCR Fund, and are not intended to present fairly the financial position and changes in financial position of San Bernardino Community College District in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the KVCR Fund's basic financial statements. The accompanying supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Supplementary Information

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, on our consideration of KVCR Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contract, 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* in considering KVCR Fund's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Vaurinck, Dine, Day & Co. LLP

Rancho Cucamonga, California
January 29, 2015

KVCR FUND

NET POSITION JUNE 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,209,766
Accounts receivable	389,457
Other assets	45,636
Total Current Assets	1,644,859

NONCURRENT ASSETS

Property and equipment (net)	1,446,428
Total Noncurrent Assets	1,446,428
TOTAL ASSETS	3,091,287

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	238,060
Unearned revenue	474,475
Due to other funds	24,896
TOTAL LIABILITIES	737,431

NET POSITION

Net investment in capital assets	1,446,428
Unrestricted	907,428
TOTAL NET POSITION	\$ 2,353,856

See the accompanying notes to financial statements.

KVCR FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

Operating Revenues

Public contributions	\$ 1,478,627
CPB grants	1,092,542
Program underwriting	343,040
Other local income	176,157
Sales	<u>2,596</u>
Total Operating Revenues	<u>3,092,962</u>

Operating Expenses

Program services	4,369,595
Management and general	613,783
Fundraising	<u>963,355</u>
Total Operating Expenses	<u>5,946,733</u>

Total Operating Loss (2,853,771)

Other Revenues

Interest and dividends	4,949
Leasing and rentals	485,100
Transfers in from San Bernardino Community College District	<u>699,997</u>
Total Other Revenues	<u>1,190,046</u>

CHANGE IN NET POSITION	(1,663,725)
NET POSITION, BEGINNING OF YEAR	<u>4,017,581</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,353,856</u></u>

See the accompanying notes to financial statements.

KVCR FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Position	\$ (1,663,725)
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities	
Depreciation	600,547
Changes in Assets and Liabilities	
Increase in accounts receivable	(355,708)
Decrease in other assets	1,351
Decrease in accounts payable	(164,856)
Increase in amounts due to other funds	24,896
Decrease in unearned revenue	<u>(45,194)</u>
Net Cash Flows From Operating Activities	<u>(1,602,689)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	<u>(11,992)</u>
Net Cash Flows From Investing Activities	<u>(11,992)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,614,681)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,824,447</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,209,766</u></u>

See the accompanying notes to financial statements.

KVCR FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The San Bernardino Community College District's KVCR Fund is comprised of the following activities:

KVCR-FM and KVCR-TV (KVCR) is a public telecommunications entity owned and operated by the San Bernardino Community College District (the District), which provides radio and television stations to the Inland Empire area of Southern California. These stations provide the public with a variety of musical, informational, and educational programming.

KVCR Educational Foundation, Inc. (the Foundation) was established in 1999 for the purpose of raising, holding, and investing funds for the benefit of KVCR. It is a nonprofit public benefit corporation that is an auxiliary organization of the District.

These financial statements are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the District's activities that are attributable to the KVCR Fund. These financial statements are not intended to present fairly the financial position and the changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB). In addition, KVCR applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The KVCR Fund is presented in an Enterprise format which includes a statement of cash flows. The Enterprise format accounts for activities similar to those in the private sector, where the proper matching of revenues and costs is important, and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its statement of net position, all revenues are recognized when earned, and all expenses, including depreciation, are recognized when incurred.

For internal operating purposes, the District's Board of Trustees has established a separate fund, which includes a separate self-balancing set of accounts and a separate Board approved budget for the activities of KVCR.

Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to KVCR that are, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in the appropriate classification of net assets as temporarily or permanently restricted. When a restriction expires through either the passage of time or use, the assets are reclassified as assets released from restrictions in the statement of activities.

KVCR uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

KVCR FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. At June 30, 2014, KVCR reported \$31,878 in current unrestricted contributions receivable.

Property and Equipment

KVCR capitalizes property and equipment purchased or donated with a unit cost over \$5,000. Lesser amounts are expensed when purchased. Donations of property and equipment are recorded as contributions at their estimated fair value, if known. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, KVCR reports expirations of donor restrictions when the donated or acquired assets are placed in service. KVCR reclassifies temporarily restricted net assets to unrestricted net assets at that time. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line method based on the assets' estimated useful lives ranging from three to thirty years. Current year depreciation expense was \$600,547.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to KVCR's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

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 certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

KVCR FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 2 - CASH AND CASH EQUIVALENTS

Policies and Practices

Cash and cash equivalents are maintained in accordance with San Bernardino Community College District's policies and procedures. The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

KVCR FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, consist of the following:

KVCR	\$ 1,209,766
Total Deposits and Investments	<u>\$ 1,209,766</u>
Cash on hand	\$ 391,321
Cash in County Treasury	818,445
Total Deposits and Investments	<u>\$ 1,209,766</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County pool.

KVCR FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average days to Maturity</u>
San Bernardino County Investment Pool	<u>\$ 818,445</u>	<u>\$ 814,599</u>	428

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County pool is not required to be rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, KVCR's deposits may not be returned to it. KVCR does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due to KVCR as follows:

CPB grants	\$ 354,517
Public contributions receivable	31,878
Interest	862
Miscellaneous	<u>2,200</u>
	<u>\$ 389,457</u>

KVCR FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014, consisted of the following:

Furniture and equipment	\$ 7,449,173
Computer	6,192
Vehicles	55,591
Subtotal	<u>7,510,956</u>
Accumulated depreciation	<u>(6,064,528)</u>
Total Property and Equipment	<u><u>\$ 1,446,428</u></u>

Depreciation expense for the year ended June 30, 2014, was \$600,547.

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable consisted of the following:

Salaries payable	\$ 77,874
Vendors payable	160,186
Total	<u><u>\$ 238,060</u></u>

NOTE 6 - NET POSITION

At June 30, 2014, unrestricted net position consisted of the following:

Investment in capital assets	\$ 1,446,428
Unrestricted	907,428
Total	<u><u>\$ 2,353,856</u></u>

KVCR FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 7 - NATURAL CLASSIFICATION OF EXPENSES

	Program Services				Supporting	Fundraising	Total
	Radio	TV - FNX	TV - General	Total	Services	Fundraising	
				Program	Management		
				Expenses	and		Expenses
					General		
Salaries	\$ 300,668	\$ 710,576	\$ 1,035,429	\$ 2,046,673	\$ 279,520	\$ 485,157	\$ 2,811,350
Administrative	26,352	7,013	42,031	75,396	334,263	21,654	431,313
Advertising	675	6,542	350	7,567	-	143,396	150,963
Broadcast/Rights - Programming	283,369	11,845	736,927	1,032,141	-	38,565	1,070,706
Consultants	7,622	29,241	72,458	109,321	-	176,142	285,463
Depreciation expense	102,236	-	498,311	600,547	-	-	600,547
Maintenance and operations	836	6,248	5,565	12,649	-	818	13,467
Postage and freight	-	7,333	6,613	13,946	-	70,989	84,935
Professional fees	-	13,359	32,445	45,804	-	8,693	54,497
Rentals and leases	11,647	32,610	144,928	189,185	-	5,660	194,845
Supplies	492	7,572	19,877	27,941	-	6,920	34,861
Travel	-	17,131	6,828	23,959	-	5,361	29,320
Telephone/Electricity	9,975	-	174,491	184,466	-	-	184,466
Total Expenses	\$ 743,872	\$ 849,470	\$ 2,776,253	\$ 4,369,595	\$ 613,783	\$ 963,355	\$ 5,946,733

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Grants

KVCR is funded in part through grants from the Corporation for Public Broadcasting (CPB), which are paid through the District as the broadcasting licensee. Funds from the CPB are designated for the purpose of operating the station and are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

Operating Leases

The District leases land on Box Springs Mountain for KVCR's broadcasting equipment. The lease term expires on October 31, 2032.

The District leases land in Palm Springs for additional broadcasting equipment. The five-year lease agreement was renewed for an additional five years commencing on January 1, 2011. The terms of the lease provide for quarterly payments of rent.

KVCR FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

The District leases a transmission tower on Blue Mountain for KVCR's broadcasts. The lease calls for monthly payments which increase annually on the anniversary date by four percent.

Year Ending June 30,	Lease Payment
2015	\$ 72,481
2016	64,704
2017	56,093
2018	26,599
2019	20,441
Thereafter	94,105
Total	<u>\$ 334,423</u>

Lease expenditures for the year ended June 30, 2014, amounted to \$84,343. Revenue received under subleases amounted to \$485,100.

NOTE 9 - SUBSEQUENT EVENTS

KVCR's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through January 29, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

KVCR FUND

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

	KVCR Radio	KVCR TV	KVCR Educational Foundation	Total
Operating Revenues				
Public contributions	\$ -	\$ 10,382	\$ 1,468,245	\$ 1,478,627
CPB grants	-	1,092,542	-	1,092,542
Program underwriting	-	-	343,040	343,040
Other local income	1,913	37,675	136,569	176,157
Sales	2,596	-	-	2,596
Total Operating Revenues	<u>4,509</u>	<u>1,140,599</u>	<u>1,947,854</u>	<u>3,092,962</u>
Operating Expenses				
Program services	743,872	3,625,723	-	4,369,595
Management and general	104,343	509,440	-	613,783
Fundraising	-	-	963,355	963,355
Total Operating Expenses	<u>848,215</u>	<u>4,135,163</u>	<u>963,355</u>	<u>5,946,733</u>
Total Operating Loss	<u>(843,706)</u>	<u>(2,994,564)</u>	<u>984,499</u>	<u>(2,853,771)</u>
Non Operating Revenues				
Interest and dividends	-	4,949	-	4,949
Leasing and rentals	-	485,100	-	485,100
Transfers in from San Bernardino Community College District	-	699,997	-	699,997
Total Other Revenues	<u>-</u>	<u>1,190,046</u>	<u>-</u>	<u>1,190,046</u>
CHANGE IN NET POSITION	<u>\$ (843,706)</u>	<u>\$ (1,804,518)</u>	<u>\$ 984,499</u>	<u>\$ (1,663,725)</u>

See the accompanying note to supplementary information.

KVCR FUND

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Combining Schedule of Revenues, Expenses, and Changes in Net Position

This schedule is prepared on the accrual basis of accounting and provides a detail of activity for the programs accounted for within the KVCR Fund. This information has been provided at the request of management to assist in the reporting required by the Corporation for Public Broadcasting and is not a required part of the financial statements.



**INDEPENDENT AUDITOR'S 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 Directors
KVCR-FM and KVCR-TV
San Bernardino, California

We have audited, in accordance with the 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, the accompanying financial statements of San Bernardino Community College District's KVCR Fund as of and for the year ended June 30, 2014, and have issued our report thereon dated January 29, 2015.

As discussed in Note 1, the financial statements present only the KVCR Fund, and are not intended to present fairly the financial position and changes in financial position of San Bernardino Community College District in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KVCR Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KVCR Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of KVCR Fund's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of KVCR Fund's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies and, therefore, significant deficiencies or material weaknesses may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KVCR Fund'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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KVCR Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KVCR Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vaurinik, Irine, Day & Co. LLP

Rancho Cucamonga, California
January 29, 2015