



SCOTT & CRONIN GIVES BACK

After-School All-Stars Update

By Casey Gauntt

After-School All-Stars (ASAS) has stayed focused in 2004 on its mission of providing comprehensive after school programs to San Diego's youth. ASAS is in its second year of providing before and after school education, sports, art, music and other recreational programs for 200 students on a daily basis at High Tech Middle School. ASAS is continuing to provide after

school sports and fitness programs at 10 elementary schools in National City and, in partnership with Wakeland Housing, ASAS operates four after-school learning centers/sports clubs on site at four subsidized housing communities throughout San Diego County. This year ASAS opened a 7th Grade Miracles Lab at Montgomery Middle School, which goes hand-in-hand with its 6th Grade Lab established a year ago at the Linda Vista Boys and Girls Club next door. Miracles is a rigorous computer-based education and computer training curriculum sponsored by the Todd Wagner Foundation and provided to middle school youth nationwide.

This past month ASAS, in partnership with the San Diego Unified School District, commenced comprehensive after school programming at Keiller Middle School located near Lincoln High School. Donnie Edwards, Chargers inside linebacker and ASAS executive commissioner, helped launch the Keiller program by addressing 700 students in back-to-back assemblies. Donnie grew up two blocks from Keiller Middle School and the students and faculty were riveted by his

compelling message -- It's not how you start; it's how you finish.

Donnie and his wife, Kathryn, and their Best Defense Foundation, are passionate about the escalating health epidemic of childhood obesity. The Best Defense Foundation, ASAS San Diego and the All-Stars National Foundation are hard at work in putting together a group of programs and sponsors focused on childhood obesity education and prevention. Through their efforts, the organizations would like to introduce and test the program in San Diego and the other 14 All-Stars cities in the fall of 2005, with a comprehensive national roll-out in 2006. Donnie's energy, sincerity and credibility with helping children who need a boost is an inspiration to all.



San Diego Chargers Donnie Edwards speaking at Keiller Middle School

No organization can succeed without a sound financial base that includes dependable financial advice and well-prepared financial statements and reports. These must withstand the scrutiny of the ASAS National Foundation, national sponsors, donors and independent audits. We at ASAS want to express our sincere thanks to Scott & Cronin, LLP for its exceptional commitment to ASAS since its inception in 1995. Larry, as a founding director and ASAS chief financial officer since the start, has been key to the success of the organization. I know for a fact that ASAS would not be here today were it not for Scott & Cronin.

Casey Gauntt is executive board president of After-School All-Stars.

A Year in Review, the Challenged Athletes Foundation

By Lauren Henne

As the year comes to a close and San Diego reflects on 2004, preparation for another year's success is upon us. This is especially true for the Challenged Athletes Foundation (CAF), a local 501C3 non-profit organization. As the foundation recently celebrated the success of their 11th Annual San Diego Triathlon Challenge event, they look forward to a new year of getting more challenged athletes to the starting line.

As the sun rose over the La Jolla Cove on Halloween morning, more than 600 athletes prepared to participate in one of the most spectacular Half-Ironman distance events in the world. Together, world-class athletes, Paralympians, celebrities, soldiers injured in the line of duty, and many other able-bodied and challenged athletes shared an equal playing field. It was a celebration of ability, a demonstration of courage, and an event that changed lives.

This year the CAF honored their American Heroes, American soldiers recently injured in the line of duty. They flew out seven amputee soldiers to participate in the San Diego Triathlon Challenge, including Purple Heart recipient Capt. David Rozelle and Bronze and Purple Heart recipient SFC Mike McNaughton. Mike was also featured running with President Bush last spring in USA Today.

With the sponsorship from several local businesses and long-time fundraisers like Larry Scott, of Scott & Cronin LLP, the 11th Annual San Diego Triathlon Challenge helped raise more than \$1 million for the Challenged Athletes Foundation. The CAF uses this funding to support challenged athletes. Whether it is to take their first step on an Ossur running leg, or to compete in the Paralympics, the CAF is there to help make these dreams come true. The CAF helped 25 percent of the 2004 Paralympians reach the games in Athens, including local San Diego swimmers Joe McCarthy and Silver and Bronze Medal Winner, Melanie Benn.

This year was an outstanding year for the Challenged Athletes Foundation, filled with great support, accomplishment, and growth. Larry Scott and Team Obsolete helped raise \$77,000 for CAF's Ironman Revisited event. The CAF funded 326 challenged athletes, and reached more than 14,000 through community outreach. A new mentoring and fitness program called Catch a Rising Star and a new fundraising initiative called the Corporate Challenge were also launched.

Check us out on our newly redesigned Web site: www.challengedathletes.org to find out more information on how to get involved.

California Tax Amnesty Passes

Are You Ready for Tax Amnesty, California Style?

On August 18, 2004, after a 20-year hiatus, California passed SB1100 authorizing the Franchise Tax Board and the Board of Equalization to administer tax amnesty for a short period in 2005. The amnesty program is available only during the period February 1, 2005 through March 31, 2005.

What is tax amnesty? If you are an eligible individual or business, tax amnesty offers the opportunity to pay your past-due income, franchise, sales or use tax and related interest free of most penalties and fees and without fear of criminal prosecution.

Who is eligible? How do I apply? Where do I get forms? These questions and many more can be answered by referencing the State of California Web site at www.taxes.ca.gov or www.ftb.ca.gov/amnesty.

Or, simply call or email us at:
Scott & Cronin (760) 632-3600
info@thinkcpa.com

We'll be happy to answer your questions about the amnesty program. Don't let another 20 years go by before you take advantage of this amnesty program. Act now if you think you can benefit.

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Accounting History

by Dennis Cronin

It's been 100 years since the international Congress of Accountants first met in St. Louis. In 1904 the first "world congress" drew representatives from not only the U.S. but also from England, Scotland, Holland and Canada. This was a major event in the formative years of the U.S. accounting profession. A look back at the first meeting shows not only the origins of the profession but also the importance of the issues that were discussed. Some of the key themes discussed at that first meeting included finding a way to organize the accounting profession nationally, a burgeoning market economy, audit companies and measuring profits.

"Federal recognition of the profession of the public accountant can be secured only by a strong representative national body speaking with one voice," said Joseph Sterrett, congress chairmen, in his opening remarks.

The congress discussions covered issues such as the definition of profits, the legal considerations, the applicable accounting principle, methods for dealing with capital or fixed assets, liabilities and consolidated earnings statements. Back in that era of speculative ventures and rampant monopolies, money was lent on expected profits, and Arthur Lowes Dickinson "knew this was the right time for income determination to become a prominent issue."

We should recognize that at a time long before codified generally accepted accounting principles or auditing standards, the 1904 congress participants were discussing and developing standards and procedures that would form the basis of professional practice. Many of the attendees of the congress are looked at as important figures in the profession and are often referred to as members of the Accounting Hall of Fame.

Evaluate the Control Environment

As a result of all the scandals you may have read about, it is no surprise that the auditing profession is going through dramatic changes. It has seen self-regulation dissolve in favour of the Public Company Accounting Oversight Board (PCAOB), in effect a new regulator. It has been deluged with new rules, restrictions and requirements as part of the Sarbanes-Oxley act. One consequence of all this is that audits have become tougher, requiring auditors to focus heavily on evaluating the effectiveness of the entity's internal controls over financial reporting.

Internal controls consist of the activity-level controls and the control environment. The control environment is a key component. Compared to the activity-level control (checking the mathematical accuracy of a vendor's invoice) which is limited to one processing stream, the control environment (defined as elements such as management's integrity and ethical values, operating philosophy and commitment to organizational competence) sets the tone of an entity.

Under the new regulations the auditor must now report on management's ability to meet the challenging requirement of assessing internal controls and evaluating the effectiveness of the control environment. Management has always been responsible for the design and maintenance of the company's internal control but now must annually evaluate, test and report on it.

For example, a company may point to its code of conduct as documenting its ethical values. The mere existence of the documented control is not sufficient to support its operating effectiveness. Management must do more than demonstrate the code exists; they must evaluate the effectiveness of the code's implementation (i.e., Does it include training

sessions for management and employees on the company's code? Does it establish formal channels for the confidential communication of code violations to senior management?).

Adding to the difficulty of testing is the fact that the control environment is not transaction-oriented. For example, consider the entity requires its Board of Directors to approve all significant decisions made by the CEO. Let's say the philosophy of the CEO is that he or she alone knows what's best for the organization. Suppose too, that the CEO, through a committee he or she controls, is able to handpick the majority of the board members. And because the primary criteria for advancement within the organization is personal loyalty to the CEO, the information that senior management presents to the board is tightly controlled and presented in a way that makes ratification of the CEO's agenda a forgone conclusion.

Focusing solely on the activity-level control is inappropriate. Read the minutes and you'll undoubtedly find the board approved all the transactions it should have. Were the controls understood, evaluated and tested? The subjective, non-transaction oriented nature of the control environment is creating many challenges, none of which management can use as a rationale for noncompliance.

A good place to begin is management. Management should develop a reliability model with levels ranging from informal to optimized. Next, management must assign the characteristics of each reliability level, such as documentation, awareness and understanding, perceived value, control procedures and monitoring. Then design test to evaluate the presence or absence of each of those characteristics and how effective the control environment really is.

Did I mention entity audits are getting tougher?

Tax Tidbits

by Tiffany Hornsten

Welcome to our new addition to the "News You Can Use" department. Believe it or not, we CPAs do interact quite a bit with the general public both professionally and socially. As a result, we are exposed to common misconceptions in tax areas that impact so many taxpayers. We decided to devote an area of our newsletter to clarifying some of these misconceptions.

Tax-free Gain On Sale Of Principal Residence

Did you know that upon the sale of your principal residence, there is a good chance you are able to exclude gain of up to \$250,000 if you are a single taxpayer or \$500,000 if you are married and filing jointly? As long as you meet certain requirements, all or a part of the gain on the sale of your principal residence is tax-free – not tax deferred, but tax-free. The basic requirements are as follows:

- You must have owned and used the home as your principal residence for at least two out of the previous five years before the sale
- In most cases, you can only take advantage of the exclusion once during a two-year period

Of course, there are certain situations that will complicate matters, but for the most part, this is a tax-break that is relatively easy to use and for which many homeowners can qualify.

Additional opportunities for use of the exclusion exist for taxpayers with second homes and/or residential rental properties. For more information on how to optimize the use of this type of gain exclusion, please call our office at (760) 632-3600.

Auctions For Charity – How Much Can I Deduct?

Most of us have attended a charity event and participated in or at least witnessed a silent or live auction. So, when you write out a \$500 check for a wine collection, just how much do you get to deduct on your tax return? The answer is: it depends on how much that wine

collection is worth. Your charitable contribution deduction is the amount by which your \$500 exceeds the fair market value of the item you purchased. For example, if those bottles of wine would normally sell for \$300, you get to deduct \$200 on your tax return. On the other hand, if those bottles of wine would normally sell for an amount greater than \$500, your deduction would be zero.

Other Tidbits For Future Expanded Deduction

- Mortgage interest is deductible on only up to \$1 million of mortgage indebtedness, an amount not difficult to reach in San Diego County.
- Filing an extension does not increase your risk of being selected for audit; however, remember that it is an extension of the filing deadline and not an extension of the payment deadline.
- Your home office must be used exclusively for business before you can even begin considering whether or not you meet the other requirements for a home office deduction.

Political Watch Campaign 2004 Wrap-Up



by Nancy Haley

National Politics: GOP Dominates

Republicans across the country have many reasons to celebrate, beginning with the decisive victory of President Bush, who received more votes than any presidential candidate in American history. Republican victories in the battle for control of the Senate, an expanded majority in the House of Representatives, and a majority of the nation's governors and state legislatures begs the question ... is the nation moving in a Republican direction? In California, voters embraced the Republican Party's position on 13 of 16 state initiatives and in San Diego County, 265 Republican candidates claimed victory on Nov. 2nd. President Bush's margin of victory in the county grew by 50 percent, from a four-point victory in 2000 to a six-point victory in 2004. Partisan politics aside, of San Diego County's 1.51 million voters, 75.66 percent voted in the November election, which was the highest turnout for a presidential election since 1980, when Ronald Reagan beat President Jimmy Carter with 77.61 of registered voters casting ballots.

No New Taxes: San Diego County Rejects Attempts to Raise Taxes

San Diego County voted against a majority of tax increases that appeared on the November ballot. In the City of San Diego, voters rejected Prop. J, an increase in the transient occupation tax (tourism tax), by a decisive 57 percent to 42 percent. Del Mar voters gave a resounding "no" to Prop. N, a real estate transfer tax, by a margin of 3-to-1. In Santee, proponents of a new parcel tax, Prop. Y, failed to reach the two-thirds necessary for passage. Only two tax increases passed: Prop. O, the temporary sales tax increase in El Cajon for public safety; and Proposition A, the extension of the TransNet 1/2-cent sales tax to provide needed traffic relief and transportation improvements.

Another local proposition worth mentioning was Prop. B, the Gregory Canyon Landfill initiative. Despite what the casino owners who wrote and financed the ballot measure claimed, this proposition was all about gambling interests and not about protecting our environment and water sources. Its passage would have blocked construction of North County's only landfill, forcing trash to be transported, at great expense to ratepayers, to distant and rapidly-filling sites around the region. Prop. B passed overwhelming, 64 percent to 36 percent.

Battle for San Diego Mayor is California's Hottest Contest

Four years ago, our nation watched in disbelief as the battle for the Presidency moved from the ballot box to the courtroom. Four years later, San Diegans found themselves in a similar situation in the battle for Mayor. Surf-shop-owner-turned-Councilwoman Donna Frye's 11th-hour write-in candidacy turned an already tumultuous political battle for the city's top job into a headline-making event. After surviving six post-election legal challenges, Mayor Murphy was officially sworn into office on December 8th. He became the first mayor in San Diego history to be re-elected with only 34.53 percent of the vote, effectively leaving the nation's seventh-largest city with a lame duck mayor.

This is a critical time for the city, which has been overwhelmed during the past year with an array of issues, including an out-of-control municipal pension system, a series of downgrades in its credit rating, a stalled financial audit, and multiple investigations of city officials by the FBI and the SEC. Added to that list will be finding a new city manager, who with the current council, must begin the transition to a strong-mayor form of government while working under the watchful eye of the newly-elected City Attorney.

Putting San Diego's financial house in order demands the collaborative participation of the Mayor, Council, City Attorney and departing City Manager. If Frye is truly interested in what's best for the citizens of San Diego, she would better serve them by joining with Murphy to tackle the issues at hand. Supporters of Frye, however, have their own ideas. At press time, a long-awaited and widely anticipated lawsuit was filed by Frye supporters seeking to overturn the election. The suit claimed the Registrar of Voters wrongly excluded 5,547 write-in votes for Frye that didn't have the corresponding bubble shaded. This legal fight-current law vs. voter intent-is likely headed to the Supreme Court. Stay tuned...

California: #1 State in the U.S. for Women-Owned Businesses

In December, I was one of more than 10,000 women who attended the 18th Annual California Governor's Conference on Women and Families in Long Beach, hosted by Governor Arnold Schwarzenegger and First Lady Maria Shriver. Featured speakers included Jamie Lee Curtis, Linda Ellerbee, Queen Noor of Jordan and Oprah Winfrey, as well as numerous prominent and successful women from all professions. This year's event offered a renewed vision for the women of California, inspiring the conference theme of "Women as the Architects of Change—Within Ourselves, At Home, In the Workplace, In our Communities and Around the World." Serving as chair, Maria Shriver inaugurated

the first annual Minerva Awards, honoring four exceptional California women on the frontlines of change for their contributions to community service. The conference concluded with an inspiring musical celebration by Sheryl Crow.

Holiday Cheer

Once again, I was honored to co-host the Ninth Annual Women's Holiday Gathering and Ornament Exchange with my professional colleagues Nancy Chase, Karolyn Dorsee and Chris Frahm. The event draws more than 100 women who represent every segment of the San Diego business community. In addition to exchanging holiday ornaments and cheer, we asked each guest to bring a wrapped toy for a special child to be donated to San Diego Operation Home Front.



Ron Roberts

Client Profile: Supervisor Ron Roberts

by Nancy Haley

After nearly two decades as a successful architect, Ron Roberts first bid for public office began in 1987, when he won a seat on the San Diego City Council. After serving two terms as a Councilmember, Ron was elected in 1994 to represent the Fourth District on the San Diego County Board of Supervisors.

Ron's first task was steering the County away from bankruptcy. Through disciplined decision-making and a fresh private-sector approach, he and his colleagues engineered a phenomenal turnaround, taking the County from the brink of financial disaster to become one of the best-managed counties in America. Ron's passion to help the less fortunate, especially at-risk children, helped launch the groundbreaking Critical Hours after-school program, which has spread to more than 50 middle schools throughout the region. He also played a major role in the creation of the San Pasqual Academy for foster teens. Ron currently serves on the California Air Resources Board, Metropolitan Transit Development Board, the San Diego Workforce Partnership Board, the San Diego Association of Governments' transportation subcommittee, the City-County Reinvestment Task Force and the San Diego County Air Pollution Control District.

Throughout his career, Ron has worked diligently and sometimes defiantly to make San Diego a better place for us all. His reputation is that of a forward-thinking civic leader who's not afraid to speak out on the tough issues of the day. We applaud his many years of public service and his continued commitment to the residents of San Diego. Ron, who has called San Diego home for more than 50 years, lives in Mission Hills with his wife of 39 years, Helene. They have three grown daughters, and are proud grandparents to grandson Nichols.



Hostesses Nancy Haley, Chris Frahm, Karolyn Dorsee and Nancy Chase

"Scott & Cronin LLP has successfully completed a rigorous peer review of its accounting and auditing practice on December 27th. The reviewers concluded the firm complied with the stringent quality control standards of the AICPA by issuing a clean opinion without letter of comment."

