

FOR THE RECORD



Conrad Cruz, Senior Partner, Watson Rice LLP
New York

CONRADO CRUZ, WATSON RICE SENIOR PARTNER, RETIRES

Conrado Cruz, the senior partner whose professionalism and dedication had much to do with Watson Rice's growth and development during his 21 years of service with the firm, retired at the close of business on December 31.

Mr. Cruz managed the audit and accounting practice and was responsible for the oversight of major government sector clients in New York State (Urban Development Corporation and Office of Mental Retardation and Development Disabilities); New York City Departments of: (Youth and Community Development; Health and Mental Hygiene; Health and Hospitals Corp.; Human Resources Administration), and the New Jersey State Department of Human Services.

He specialized in financial and compliance audits, financial analysis and control, and strategic planning for private and public sector entities including not-for-profits, property management companies and religious organizations. These include the National Council of Churches of Christ in the USA; Family Care International; Planned Parenthood Federation of the Western Hemisphere, and the American-Egyptian Corporation Foundation.

Mr. Cruz joined Watson Rice in 1982 as a Partner, following two years as an associate of Bennie Hadnott & Company. He had earned a Bachelor of Science Degree in Accounting from the Philippine College of Commerce in Manila.

SHOULD SARBANES-OXLEY APPLY TO PRIVATE COMPANIES?

CPAs who wonder whether or not to apply disclosure standards for publicly-held corporations to their audits of private companies can look to North Carolina for one answer: a resounding "No."

After fielding numerous inquiries on this ethical issue, Robert Brooks, executive director of the State's Board of CPA Examiners offered this advice: "You don't want your CPA to go in and spread information that they may or may not know is true; they can always withdraw from issuing the audit

report if they don't agree with the numbers; And the CPA could be in for tremendous liability if he's incorrect."

He added that rules for private companies will not change until the



nuances of Sarbanes-Oxley are "worked out." But a fellow CPA from North Carolina took issue with that assessment. "You'd think that the CPAs would be the first to move, but the lawyers beat us to the punch," said Jeff Willis, noting that the recent American Bar Association decision to allow corporate attorneys to reveal a client's illegal financial activities is "embarrassing" to the accounting profession.

SARBANES-OXLEY SNARES FIRST CEO, AND CFO FOR INACCURATE FILINGS

The Chief Executive and Chief Financial Officer at Rica Foods, Inc., a Miami-based company which reportedly supplies chickens for McDonald's, Burger King and Kentucky Fried Chicken, were the first to be fined

under the Sarbanes-Oxley Act. The recently enacted law requires senior management of publicly held companies to certify the accuracy of financial statements to shareholders.

Under a settlement with the SEC, CEO Calixto Chaves paid a \$25,000 fine and CFO Gina Sequeira, who cooperated with the authorities, escaped with a warning. Both executives face stiffer penalties if they again violate SEC laws.

They had certified the accuracy of Rica's annual financial statements without having included an independent audit report.

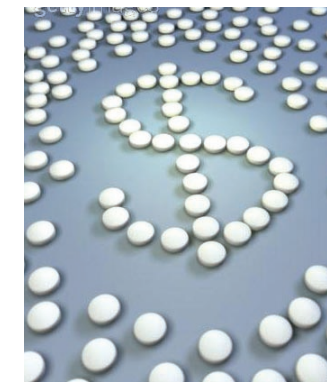
TREASURY AND IRS ISSUE TEMPORARY GUIDELINES ON BONUS DEPRECIATION ALLOWANCE

Taxpayers may deduct an additional 30- or 50% first-year depreciation allowance for certain depreciable properties, thanks to recent amendments to the Internal Revenue Code, supported by the Treasury Department. This is additional to the depreciation allowable in year one.

Taxpayers now can qualify for the additional 30% first-year depreciation allowance for property they acquired after September 10, 2001, and for the 50% allowance for property acquired after May 5 of this year.

MICROSOFT ISSUES NEW SECURITY ALERTS

In the wake of these developments, Microsoft issued new security alerts for users of MicroSoft Office on Windows. According to the company, a "critical vulnerability" could allow "an attacker to read files on a victim's computer or run programs." The problem could occur after someone opens an infected e-mail attachment.



TREASURY AND IRS CLARIFY REIMBURSEMENT FOR NON-PRESCRIPTION PHARMACEUTICALS

A recent ruling by the Treasury Department and the IRS clarifies what had been a disparity in health-plan coverage at a reduced fee or co-pay when prescribed drugs become available over-the-counter.

This also applies to expenses for pre-tax reimbursement under health care flexible spending plans, and for non-prescription drugs including aspirin, antacids, allergy medicines, and cold pills.

While such drugs are now eligible for exclusion from income, there is no change in regulations affecting the non-prescription variety as a medical expense itemized deduction. The only exceptions continue to be for a prescribed drug or for insulin.

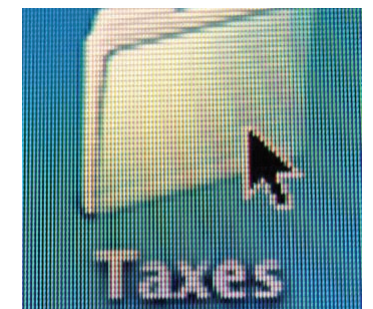
The ruling also excludes the cost of those dietary supplements, which merely benefit the good health of a taxpayer or his/her spouse or dependent from a pre-tax reimbursement or as a medical itemized deduction.

According to Microsoft, the flaw appears to be most dangerous for programs included in Microsoft Office 97, 2000 and XP (Word, Excel, PowerPoint and Access), as well as Visio 2000, 2002 and Project 2000 and 2002. Microsoft Office, Access, Word and Windows, while less vulnerable, are not immune.

Microsoft advises those who use the above-named systems to go to Office Update, scan for updates, and then review and install any critical updates. They also advise getting information to ensure that a PC is protected in the future.

IRS LAUNCHES WEEKLY ELECTRONIC NEWSLETTER FOR TAX AUDITORS

The Digital Dispatch – formerly a biweekly published by the IRS – now



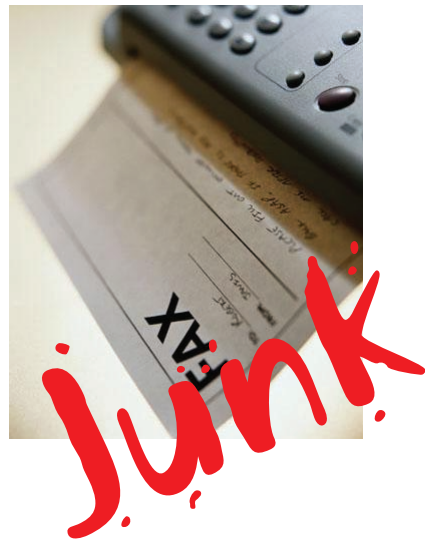
is being issued every week to better update tax professionals on important new developments. This e-mailed newsletter reaches 100,000 subscribers free of charge and is accessible by visiting IRS.gov.

The agency also offers other e-mail services by subscription, including "e-News" for more localized information; "IRS Newswire" with releases from the National Media Service; "IRS Tax Tips" with daily e-mails during the tax filing season; "Employee Plan News," a quarterly focusing on retirement plans; "Tax Stats Dispatch Mailing List" as the

name implies, statistical data; “SB/SE Mailing List” for small businesses and the self-employed; “FSLG Newsletter” with information on government entities; and “Quick Alerts,” relating to processing delays as they happen.

FCC PLANS TO CRACK DOWN ON “JUNK FAX” DISTRIBUTION

The Federal Communications Commission, which recently targeted unsolicited telemarketing, has a new focus: those who distribute unwanted faxes, especially when they continue to send them after receiving requests for removal from their fax lists.



The ruling would require a business-to-business communicator or marketer to ask permission, in writing, before faxing “any material advertising the commercial availability or quality of any property, goods or services which is transmitted to any person without that person’s prior express invitation or permission.”

This “junk fax” rule was originally scheduled for implementation on August 25, but has been delayed until January 1, 2005 following widespread complaints from several business associations.



Ronald Thompkins, Office Managing Partner, Watson Rice LLP Florida office

FIDUCIARY RESPONSIBILITIES OUTLINED FOR NON-PROFIT BOARD MEMBERS

Ronald Thompkins, Office Managing Partner, Watson Rice LLP Miami office, recently presented a comprehensive “road map” for board members of non-profit organizations covering fiscal responsibility, management control, and compliance with regulatory laws and regulation.

Late last month, Mr. Thompkins — a former president of the Florida Institute of CPAs -- was voted by the American Institute of CPA’s Council to a three-year term as a member of its board of directors.

In his aforementioned report, he noted the special role of the audit committee at such organizations, and a preference for members with backgrounds in non-profit audit/accounting, information technology and risk management, plus expertise in governmental rules and regulations where government funding is received.

Mr. Thompkins cited components of the audit committee that are special to the non-profit environment:

- The presentation of interim financial

statements in the same format as the annual audited financial statement;

- Periodic assessment for conflicts of interest and related issues concerning fellow board members and key management personnel;
- Periodic risk assessments of the organization;
- Required communication, written and in person, of the auditors as established by the AICPA’s Statements on Auditing Standards, as amended by SAS nos. 89 and 90.

“Just as public companies are searching for solutions to better demonstrate its corporate responsibility and oversight of entities for which they serve as board members,” concluded Mr. Thompkins, “this may be the best of times for the non-profit board to do the same.”

The full text of Mr. Thompkins’s three page report is posted on our website: www.watsonrice.com, and is available upon request from Watson Rice’s Miami office, telephone number (800) 599-3103.

NY STATE LEGISLATURE REVIEWS ENACTING NEW STANDARDS FOR NON-PROFITS

A new proposed State law enacted at the request of New York Attorney General Elliot Spitzer requires the chief executive and chief financial officer of not-for-profit corporations to personally sign and verify the accuracy of their organizations’ annual reports.

The law applies to non-profits with less than \$3 million in assets and with gross revenue of less than \$1 million. For not-for-profits with greater than \$3 million in assets and gross revenue, the rules are more stringent.

The signing officers will also be required to have reviewed the effectiveness of their corporation’s internal financial controls

and to have reported to their auditors and their audit committee any “significant deficiencies and material weaknesses in the design or operation of the internal financial controls, and any fraud, whether or not material, that involves management or other employees who have a significant role in the corporation.”

IRS FACILITATES DEBIT CARD USAGE FOR FLEXIBLE SPENDING ACCOUNTS

According to The Wall Street Journal, fewer than 400,000 companies offer flexible spending accounts with debit cards. But industry experts expect that number to more than triple in the next 12 months following IRS rules changes which allow the use of debit cards in tracking the pre-tax dollars employees put away for medical expenses not covered by health plans.

One reason: the need to cut down on paperwork involving record keeping for plans allowing employees to put away a portion of their pre-tax salaries for anticipated medical expenses. Another is to ease access to those funds, which has been sufficiently complicated to discourage widespread use of these plans.

Employers also can benefit from reduced payments to Social Security and Medicare funds by contributing a portion of their pre-tax salary to the tax-free funds. In addition, some debit cards are programmed to be “smart” enough to screen out inappropriate purchases from corporate records, such as candy and magazines at the pharmacy counter.

ATTORNEY-CLIENT PRIVILEGE IN TAX MATTERS UNDER IRS AND JD ATTACK

The U.S. Justice Department recently asked a Federal court in Illinois to force

a law firm to turn over the names of client-investors in what they term to be “abusive” tax shelters sold by the firm. The agency said that the firm went beyond ordinary limits of giving legal advice by promoting the purchase of those tax shelters.

On the heels of that announcement, the IRS indicated that it will conduct audits of taxpayers who buy “abusive” tax shelters and, in a related action, announced that is investigating their marketing and sale, as well as the possible involvement of several of the nation’s leading accounting firms.

MICROSOFT LAUNCHES \$5 MILLION PROGRAM TO COMBAT COMPUTER VIRUS ATTACKS



The world’s largest software company recently announced that it is creating an anti-virus reward program, backed by \$5 million of its cash, to help law enforcement agencies catch the authors of computer worms. The company says it is budgeting \$5 million for the effort.

To begin with, Microsoft is offering two \$250,000 rewards for information that leads to the arrest of those who wrote the Blaster worm and SoBig.F e-mail virus, which that affected PCs running on the Microsoft Windows operating system last summer. Another worm, dubbed Nachi, also plagued users of Microsoft software during the summer.

Microsoft bought the assets of a small Romanian anti-virus software developer, GeCAD Software, in June, and says it plans to use GeCAD’s technology to develop its own anti-virus products. There also is speculation that Microsoft may be better off acquiring a larger anti-virus firm, such as Symantec or Network Associates.

IRS STRIVES FOR MORE TAX RECEIPTS FROM MID-SIZED COMPANIES

The Internal Revenue Service will simplify its business tax audits this year and have them done in half the time they had been accomplishing them by focusing on less detailed tax audits rather than greater numbers of in-depth examinations. The agency believes that it will collect more taxes because companies will be on alert about being on the receiving end of an audit.

Even IRS officials concede that their agency needs to improve its procedures to better enforce the tax code. Until this year, the nation’s 1,300 largest corporations have faced constant IRS scrutiny, while 148,000 mid-size companies face audits, on average, only once every 20 years.

Because of corporate tax avoidance, their tax receipts fell to \$132 billion in the fiscal year that ended Sept. 30, the lowest since 1993. If viewed as a percentage of total tax receipts, or as a share of the economy, corporate tax receipts this year will be at their second-lowest level since the Great Depression. Only 1983’s receipts were lower.

Some critics believe that the new, faster approach to audits may mean that major tax frauds will go undetected. They note that the 15- to 18-month timeframe for finishing audits practically guarantees that IRS auditors will miss tax dodges, fail to explore questionable transactions, or even stop work on audits that are close to uncovering wrongdoing.