

## The Nonprofit Integrity Act of 2004

by Kenneth W. Scurlock, CPA, Partner



On September 30, 2004, Governor Schwarzenegger signed into law SB 1262, **The Nonprofit Integrity Act of 2004**. This act applies to all charitable corporations, charitable trusts and unincorporated

associations that are required to register with and annually report to the Attorney General's Registry of Charitable Trusts. The Act is designed to increase financial accountability of charitable organizations by requiring certain charities to obtain outside financial audits, to appoint audit committees, and to disclose audited financial statements to the public.

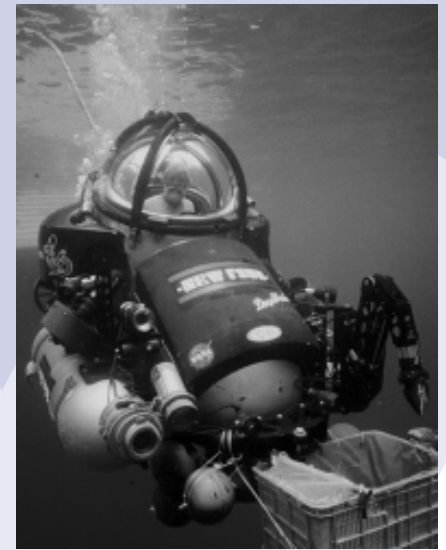
The Act places new and significant requirements on nonprofit organizations in the preparation and reporting of their financial records. **Charitable corporations with gross revenues of \$2 million or more are now**

**required to prepare annual financial statements audited by an independent Certified Public Accountant (CPA).**

**For a complete downloadable copy of the Nonprofit Integrity Act of 2004, please visit the California Attorney General's website at <http://www.ag.ca.gov/charities/index.htm>. You may also want to click on "Frequently Asked Questions" for additional information. Please note that there is a 6 month phase-in period to give charities time to comply with the new audit requirement. **An audit will be required for all fiscal years ending on or after June 30, 2005.** (An audit will not be required for any fiscal year ending prior to that date.)**

NSBN provides audit, accounting, tax and consulting services to its nonprofit clients, which include social and community service organizations, theatre companies, health foundations, educational and religious institutions, and professional trade associations.

**A convenient checklist to help nonprofit organizations assess what types of accounting, audit and/or compliance needs their organization may have is found on page**



What is this?

See p.2 for the complete story.

**3 of this newsletter. If you are part of the management team of a nonprofit organization, I invite you to fax this back to me at (310) 205-6683. If you have questions about how the Nonprofit Integrity Act of 2004 impacts your organization, what you need to do now**

*Continued on page 4*

**Save the Date!**

THURSDAY, NOVEMBER 3, 2005

**NSBN 13th Annual Golf Tournament**  
and

***Woman-to-Woman "Money Talks" SM***  
**Financial Seminar and Golf Clinic**

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# Client Profile: Coral Reef Research Foundation

NSBN Director of Communications, Barbara Wong, recently spoke with Patrick L. Colin, Ph.D., Director/President of Coral Reef Research Foundation about the important work his organization is doing.

## *How did CORAL REEF RESEARCH FOUNDATION get its start?*

Let me give you some background first...For about 30 years, we have been looking in the ocean for organic compounds that can be used for treating human disease. There's a large number of species in the ocean, which have had a long period of time to develop chemical compounds for protecting themselves or for competing with neighbors. Since there's a galaxy of chemical compounds out there in nature (also in terrestrial animals), it makes sense to check what occurs in nature instead of trying to create things in the lab. We're part of an effort that is looking to the natural world for things that could be used to treat human disease. The original source for 70% of prescription and other drugs, such as aspirin, was from nature and many were used as traditional medicines. Exploration of terrestrial sources goes back for thousands of years. Searching for things in the marine world is relatively new—it's been done for only the last 30 years. The NCI (National Cancer Institute), one of 12 National Institutes of Health of NIH, has had a program looking at marine organisms, starting back in the 1970s. They had a contract to collect a certain number of samples per year for testing. That contract (previously held by an organization in Australia) came up in 1991. A small group of us marine scientists decided to bid for the contract...we ended up winning it in 1992 and that was the start! We were really formed to bid on that contract. Marine exploration to support cancer research continues to be our flagship program.

## *How did you get started in marine biology?*

As a kid I kept fish and aquariums....first fresh water, then marine fish and tropical fish. Then I got interested in diving....so I could go catch my own marine fish! That's where it started for me and it's been a life-long fascination. I'm 58 now and I've been chasing fish for 45 years! I was 12 years old when I decided to be a marine biologist. There was very little media about the ocean back then....we didn't have Jacques Cousteau specials. I grew up in the Midwest...you were considered suicidal back

then if you wanted to go diving! It was seen as a dangerous activity. Things have really changed in the last 40 years...

## *What was it like for you when you were starting out in this field?*

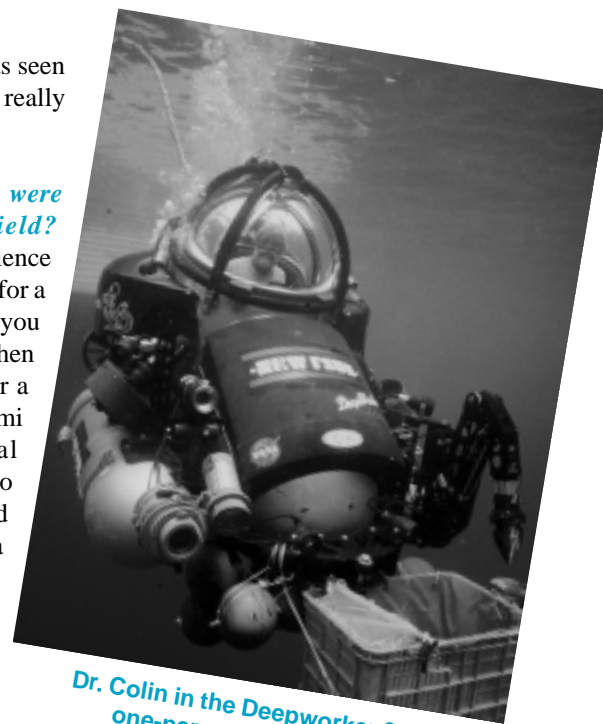
What typically happens in marine science (that's actually the more accurate term for a scientist who works in the ocean)...is you go to college and get a science degree, then go to grad school and get a Masters or a Ph.D. I went to the University of Miami because of my interest in tropical organisms. (Miami was the only place to go, at the time, where I could do my field work right there.) Hopefully, you find a job where you can put your training and talents to work. I've been lucky and have been able to have a lot of interesting things to do.

## *I'll say! How did you end up choosing Palau as your base of research operations? Why not remain in the U.S., say Hawaii?*

It's been very important to me to be based in a location where I could go out and do field work anytime I wanted. You can do tropical marine science being based in the U.S., but you're limited to a short field season. Here I can literally jump in a boat and be out diving in an hour and be back at my desk the same day, so I have the best of both worlds! For the NCI program, we said we'd set up a research facility in a location with high marine species diversity. Here we've got a lot of species of marine animals and plants, so we can do a very thorough job of testing what is found locally. Palau is the site of our most intensive work. Then once a year we do a one-month field collection expedition to another country, like Papua New Guinea or the Maldives. This way we can do an extremely thorough sampling in our home base and also cover the entire Indo-Pacific region....leaving no stone unturned, no species untested.

## *Can you tell me how your work/research fits in with what the NCI (National Cancer Institute) is doing?*

Our work is just the start of a very long process....we're part of a large group of people involved in this activity. At CRRF, we collect, identify and document samples that are put into the NCI testing and development system. We go out in the field, find organisms of interest, photograph them



*Dr. Colin in the Deepworker 2000 one-person submersible*

underwater, then collect 1 kg (2.2 lbs.) of that organism (that's a sample). Most of that sample is then frozen (because many chemical compounds remain intact if frozen). A small part of the sample is preserved in alcohol or formaldehyde. The preserved sample is used for identification of the species (like a dead body). The frozen sample is shipped by air freight on dry ice to NCI labs in Frederick, MD, where it's stored in a warehouse at the Natural Products Repository at Fort Detrick. The frozen samples are ground up and two types of extracts are made: aqueous (made with water) and organic (an alcohol mixture). When you evaporate the water or the organic material, you end up with the raw extract. Think of freeze-dried coffee...that's an aqueous extract of coffee beans. The raw extract may have 100 different chemical compounds in it. NCI researchers have 60 different human tumor cell lines (living cancer cells like lung cancer cells, e.g.), which they culture in petri dishes. A small amount of a raw extract is added to a test tube with cancer cells to see if something in the extract will kill the cancer cells. Generally 10-20% of samples we submit have activity that kills human cells *in vitro* (in the lab). The problem is that, in addition to killing cancer cells, these bioactive compounds also kill healthy cells. The hard part is finding the ones that have differential activity...i.e. that kill cancer, but not healthy cells. Only about 1 in 10,000 samples will ever

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# Checklist of Needs & Services Benefiting Nonprofits

ANNUAL AUDITS . . . . .

Do you need annual financial statements audited by an independent certified public accountant?

TAX SERVICES . . . . .

Are you receiving advice on complex tax issues, such as exempt income vs. unrelated business income, lobbying tax, etc.?

Are you receiving continuous updates regarding recent tax law changes?

ANNUAL REVIEWS OR COMPILATIONS . . . . .

Reviewed or compiled financial statements can be an alternative, if an organization is not required to have an audit.

ACCOUNTING AND CONSULTING. . . . .

Do you need any of the following services?

- Recording of checks/deposits
- Bank reconciliations
- General ledger
- Financial statements
- Revenue/support and expense spreadsheets
- Review of operations and management
- Review of internal controls
- Review of present accounting system
- Accounting system set-up

**FAX to: Ken Scurlock, Partner at (310) 205-6634**

- I would like you to call me.*       *I would like to set up a meeting.*

Name/Title: \_\_\_\_\_ Date: \_\_\_\_\_

Organization: \_\_\_\_\_

Phone #: \_\_\_\_\_ Fax #: \_\_\_\_\_

Email: \_\_\_\_\_

NSBN LLP IS PLEASED TO ANNOUNCE THAT

*Dennis Ayers, CPA*

*Sharey Wang, CPA*

*Jenifer Siou, CPA, MBA*

*were admitted as partners as of May 1, 2005.*



**Dennis Ayers**

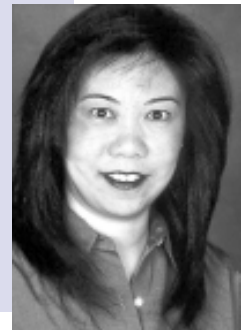
**Dennis Ayers** specializes in tax services for clients in the real estate industry, including tax deferred exchanges. He also conducts and supervises audits for the affordable housing industry, not-for-profit organizations, and mid and large-sized companies.

**Sharey Wang** directs the audits of various multi-million dollar, multi-national, not-for-profit organizations. In addition, she provides tax and business consulting services for not-for-profits.



**Sharey Wang**

**Jenifer Siou** specializes in accounting, audit and tax services for the escrow and mortgage banking industries, employee benefit plans, not-for-profit organizations and manufacturing companies.



**Jenifer Siou**

## NSBN's Community Involvement

*NSBN supports many charities throughout the year. Here are a few of the charities we've supported in recent months.*

Thanks to robotic laparoscopic surgery performed at the City of Hope, **Jack Neinstein**, NSBN Partner and brothers **Lon and Monty Morton**, are all survivors of prostate cancer. On January 30, 2005 the three organized a fundraising brunch to thank and help the City of Hope raise money to buy a third Da Vinci machine (the revolutionary technology that enables surgeons to perform this less invasive surgery). The brunch was held at the Sherwood Country Club and attended by 150 invitees. Although planned & executed within a very short time, the City of Hope declared that it was one of its most successful events. The brunch raised over \$400,000--the down payment on the third \$1.5 million Da Vinci machine! The event organizers received an award for helping to put on this very successful event. Dr. Mark Kawchi and Dr. Timothy Wilson, who have

performed about 1,400 of this new type of surgery, were on hand at the event to give a demonstration/talk about the life-saving Da Vinci machine and the procedure. About the surgery, Jack said: "I checked in at 10:30 am, had the surgery at 12:30pm and checked out the next day...I was hitting golf balls a week and a half later!" With normal surgery, the hospital stay is 4-7 days and blood loss is so great that patients usually are required to give their blood to be stored in preparation for the surgery. The Da Vinci machine is now also starting to be used for other procedures for the heart, the kidney and for rectal cancer.

**Sharon Altman**, Partner & **Ariel White**, Manager attended the *LA Zoo Beastly Ball* held on June 18. The event, now in its 35th year, is the major fundraiser of The Greater

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to be in compliance, or if you need the services of an independent auditor, please feel free to contact me at (310) 288-4234 or by email at [kws@nsbn.com](mailto:kws@nsbn.com).

Los Angeles Zoo Association. One thousand people attended the event, which was held on zoo grounds. The evening included cocktails, food catered by 20 L.A. area restaurants, entertainment and special animal feedings as well as silent and live auctions. The net proceeds will benefit the Los Angeles Zoo and Botanical Gardens.

result in an anti-cancer drug. You start with so many prospects, but so many will prove not to be useful. It's long term process...it takes 10-20 years between the time we collect the samples and the time that a drug may ever be developed.

*I see that CRRF has also been heavily involved in developing new underwater technology to support its research activities...You've developed a successful closed circuit electronic diving rebreather (Science Lung II) for work to depths as great as 150 m (500 feet). What exactly is a rebreather? How does it differ from ordinary scuba diving equipment?* Because we're based here in Palau, we can literally go out every day and collect. In 10 years, we've done a thorough job of sampling in shallow water. We developed a real need to go into deeper water to make collections. Scuba equipment uses air up quickly. The Rebreather recycles air in a closed system. We use special gas mixtures to go deeper. With the Rebreather, the gas in the system lasts a lot longer, so we can stay underwater longer on a given amount of gas.

*Tell me about the Deepworker 2000 one-person submersible...* It's like sitting in a chair in your office, but you're in a machine with a dome over your head that goes down 2000 feet. (The Rebreather goes down to 400 feet.) It's like a regular submarine, with surface pressure inside, so you could stay down for a week. We had the need to go deeper, to keep advancing that next step. We chartered a one-person submersible for several weeks to test it. It has a camera and a mechanical arm called a manipulator that hydraulically collects specimens...it's able to pick things up and collect them in the attached basket. It works great! Up to now, we've just chartered them. We're working very hard now to raise money to buy two of these research submersibles. Scientifically, it would be very valuable to have a couple of these subs based out here continually.

*I was just going to ask you how you get your funding....Suppose someone wanted to contribute to your research. What would be the best way to make a contribution?* We're a U.S. nonprofit...a 501 (c) (3) corporation in California. People can donate to us directly. And we're happy to get inquiries from the public and answer them as time allows.

*I'm sure you've had many unforgettable experiences in your field work....* There have

been a huge number of memorable moments over the last 14 years of work for the NCI, but perhaps my favorite is one from when we had the Deepworker 2000 in Palau. I was descending alone in the sub down a huge reef cliff 500 feet deep, peacefully drifting down to unexplored worlds, when I looked up and saw several eagle rays cruising along the vertical in the ultra clear water a hundred feet above, silhouetted by the light coming from above. Looking down to the dark depths where I was headed, it made clear what a remarkable experience and privilege it was to sit in this remarkable piece of technology and give reality to the human urge to explore and gain new insight about our planet.

*How has marine science research changed over the years?* The electronics revolution...everything from computers to GPS (Global Positioning System) has had a tremendous impact. 25 years ago, half the time we didn't know where we were out in the ocean! If we knew, we didn't know the position. Now with simple equipment, we can do mapping and all sorts of things that were unimaginable 25 years ago. GPS, a receiver that tells you where you are anywhere in the world, has been a revolution...a boon for us working out in the field.

*What do you see as the future for marine science research?* One of most difficult things we have to deal with is what I like to call "access and benefit-sharing" questions. There's always the potential that something we're discovering from some other country might have great economic value, and so, in the last decade, countries and individuals have become sensitized to such issues. We have a much more difficult time working in many countries because of those concerns. Now the NCI has developed an agreement which tries to address those concerns, but there is a lot of suspicion and this has a negative impact on our work. Suspicious people think we're making a lot of money. We're constantly battling the idea that we're doing this for private gain...when we aren't. We're just government contractors.

*How long has NSBN been your accounting firm?* Our NCI contract requires an annual

audit. We were looking for an auditor in 1998, since our previous accountant could not do the audit. He recommended you to us.

## Island Nation: PALAU

Palau is an island nation in the North Pacific, several hundred miles east of the southern tip of the Philippines. After WWII, Palau was named one of six island districts in the United Nations Trust Territories under U.S. administration. As part of its mandate, the U.S. was to improve Palau's infrastructure and educational system in order for it to become self-sufficient. After three decades as part of the UN Trust Territory of the Pacific, in 1978 this westernmost cluster of the Caroline Islands opted for independence rather than join the Federated States of Micronesia. Palau finally became a self-sufficient nation on October 1, 1994, when it gained its independence upon the signing of the Compact of Free Association with the United States.

Palau has a pleasantly warm climate all year round with an annual mean temperature of 82° degrees F, annual average rainfall of 150 inches and an average relative humidity of 82%. Typhoons are rare as Palau is located outside the typhoon zone. Its time zone is the same as Tokyo—17 hours ahead of PST (Pacific Standard Time). Flying time to Palau from L.A. is almost 14 hours. The official languages are English and Palauan. *Dora-el!* (Pronounced do-RILE—*Let's go!*)

We've been very happy with what you guys have done for us and have had you as our auditors ever since.

*If you have a question for Dr. Colin, he may be reached by email at [crrf@palaunet.com](mailto:crrf@palaunet.com). If you would like to make a contribution to CRRF's work, you can send your donation to their mailing address at: Coral Reef Research Foundation, 9888 Carroll Center Rd. #102, San Diego, CA 92126.*

# CLIENTS in the NEWS



by Sharon J. Altman, Partner

**O**ur clients continue to make news in all phases of business. Here are a few of their noteworthy activities.

★ **Barbra and Paul Neinstein** recently received the *Ruach Award* from Temple Aliyah for their years of dedicated volunteer service to the Jewish community. Among the groups and projects to which they have given their support and leadership (in addition to Temple Aliyah) are the National Multiple Sclerosis Society, the Sherak Family Health Foundation for MS Research at UCLA, and the Heschel Day School. Barbra and Paul began B'Yachad, Temple Aliyah's first support group for parents of children with special needs.

★ **Robert Mann**, a World War II veteran and recipient of three Bronze Stars and five Purple Hearts as a U.S. Army sharpshooter on D-Day and at the Battle of the Bulge, was

recently awarded the Non-Commissioned Officers Association medal for "valor, sacrifice and fidelity". He is one of a relative handful of WWII veterans to be awarded this honor. It is an especially meaningful award, Mann says, because it came from his peers. Mann spent 330 days in combat with the 6th Armored Division and Patton's 3rd Army.

★ *Laughing with Lucy* authored by **Madelyn Pugh Davis** with **Robert G. Carroll, Jr.** is scheduled to be released in the fall of 2005. The book chronicles her experiences being one of TV's early female comedy writers, writing for Lucille Ball.

★ **Amy Davidson** recently appeared in the Hallmark Channel movie *Annie's Point*. Amy played a college dropout who travels cross-country with her grandmother (played by Betty White) to spread her grandfather's ashes at a bluff in California.

★ Watch for **Brent Spiner** starring as "Nigel Fenway" in Paramount's new drama series *Threshold*. The show, about a team

selected to make first contact with aliens who have landed on Earth, is scheduled to air on CBS this fall on Fridays at 9:00 pm.

★ Congratulations to **Thomas Safran** of Thomas Safran & Associates, whose latest housing development project was recently completed. *Skyline Village*, located at 444 South Lucas Avenue in Los Angeles, is a 73-unit affordable family housing complex. The development company, sponsors and residents will celebrate with an open house on August 11.

*Keep us posted on what's happening in your life, career, and business. If you have any news we can share, please call Sharon Altman at (310) 288-4253.*

## THE NSBN ADVANTAGE

### Editorial Staff

Barbara Wong  
Eileen Cohen  
Ken Miles

### Production

Primary Color

*The matters highlighted in this newsletter are presented in general terms and cannot be applied without consideration of all circumstances. NSBN will provide additional details upon request and will be pleased to discuss with our clients or their attorneys the possible effects of these matters in specific situations.*

*If you have questions or topics that you would like to see covered in future issues of The NSBN Advantage or have a friend or colleague you would like to add to our mailing list, please call us at (310) 288-4283 or visit us on the web at [www.nsb.com](http://www.nsb.com).*

Member of RBI



## From the Managing Partner

*As you have probably heard, NSBN has welcomed three new partners as of May 1st. With this addition NSBN now has a total of 18 partners. Wow, 18, sure sounds like a lot, but there is a very good reason for this. Besides the obvious fact that our newest partners are most deserving of this recognition, it is also for the purpose of our firm succession. The partners of NSBN desire the firm to*

*continue well beyond our tenure and this is a sure way of making this happen. By bringing in new, **younger** partners, NSBN will be here to serve your needs and your children's needs well into the future.*

*Congratulations to our new partners!*

Ken Miles