

AUGUST 2014

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The Official Publication of the Hawaii Society of Certified Public Accountants

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The Official Publication of the Hawaii
Society of Certified Public Accountants

AUGUST 2014

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Debbie Cortes

Hawaii Society of CPAs

900 Fort Street Mall, Suite 850

P.O. Box 1754

Honolulu, Hawaii 96806

Tel: (808) 537-9475

Fax: (808) 537-3520

E-mail: info@hscpa.org

Website: www.hscpa.org

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President's Message

By Gordon M. Tom



Aloha members!
August is here already,
can you believe it! It
seems like it was just
last week that we
celebrated the start of

2014. For many of us, August means the start of our fall busy season while others may be busy preparing annual budgets for 2015, year-end board or shareholder communications, or closing their June 30 fiscal year. August also marks the end of summer vacations, getting ready for the start of school for students, and the inevitable traffic that it will bring to our morning and afternoon drive.

August is also an important month in Hawaii because our primary election is on August 9th. I hope you are all registered to vote and plan on voting in the upcoming elections. If you are not registered, the deadline to register for the November general election is Monday, October 6th. Registering to vote is easy and you only need to do it once. If you have moved since the last election, you must re-register. You can obtain a registration form online at www.hawaii.gov/elections (look for the link on the right side of the page). The registration form must be postmarked by the October 6th deadline to be valid. The registration form includes a permanent absentee ballot request to allow you to vote by mail. Voting by mail is quick, easy and convenient compared to taking time off to stand in line and vote at your local polling place. Eligible, non-registered voters in Hawaii will have even less of an excuse for the next election year. Legislation passed in June amended our election

laws to allow same-day absentee registration and voting in 2014, and election-day registration and voting starting in 2016.

July and August also mark the return of candidate commercials appearing on television and newspapers, and sign wavers standing on street corners. It's likely we will also see more news stories on Hawaii's reputation for voter apathy. According to a CNN report from 2012, we tied with West Virginia at the bottom of the nation for voter turnout. An embarrassing 44% of Hawaii registered voters



voted in the November 2012 general election. Even worse, this was a decrease of 5% from the 2008 election year. Your vote counts, so I encourage you to exercise your right and privilege as a citizen to choose who represents you in our government.

Just as important as your vote is your voice. Do you know who your current representatives in the Hawaii Legislature are? The Hawaii Legislature website has an easy tool on their website to find out. Just go to www.capitol.hawaii.gov and enter your residential street name at the top right of the page (do not enter your house number, apartment/unit number or any abbreviation suffix). The site will provide the names and a link to your representatives in the House and Senate.

Click on the link to go to the representative's legislative website where you can find their contact information, news and information on bills they have introduced and a photo. These individuals were elected to serve you and your interests in the Hawaii Legislature. In today's society of special interest groups and political lobbying, it is more important than ever to make sure your issues and concerns are heard by your representatives. You may be surprised at how interested and engaged they are in hearing from their constituents about their concerns.

I recently read an article in the Pacific Business News by Jason Ubay, which followed up on a CPA roundtable discussion with several of our members. The article featured our members talking about how people skills are critical to success in our profession. It reminded me of when I was at the University of Hawaii and considering majoring in accounting; attracted to the stereotype that accounting was a good profession for introverted "nerds" like me that worked with numbers, spreadsheets and calculators all day. Since my first day as a staff accountant until now, I'm amazed every day at how important it is to have good communication and interpersonal skills to be successful in business and accounting. I have so much more to learn and I am thankful for the opportunities and role models provided by the more experienced professionals I work with. Thank you to the members who took time out from their busy schedules to help inform the public and break the stereotype that we're all nerds with green visors. Now where did I put my 10-key again?

Which Tablet is Best for You?

By Will Fleenor, CPA, Ph.D. Member, K2 Enterprises



The iPad was introduced only 4 years ago, and last year, 217 million tablets were sold. That's a 51% increase over 2012. Even though 42% of American adults already own a tablet, IDC predicts that another 245 million tablets will be sold in 2014. The market is large and there are many good choices. Which one is right for you?

The Decision Process

Some tablets are well suited for reading email and browsing web pages but not for watching movies or editing documents. Others are capable enough to replace a laptop or desktop. Are your needs basic, extensive, or somewhere in the middle?

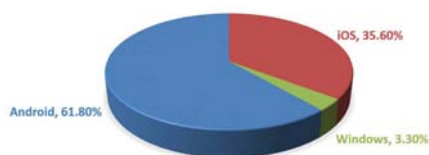
By answering the following questions, you will be well on your way to deciding which tablet best suits your needs:

- Which operating system do I want?
- What screen size is right for me?
- What hardware features are important to me?
- What do the reviewers say?

Which operating system do I want?

Your first decision – and it is a big one – should be about the operating system. The operating system determines the type of user interface (i.e., touch only, touch and mouse) and what software a tablet can run.

ANDROID LEADS THE WAY IN OPERATING SYSTEM MARKET SHARE FOR TABLETS WITH 61.8% OF THE MARKET IN THE 4TH QUARTER OF 2013



Android Tablets

Android tablets not only make up the majority of the market but they have

the most Apps (software that is operated by touch and often only runs on tablets and smartphones). As of June 2014, Google Play (the primary source of Android Apps) and the Apple Store (the only source of iOS Apps) claim to have about 1.2 million apps; however, there are many more Android apps available from additional Android App stores. One source claims that there are over 1 billion Android apps.

At first, the availability of more apps appeared to be an advantage for the Android operating system. Unfortunately it is a huge disadvantage for business users. With Windows tablets and Apple tablets, all the Apps have to come from the company store. Microsoft and Apple carefully vet apps before they are placed in the store to insure that they do not contain malware and work as advertised.

Android apps, on the other hand, can come from almost anywhere and apps that come from sources other than the Google Play store are not vetted by Google. As a result, we have seen numerous instances of malware on Android devices. According to Forbes, in 2013, Android malware accounted for 97% of the known mobile device malware. About 3% came from Nokia's axed Symbian platform. iPhone, BlackBerry, Palm, and Windows phones, all together, accounted for less than 1%.

This does not mean that business users should not buy Android tablets. It does mean that business users should be running third party antivirus software. There are numerous good products available including apps from Bitdefender, Avast!, McAfee, Kaspersky, and Norton.

The latest version of the Android operat-

ing system has all the whistles and bells that were once only available in the Apple world, like a voice powered voice assistant, find my phone, and the ability to wipe your phone remotely if it is lost or stolen. If you use Google Apps for Business instead of Microsoft Office, you will be pleased with the tight integration with the Android operating system.

iOS Tablets (iPads)

Apple started the tablet revolution in 2010 with the first iPad. Businesses are clearly the primary purchasers of the iPad with 91% of all 2013 4th quarter tablet activations being large corporate users. Because the majority of the iPad market is business users, it is well designed to meet the needs of businesses. It has a very secure operating system where the only significant instances of malware have been on iOS devices that were "jailbroken" to strip off controls. Some of the features of the iPad that are much appreciated by businesses include:

- Highly secure operating system
- Strong mobile device management tools for IT professionals
- Internal storage that is encrypted by default and cannot be changed
- Largest selection of high-quality business apps
- High-quality hardware in an amazingly compact and attractive form factor
- Availability of Microsoft Office apps

There are some disadvantages to the iPad even for some Mac users. The apps on the iPad will not run on a Mac and vice versa. Windows 8.1 tablets run the full Windows 8.1 desktop operating system including the touch driven Windows 8 apps. Windows 8.1 makes it possible

to learn just one operating system for both your tablet and desktop – and perhaps your phone. Many Mac users actually run Windows on their Macs to access corporate data and use corporate applications. Because iPads can't run Windows, some Mac users may find iOS based tablets less useful than Windows 8 tablets. The following are other disadvantages of the iPad for business users:

- No mouse
- No USB port
- No Multitasking (only one app on the screen at a time)
- Lack of a file management system (Where is drive C: anyway?)
- Cost (pretty high for something that is only a tablet, not a laptop replacement)

Windows Tablets

As mentioned previously, Windows tablets are like iPads in that all apps have to come from the company store. Before an app even hits the Windows Store, Microsoft vets it to ensure that it works properly and does not contain malware.

Just like the Apple iOS, the Windows tablet operating systems (Windows 8.1 and Windows RT) have proved to be rock solid. However, unlike iOS and Android phones, the operating system cannot be jailbroken or rooted. Nokia calls the Windows RT platform "... the most secure mobile operating system in the world."



- Started shipping 6/20/2014
- Full Windows 8.1 PC
- Intel i3, i5, or i7 processor
- Up to 512GB hard drive
- 9 hours battery life

- 2160 by 1440 high resolution 12 inch display
- Weighs only 1.75 pounds – ¼ pound lighter than the Surface 2 and more than a pound lighter than the 13.3 inch Mac-Book Air

There are two different Windows tablet operating systems. The first is the Windows 8.1 desktop operating system; this is the same operating system you would install on an HP or Dell workstation computer. It supports touch so apps have been developed for this operating system that work the same way apps do on iPads and Android tablets, meaning Windows 8.1 tablets can be used without a mouse or keyboard just like other tablets.

Windows 8.1 tablets can be replacements for laptops. With the release of the Microsoft Surface Pro 3 with a 12 inch screen, why would you want to have both a laptop and a tablet? These machines that can serve as both a laptop and tablet are referred to as "Hybrids" or "2-in-1s." In addition to Microsoft, other companies, including Dell, Samsung, HP, ASUS, Lenovo and many others, sell 2-in-1

Windows 8.1 tablets. The second Windows tablet operating system is called Windows RT. It looks and feels like the full Windows 8 operating system with the exception of the software it runs. Windows RT tablets will only run apps and those apps must be designed specifically for the Windows RT operating system.

The second Windows tablet operating system is called Windows RT. It looks and feels like the full Windows 8 operating system with the exception of the software it runs. Windows RT tablets will only run apps and those apps must be designed specifically for the Windows RT operating system. Windows RT devices will not run Windows 8 apps or traditional Windows software such as Excel and Word – although there are Word and Excel apps for Windows RT.

The Windows RT operating system requires a less expensive processor that consumes less battery. The system was designed to run on small devices, like phones, and on tablets made to compete in the low end consumer market. These are not business machines unless all you intend to do with your tablet is read email and web pages.

Unlike the Apple iOS, the Windows tablet operating systems run on both Microsoft hardware and hardware from other manufacturers like HP, Dell, and Lenovo

What screen size is right for me?

Tablet screen sizes range from 7 inches to 12 inches. The following are some considerations in deciding screen size:

- Higher screen resolution is more important with larger screens
- A 16:9 aspect ratio is much better for HD TV and movies
- A 4:3 aspect ratio, still used for many still cameras and is better for photo display
- Web pages generally easier to read with 4:3 aspect ratio
- Many TVs and data projectors come with 4:3 aspect ratio – if you plan on projecting images, consider your projector and screen size
- The bigger the screen, the bulkier and heavier the tablet

What hardware features are important to me?

Performance is rarely an issue with tablets (other than Windows 8 tablets) and the speed of the processor is not usually a choice the way it is in desktop PCs. So, don't worry about the processor; same is true for RAM.

Internal storage is another issue. If you use your tablet to store high definition photos and video, storage can fill up quickly. On tablets that have USB ports, you can use flash drives to supplement storage.

Even on Windows 8.1 tablets you may want to rethink how big the hard drive needs to be. For security reasons, you want to carry as little sensitive information as possible; so the days of carrying out entire directories of files into the field, “just in case,” should be long gone. Further, with the advent of Cloud services, we don’t need to carry as much around with us on our mobile devices.

If you plan to do anything other than information consumption on your tablet, you will need a keyboard. Get a keyboard that has a good touch and feel and is backlit since your tablet is your away from the desk machine and you may often have poor lighting.

Battery life may be important if you travel for a living and often don’t have the time or ability to recharge. As you might expect, smaller devices usually have longer battery lives. However, battery

lives differ widely between tablets so you should take a look before purchasing. Replacing the battery in an iPad costs \$99 if it is not under warranty.

What do the reviewers say?

It is always a mistake to buy something you are not well versed in without looking at the review comments. Read the comments of the people who gave the product 1 and 2 ratings so that you will know what the potential problems are before they become your problems. Another benefit of the product review sites is the list of features. Read through the list; probably lots of stuff listed that you never even considered or were aware of.

If possible find a local store that carries the tablets you are considering. Pick it up and see how it feels. Two pounds is a lot to hold up, continuously, which is what you will be doing, often, if you use your tablet to read books.

Conclusions

Start by considering your needs. What do you intend to use the tablet for? Consuming information like emails and Web pages or producing documents like you would on a laptop or desktop machine or something in between. Continue by matching up features with needs. Most users keep high end tablets more than 3 ½ years so it is important to make the right choice.

Will is a Shareholder of K2E, LLC. He has conducted seminars for 48 State CPA Societies, and has spoken at numerous accounting technology conferences, including speaking at the AICPA Information Technology Conference for 22 years, as well as doing training for other organizations such as the FBI.

AICPA Raises Strong Legal Concerns about IRS Voluntary Program Proposal

In the wake of *Loving v. I.R.S.*, which prevents the Internal Revenue Service from implementing a mandatory preparer registration program for unenrolled tax preparers, the IRS is actively considering a “voluntary certification” program.

After repeated requests to the IRS to either seek public comment on its proposed program or to consider alternatives, the AICPA sent a letter June 24 to the agency stating that the program “would cause significant legal problems that may ultimately frustrate the IRS’s goals, confuse the public, and lead to litigation.”

“...It is our understanding that the IRS has no intention of slowing down or considering viable alternatives,” the AICPA wrote to IRS Commissioner John Koskinen. “Therefore, we feel compelled to consider our next steps, and to raise more formally our legal and policy concerns with the IRS’s current path.” In the letter, Chairman of the AICPA Board of Directors William E. (Bill) Balhoff, CPA, CGMA, CFF, and President and CEO Barry C. Melancon, CPA, CGMA, emphasized lack of statutory authority, the program’s failure to address problems caused by unethical preparers and market confusion.

They also noted in the letter that “we value our longstanding and constructive relationship” with the IRS. “We have sought to work with the IRS to achieve workable solutions to regulate taxreturn preparers, and protect the public, and we stand ready to continue these efforts,” Balhoff and Melancon stated.

For more information, read this *Journal of Accountancy* article.

Collaborate

Sustainability for the future

The recent 54th Annual Conference on June 20th was a great success with stellar speakers, informal networking, camaraderie and fun. CPAs representing all segments of the profession were in attendance from ages 25 to 80!

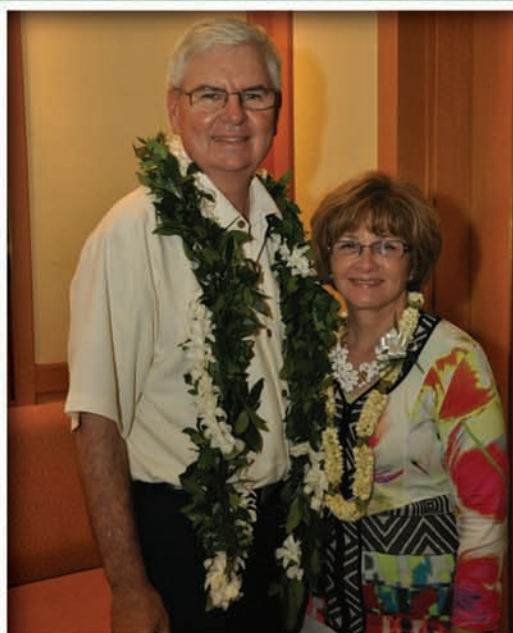
Thank you to all who attended, awesome speakers, and to our valuable sponsors: Corporate Lunch Sponsor – American Savings Bank (10th anniversary as an HSCPA sponsor!); Conference Partners – Ceridian Hawaii and XCM Solutions LLC.

As is the tradition of the HSCPA, the Conference opened with our own Hawaiian-style welcome . . . the blowing of the pu, oli and hula. A “maile lei of royalty” was presented to our special guest and keynote speaker, Barry Melancon, President and CEO of the American Institute of CPAs.

“The conference was great! Honestly I enjoyed everything about it from the opening ceremony which I really thought was fascinating to the speakers. I have seen the shell blowing at lots of weddings that have taken place over the years but I didn’t know it was actually also done as part of a business setting. I definitely learned a lot more about the real culture of Hawaii which is of course different than just what you see at hotels and certainly Honolulu is much different than Kauai. Barry is always great to listen to and I loved the DEA speaker too. I could have listened to his stories for hours and he made a really serious subject almost funny but also relevant to our profession.”

-- Dawn Brenner, CPA of Grant Bennett Associates, APC (CA)

As one of his last official duties, President Michael Tanaka presided over the Annual Election Meeting as voting members elected the new officers and directors for the 2014- 2015 year. President-elect Gordon Tom did a great job emceeding the Conference program and kept us on schedule for the full day of activities.



& Innovate

uture of the profession

If you were fortunate to have been able to attend the Conference, you were in for a treat to hear Barry Melancon give his profession update presentation. It's always FULL of information from every aspect of the profession. Barry touched on building the profession of tomorrow and how collaboration is key to our success. It's important for CPAs to possess multi-disciplinary expertise and have the ability to collaborate. One initiative that generated interest and discussion amongst the audience was on individual CPA mobility. We learned that Hawaii is THE only state in the country that has not adopted CPA mobility. There are 51 states and jurisdictions that have passed mobility laws, with pending legislation in Puerto Rico, Guam and the Commonwealth of Northern Mariana Islands. Talk to your legislators and contact the HSCPA for more information on CPA mobility.

A returning and popular speaker, Dave Heenan entertained the group with his stories on leaders who have exited their careers 'gracefully'. He provided a high-level summary of his book, *Leaving On Top: Graceful Exits for Leaders*, and a question that leaders should ask themselves: "Will I contribute more today and tomorrow than yesterday? If not, the timing is right to enter the next stage of life." Conference attendees were treated to an auto-graphed book of Dave's book. [Check out Norman's Book Review on page 14 for more information on this.]

At the Annual Conference Luncheon, we celebrated the accolades and awards of some of our distinguished members. Barry Melancon did the honors of installing the officers and directors – and managed to pronounce everyone's names with minimal assistance. President Michael Tanaka did the honors of passing the gavel of office to Gordon Tom and thanked fellow Board members for their support throughout the year.

This year, we were pleased to recognize Warren Wee as the recipient of the Distinguished Achievement in Accounting Education award. This award is modeled from the AICPA's award designed to recognize full-time college accounting educators distinguished for excellence in teaching and for national





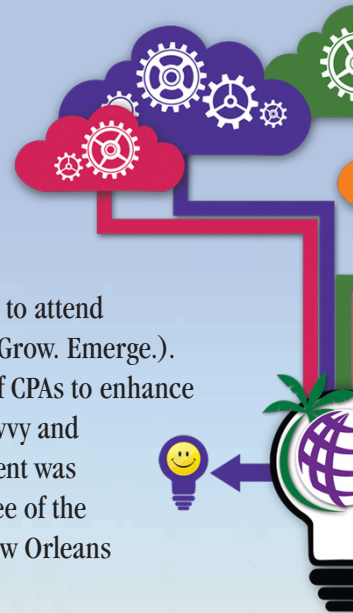
prominence in the accounting profession. Warren is an active member of the HSCPA and serves as Secretary/Treasurer on the Board of Directors. Congratulations, Warren – our gratitude to you for your service to the profession and the HSCPA!

We created a special scholarship for a Y-CPA member to attend the AICPA's E.D.G.E. Conference (Evolve. Distinguish. Grow. Emerge.). This Conference is designed for the next generation of CPAs to enhance their business acumen, develop their management savvy and refine their communications skills. This year's recipient was Adrian Hong who is a member on the Y-CPA committee of the HSCPA. Adrian will be attending the Conference in New Orleans on August 6-8. Congratulations, Adrian!

"Besides the obvious of getting to hear terrific speakers and be there for the deserving honorees, not only did I get two great meals, CPE credits and cool swag, I was able to network with many old friends/acquaintances as well as meeting and making a handful of new ones. I also got to see our very own Michael Tanaka pass his presidential gavel to the new incoming HSCPA president. This event made me proud to be a N&K employee, HSCPA member and a CPA!!!"

--Tad Tadani, CPA of N&K CPAs, Inc.

The Legacy Hall of Fame was established in 2008 at the HSCPA's 75th Anniversary. This award recognizes the outstanding achievements of a CPA leader employed in public practice who promotes high standards of professional conduct and technical competence to safeguard public interest. It was created to recognize HSCPA members who have demonstrated during their career a commitment to the accounting profession locally, nationally or internationally. Our legendary honorees were Gary Nishikawa, Garrett Serikawa and Keiji Tshako. Collectively, they represented over 125 years of practicing public accountancy! We were honored to have Representative Angus McKelvey present special certificate plaques on behalf of the Hawaii



Legislature. Thank you to the families, friends and supporters who helped to celebrate our honorees' contributions to the profession!

Standing between a nice, filling lunch and happy hour was Jason Pa, Special Agent/Criminal Investigator with the Department of Homeland Security, United States Immigration and Customs Enforcement (referred to as "ICE"). Jason shared – and scared us – his many true stories of his 'colorful' assignments. He definitely kept the audience awake and mesmerized! That was evident as many lined up after his presentation to meet him personally.

The other long line was at Happy Hour which began at the close of the Conference. It was time to catch up with old friends, get in some networking time, and get up close and personal with our speakers.

Thank you very much to our valuable sponsors . . . Gabe Lee of American Savings Bank – wow, 10 years of support! We welcomed back XCM Solutions represented by Larry Workman, and delighted to introduce Ceridian Hawaii, represented by Keiko Stifler. Special thanks to the great staff at the Hawaii Prince Hotel and to Richard Ma of Presentation Resources for A/V and photography services.

Mark your calendars and save the date for next year's 55th Annual Conference on June 19, 2015! To view the complete photo album of the 54th Annual Conference, go to www.hscpa.org.

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ers looking for practices now. We also have the experience to help you find the right fit for your firm and negotiate the best price and terms. To learn more about our risk-free and confidential services, call Ryan Pannell with The Holmes Group at 1-800-397-0249 or email ryan@accountingpracticesales.com.



What ALL Hawaii Accounting Firms Need to Know About Peer Review

By Rodney Harano, CPA



During this past year, I have written articles about peer review and how it affects firms doing A&A work. Peer review is a constant as firms have varying year-ends and due dates – there is no “season”. As you prepare for your peer review, the following information will help to make it a smooth process:

- **“Information Required for Scheduling Peer Review”** form, aka “BG Form” – Please thoroughly complete and submit this form to the HSCPA within 14-days of receipt. **Firms are notified of its upcoming peer review 6-9 months prior to the due date.** This form is required to further schedule the peer review and to verify if the reviewer and the firm is a ‘match’. [A reviewer and reviewed firm must determine the capability of the review team to perform a peer review. Once the firm and reviewer are matched and approved, the reviewer has access to the firm’s information via Peer Review Information System Manager (PRISM).
- **Establishing a firm’s peer review year-end** – There are times when a firm requests for an extension of time to complete its peer review because

the firm’s engagements are not completed by the assigned due date. If this is a common occurrence for your firm, a practical solution is to change your firm’s peer review year-end on your NEXT cycle. Please discuss with your reviewer or call me about this - I will be happy to help you find a year-end that works for you. For many firms, this is advisable in order to avoid a peer review extension, which is explained in #3 below.



- **Request for extension of time** to complete the firm’s peer review must be received by the HSCPA in writing at least 60 days prior to the due date. No ifs, ands or buts. Remember, firms are notified 6-9 months ahead of time of its due date.
- Here’s my last “tip”. When compiling your list of engagements to be reviewed, please make sure you use the balance sheet date, **NOT REPORT DATE**, to determine whether or not to include the

engagement in the scope. The only exception to this rule applies to SSAE-type engagements (usually use REPORT DATE). If you have any questions about what to include, please consult with your peer reviewer or me.

One important note: The DOL is comparing information on the Form 5500, specifically the audit firm listed in Part III of Schedule H to the AICPA’s data base to determine whether the audit of the employee benefit plan was included in the scope of the firm’s peer review. If it was not, the firm will be notified by the AICPA Peer Review Division and, in all likelihood, the firm’s peer review report must be recalled. This is not pretty because the firm must undergo a peer review AGAIN, not just have the missing engagement be reviewed.

The aforementioned “tips” affect firms already enrolled in a practice monitoring program (aka AICPA Peer Review Program). However, these will also soon impact firms that are not enrolled in the AICPA Peer Review Program. Why? Peer review is mandatory for all firms practicing in Hawaii. For more information on peer review, visit the HSCPA site at <https://www.hscpa.org/professional-development/peer-review>

Mandatory peer review

Many of the firms, whose partners/directors/owners are AICPA members, have been going through the peer review process. Effective January 1, 2015, those firms whose partners/directors/owners are NOT AICPA members will be subject to peer review as well. The non-AICPA firm does not have to join the AICPA or

If you’re doing non-profit A&A work, join us for a special breakfast on October 29, 8:00 to 10:30 a.m. at the Plaza Club. We will be discussing some of the most common deficiencies found in non-profit accounting engagements and Hawaii’s mandatory peer review law. Especially if you are NOT a member of the AICPA, you should consider attending this session as the Hawaii law affects ALL firms doing A&A work in Hawaii.

Continued on page 18



Register online at:

<https://www.hscpa.org/professional-development/events/NPO-PREV14/are-you-engaged-in-a-a-for-npos-pitfalls-to-avoid-on-your-next-peer-review>

Are You Engaged in A&A for Non-Profits? Pitfalls to Avoid on Your Next Peer Review and Hawaii's Mandatory Peer Review Law



October 29, 2014 (Wednesday)
8:00 a.m. - Buffet Breakfast
8:30 - 10:00 a.m. - Presentation & Discussion
Plaza Club - 900 Fort Street, 20th Floor
(public parking available throughout downtown)

Member \$35
Non-member \$45
includes buffet breakfast
& 1.5 CPE credit hours

Sponsored by the
HSCPA
Non-Profit
Organizations
Committee

- Avoid some of the most common peer review deficiencies found in non-profit accounting and auditing engagements
- Common peer review issues in A-133 engagements - AVOID THEM and correct them before your peer review
- The level of documentation expected in a peer review for key items and areas, both for engagements and functional areas
- Hawaii's mandatory peer review law

Jeffrey K. Mock, CPA/ABV, CVA, MBA is a consulting CPA with many years of public accounting experience with large CPA firms in the Seattle area. Jeff conducts many peer reviews in Hawaii and is licensed in Washington State and Hawaii.

Rodney M. Harano, CPA, Managing Partner, has over 30 years of experience in public accounting as a partner in CW Associates, CPAs, a sole practitioner and partner in other local accounting firms, following an introduction into the profession through the international accounting firm of Grant Thornton. Rodney has been doing peer reviews for over 19 years.



*** REGISTRATION FORM ***

Non-Profit Peer Review ● October 29, 2014 ● Plaza Club - 20th Floor

Total \$ _____ ☐ Check No. _____ ☐ VISA ☐ MC Exp. date ____/____/____ Card No. _____

Signature _____ Print name on card _____ CVV _____

Name _____ Firm _____

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Norman's Book Review

"Leaving On Top: Graceful Exits For Leaders"

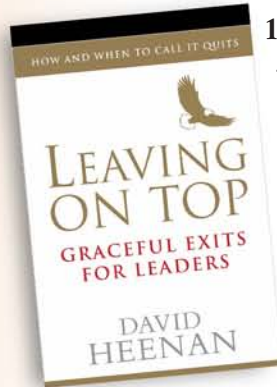
by David Heenan

At the HSCPA 54th Annual Convention, we were treated to a captivating presentation by the world and locally renowned business leader, David Heenan, who covered the main points from his book "Leaving On Top: Graceful Exits For Leaders." We also received a free copy of the book which I started reading that day and knew I had to bump it up to the top of my book review list.

As baby boomers continue to reach retirement age in record numbers, "when should I retire" and "what should I do in retirement" are popular topics in society. The book provides excellent guidance on this sensitive and important decision, and should increase the odds of a person making the right decision for him/herself. Even if you aren't close to retirement age, this book is a must read because it covers the career paths of icons from many disciplines, priceless words of wisdom, and awesome quotes, all of which should help you maximize your own personal happiness and success. As Peter Omidyar (eBay) states in the book, "You've got to position yourself for the unexpected so when the door of opportunity opens, you're close enough to squeeze through. You can't just see what the universe sends your way." The following are some of the things I found most interesting in the book.

Four Distinct Paths To Retirement

The author found through his extensive research people usually take one of four distinct paths to retirement.



- 1. Timeless Wonders** – With their skills intact, these super seniors continue to work productively and dispense wisdom well into their 80s and 90s. Warren Buffet, Betty White and Dr. Michael DeBakey are examples.
- 2. Aging Despots** – While they want to stay in the game, unlike timeless wonders, they are clearly past their prime and should retire and hand over the reins to the younger generation. These narcissistic dinosaurs don't go gently. We all know people who are examples of this category.
- 3. Comeback Kids** – These are people who retired, but later seek a return engagement, usually to either restore their enterprises to their former glory (Apple's Steve Jobs and Starbucks' Howard Schultz), feel that rush of adrenaline again (football coaches Joe Gibbs and Dick Vermeil), or for economic reasons (boxers Mike Tyson and Evander Holyfield).
- 4. Graceful Exiters** – They leave while they are on top of their game. They quit when they're ahead, moving on to something as opposed to moving away from something. Roger Staubach (Dallas Cowboys) and Annika Sorenstam (golfer) understand the value of a personal makeover and are perfect examples of graceful exiters.

The Key Question

In any crucial life or career changing decision, one should always begin with this question: "Will I enjoy more-and contribute more – today and tomorrow than yesterday?" If not, the timing is right to enter the next stage in life. Remember jettisoning a longstanding career and heading into uncharted waters takes tremendous drive and confidence. Graceful exiters are highly motivated and have something more going for them.

People Featured

The book chronicles the life of the following 20 famous people and how they dealt with or are dealing with retirement. From the business world, Anne Mulcahy (turned around Xerox), John Calley (successfully led Warner Bros, United Artists, and Sony), Howard Schultz (Starbucks), and Richard Kelley (Outrigger Hotels); football coaches John Gagliardi (Saint John's University) and Joe Gibbs (Washington Redskins), heavyweight boxers George Foreman and Mike Tyson; Olympic greats Eric Heiden (speed skating) and Dara Torres (swimming); sportscasters Vin Scully and Bob Uecker; politicians Tom Colburn (Oklahoma senator) and Dan Akaka; from the medical field Dr. Michael DeBakey and Dr. Harry Gruber; and entertainers Betty White, Jimmy Dean, Johnny Carson and Ed McMahon.

Creative Genius

Many companies, including CPA firms, have mandatory retirement ages to

eliminate the risk of having “aging despots,” and to create opportunity for the younger generation. However, as Cicero pointed out in his essay “On Aging,” “Great deeds are not done by strength or speed or physique. They are the products of thought, character and judgment. And far from diminishing, such qualities actually increase with age.”

There are several professions such as medicine, science, law, accounting, and engineering, where “old dogs can learn new tricks and should not hang up their spurs prematurely.” The key is you must continue to pursue the latest state-of-the-art tools and techniques, and rigorously continue your professional development. You need to remain curious and engaged throughout your life.

Described as the “greatest surgeon ever,” Dr. Michael DeBakey is a perfect example of someone enjoying prolonged productivity. He performed more than 60,000 heart and artery surgeries and invented scores of medical procedures and instruments. For seven decades, his hands remained steady and his hearing sharp. He performed his last operation at age 90, as he felt that he had done enough and should turn things over to his colleagues. Three months after receiving the Congressional Gold Medal, the nation’s highest civilian honor, from President George Bush in 2008, Dr. DeBakey passed away at age 99.

Why Did Johnny Carson Retire?

Johnny Carson was the “King of the Night” as his “The Tonight Show” had 20 million viewers nightly. Remember his skits “Carnac the Magnificent,”

“Art Fern, the Team Time Movie announcer,” redneck “Floyd R. Turbo,” and the frizzy haired holy man, “The Maharishi?” Johnny was making \$20 million a year in his final years, sometimes generating 15% of NBC’s annual revenue. However, he was determined to leave on top and not be like most entertainers and athletes who play a season too long or speak too many times. So after more than 4,500 shows, he did his last show at age 66. When asked why, he simply replied, “You’ve got to know when to get off the stage and the timing was right for me.” Thirteen years later at age 79, Johnny Carson died of emphysema at his Malibu home. Five years later in 2010, Carson’s foundation, one of Hollywood’s biggest charities, reportedly received \$156 million from his personal trust.

10 Lessons For A Graceful Exit

The author summarized the following 10 lessons exemplified by the 20 people profiled in the book: Know Thyself, Know Thy Situation, Take Risks, Keep Good Company, Check Your Ego At The Door, Keep Learning, Stage Your Exit, Know When To Walk Away, Know When To Stay Put, and Start Now! See page 16 for more details on the 10 lessons.

Summary

David Heenan does a brilliant job of unlocking the secrets to one of the biggest decisions we will all have to face at some time in our life, retiring gracefully and moving on successfully in retirement. We all know people who in retrospect retired too early or equally as tragic, hung on too long before retiring voluntarily or involuntarily. By researching the lives of 20 well known individuals, we learn valuable lessons and wrong turns to avoid which should

help us in our own life journey.

In closing, the book is a must read for anyone who wants to increase his/her odds for a happy and productive life before and after retirement. Below are additional quotes from the book which I hope you will find as inspirational and insightful as I did.

“Happy lives often includes happy accidents.” (David Heenan)

“It’s an admission to bankruptcy to have to go outside to recruit top management.” (Peter Drucker)

“A person doesn’t have to be a doctor to be compassionate. Everyone can help others, simply by being kind. If we could just remember that, our lives, our society, would be far better off.” (Dr. Michael DeBakey)

“Great coaches demonstrate personal drive, expertise and knowledge. In return, great players will sacrifice for a hands-on-coach, because they identify with him as an integral part of the team.” (Bill Walsh)

“Keep answering the bell. The key to success in boxing and life is to keep getting back up. Always dare to do something different. A never give up attitude will bring you victory.” (George Foreman)

“When you’ve had the best, who needs the rest?” (Betty White, on why she never remarried after she lost her husband Allen Ludden over 30 years ago)

“Everything has an end, only a sausage has two.” (German Proverb)

10 Lessons For A Graceful Exit

“Leaving On Top: Graceful Exits For Leaders”

The following are the 10 lessons exemplified by the 20 people profiled in Dave Heenan's, *Leaving On Top: Graceful Exits For Leaders*.

1) KNOW THYSELF – What matters most to you? Fame? Fortune? Family? Friends? Helping others? Listen to your heart. Look at yourself as objectively as possible and analyze what's truly important. As astronomer Galileo reasoned, “All truths are easy to understand once they are discovered. The point is to discover them.”

2) KNOW THY SITUATION – Situations change, and wise souls know when the magic that once underscored a great career has fizzled. Remember, when everything's clicking, it's easy to overstay your welcome.

3) TAKE RISKS – Accept change as a natural part of your transition. Don't be a prisoner to your current vocation. Rediscovery will expand your world. But strike out anew while you are still hardy enough to face new challenges.

4) KEEP GOOD COMPANY – Choreographing a graceful exit takes courage. Build alliances to help plan your exit strategy, and then stay connected. Keep the company of sunny characters, those with an upbeat disposition. Ignore the naysayers. Avoid humorless people and for sure don't marry one! A day without laughter is a day wasted.

5) CHECK YOUR EGO AT THE DOOR – Savvy leaders are abandoning the notion that the credit for every significant achievement is solely

attributable to the person at the top. Egoless people foster first-rate co-leaders, including their replacements, at every level of the organization. This makes stepping down possible.

6) KEEP LEARNING – Graceful exiters remain curious. They are intellectually interested, alert, and adaptable. They read, explore new places, and engage their senses. The more diverse your experiences, the better the prospects for forging a new chapter in your life. Keep your technical skills sharp. Continue to build your brand – your competitive advantage. Remember it's not the road *always* traveled. It's the road *never* traveled that you have to find.

7) STAGE YOUR EXIT – The transition to what's next may take a while. Back into it. Live life incrementally, breaking your departure into manageable steps. By carefully staging your departure, you'll build confidence and create momentum for your new life. Tread carefully if you're contemplating a comeback. More often than not, encores fail, and pipe dreams can lead to disappointment. As Confucius once said, “Don't build a new ship out of old wood.”

8) KNOW WHEN TO WALK AWAY – Obsessively ambitious folks often give up everything else in pursuit of staying in the saddle and unfortunately pay a terrible price. They lose touch with their spouses. They become strangers to their families. They turn their backs on avocations that might bring them satisfaction. Friends drop away. In extreme cases, parents are lost and

barely mourned. As Hall of Fame basketball coach John Wooden warned, “Don't let making a living prevent you from having a life.” Don't bend the rules to play the game. Character counts, and graceful exiters don't wimp out. Unfortunately, in the wake of today's growing scandals, there are more and more instances of superiors who are unworthy of a decent person's loyalty. Blind devotion often backfires, and befriending the wrong cause or boss can be hazardous to one's career. If you're in this situation, **WALK AWAY!!!**

9) KNOW WHEN TO STAY PUT – Not everyone has to pack it in. Creative output doesn't crest and ebb at any predetermined time. If you are happy and productive, stick with your day job, the one you love. Give it your all and remain passionate about it. It can be equally foolish, as well as self-defeating, to leave a beloved calling prematurely. As leadership coach Marshall Goldsmith noted, “Staying on is not immoral, illegal or unethical. If you want to stay, and the company or any enterprise can benefit from your staying, knock your-self out! Go for it as long as you can.”

10) START NOW! – Set your priorities early and put in place the building blocks to achieve them. Don't dillydally or let procrastination steal your dreams. But dreams are nothing without action. Start now, you may not have a chance later. As poet William Ernest Henley stated in *Invictus: It matters not how strait the gate, How charges with punishments the scroll, I am master of my fate; I am captain of my soul.*



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HSCPA; the Hawaii peer review law is specific about this. However, the firm must enroll in a practice monitoring program. The next several articles will be addressing the impending peer review law and how it will affect all firms.

At a recent AICPA conference, the following peer review topics were presented:

- Effective immediately, employee benefit plan and Yellow Book audits will be subject to a working paper and financial statements review by an “expert” panel. This will be done on a surprise basis and at least 100 will be reviewed.
- Firm representation letter - The firm must now represent that the list of engagements provided to the reviewer is complete. FOR PEER

REVIEWERS: You MUST SUBMIT A COPY OF THE FIRM’S REPRESENTATION LETTER TO HSCPA with the peer review working papers. These provisions are effective now.

- Possible consideration – A firm’s initial high-risk engagement is promptly subject to peer review. Oftentimes, a firm performs a high risk engagement (i.e. ERISA/Yellow Book) AFTER it has gone through peer review, but BEFORE ITS NEXT peer review. The Peer Review Board would like that initial high-risk engagement to be peer reviewed sooner than the firm’s next peer review. Again, this is being deliberated by the Board.
- The Board exposed a change to the engagement review report. Under

extant standards, one deficiency = a “pass with deficiency” rating. Two deficiencies = a “fail” rating. The exception to this reporting model is - if the firm’s deficiency is exactly the same on all reviewed engagements, then the firm receives a “pass with deficiency” rating. The Board is looking to change the aforementioned to a “fail” rating. Thus, the SAME deficiency on ALL engagements = FAIL. If you have any comments about the proposed rating change, please share them with the Peer Review Board. I will keep you abreast of this exposure draft.

If you have any questions about this article or your firm’s peer review process, please contact me at rharano@cwassociatescpas.com.

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On the Other Hand...

by Ronald Heller, Attorney & CPA

Q: Someone told me there was a tax case where a pro golfer made millions from endorsements and it was tax free. Is that true? If so, how did he pull it off?

A: Unfortunately, it was a little more complicated than that, but pro golfers Retief Goosen and Sergio Garcia did achieve pretty good results in a pair of U.S. Tax Court cases.

Retief Goosen is a resident of the United Kingdom. Sergio Garcia is a resident of Switzerland. As non-residents for purposes of U.S. taxation, they are basically subject to tax on income from engaging in a U.S. trade or business. In both cases, it was clear that they did engage in a U.S. trade or business – playing golf professionally is a trade or business, and they each played a number of tournaments in the U.S. during the tax years in question. Obviously, winnings earned in U.S. golf tournaments are U.S.-source income, and tournament winnings in other countries are not U.S.-source income. The question gets more complicated, however, when endorsements are involved.

For example, Garcia signed a contract with Taylor Made that required him to use their products (golf clubs and accessories), to play in a certain number of tournaments per year, to make personal appearances, and to stay out of any legal trouble. It also allowed Taylor Made to use his name and photograph in their ads. The critical question was

whether the payments he received were income from personal services, or royalty income. To the extent that it was income from personal services, derived from a U.S. trade or business, it would be subject to U.S. income tax as ordinary income.

On the other hand, under the terms of the U.S.-Switzerland tax treaty, only Switzerland could tax Garcia's royalty income. Garcia filed his returns treating 85% of the money as royalties (exempt from U.S. income tax) and only 15% as income from personal services. Garcia said that he was being paid primarily for the right to use his image, his name, and his value as a celebrity. He argued that any actual services required under the contract were relatively minimal – the reason Taylor Made wanted him was his public image as a golf star. Any specific work that he was personally required to perform was a minor element of the deal.

Of course, the IRS disagreed, and initially said that the money from Taylor Made should be treated as 100% income from personal services.

Goosen was a little more conservative, and claimed that 50% of his endorsement income (also from Taylor Made, plus Izod, Titleist and Rolex) was royalty income.

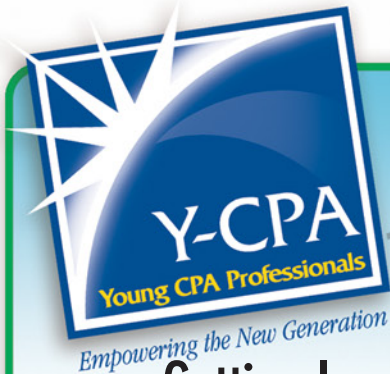
The Tax Court noted that payments for the right to use a person's name and likeness are generally considered royalties because the person has an ownership in-

terest in those rights. The IRS argued that the contracts required Goosen and Garcia to perform personal services, including playing golf and carrying or wearing the sponsors' products. The IRS pointed to contractual provisions requiring pro-rata reductions in the endorsement fees if Goosen, for example, failed to play in a specific number of golf tournaments.

The Court ultimately ruled that it was appropriate to allocate the endorsement fees from the contracts between personal services income and royalty income. The Court noted that absolute precision in making such an allocation was unattainable, but said "we must do the best we can with the evidence presented." In Goosen's case, the Court accepted the 50% royalty allocation for most of the contracts in question. For Garcia (in a separate trial) the Court treated 65% as royalty income.

The reason for the difference was apparently that Garcia was perceived as a bigger star, with more "image" value – not necessarily more success in actual golf tournaments, but more popular appeal and greater power as a symbol for the brands he promoted.

Ron Heller is a director of Torkildson Katz Moore Hetherington & Harris, a law corporation and practices in the areas of taxation, tax litigation, business/commercial litigation (including CPA malpractice defense), and business law.



Y-CPa BUZZ!



Getting Involved ... and Staying Involved with the HSCPA

By Darryl Nitta



Prior to volunteering in 2006 on the HSCPA's newly formed Y-CPA Squad, I was an inactive HSCPA member. I paid my HSCPA dues every fiscal year and continued on working my merry way up the corporate ladder. Don't worry if this sounds like you because many of us start off exactly like this.

Before getting involved, the extent of what I perceived as my HSCPA benefit was reading Norman's Book Review in KALA. My perception could not be further from the truth. I soon began to realize that the HSCPA does so much to promote our CPA profession and to protect our "brand".

Getting involved and staying involved – 3 keys to successful volunteering

- Be Passionate
- Start Small
- Set Goals

If you have the passion to get involved with the HSCPA and promote our profession, I recommend starting off small. To get the ball rolling, join a committee when you renew your HSCPA dues. Commitment time is nominal and this will give you a good behind the scenes look at the HSCPA. In 2006, for me starting off small was the ideal way to get my feet wet because I was not discouraged with an overwhelming time commitment for my professional volunteering efforts. As the years progressed, my passion remained strong and I began setting annual goals for myself to ensure I remained focus.

For example, one goal was to represent the profession on the HSCPA Board which I accomplished in 2011 through my involvement on the Y-CPA Squad.

My current goal for the new fiscal year is a direct result of being a member of the AICPA Governing Council and Barry Melancon's, AICPA President & CEO, informative presentation at the HSCPA Annual Conference. For those who attended the Annual Conference, it became very clear during the healthy Q&A session that we need to work together to pass mobility in Hawaii. I know about "Hawaiian Time", but we are already the last state (including 5 U.S. Territories) to have individual mobility! Again, we will need everyone's help to accomplish this. I challenge all HSCPA members to first gain knowledge about mobility and then share that knowledge with your peers who don't completely under-

stand why it is important for the profession. To take it one step further, inform your clients who will be affected if mobility is not passed in Hawaii. Please don't hesitate to contact myself or any other HSCPA Board Member with any questions regarding mobility. Let's all work together to get mobility passed in Hawaii!

Just remember, getting involved is easy if you start small. Staying involved does take a little more effort. With passion and proper goal setting to keep you focused, you will play a more active role in protecting and promoting our CPA profession.

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CPA FIRM MICROCOMPUTER TECHNOLOGY

By Ron Gouveia CPA.CITP of Carr, Gouveia + Associates, CPAs, Inc.



As all of you who are using Microsoft Office 365/Exchange Online for e-mail know, there was an eight-hour outage on June 24, 2014. The length of the outage got everyone's attention with many asking how to protect against this type of outage. There surely is more than one answer to that question, but the one we use and that came in handy that day is the McAfee Email Protection & Continuity service which filters our e-mail for spam, viruses and malware. That service also includes a disaster recovery service

which monitors our e-mail server (Microsoft Exchange Online) and spools the e-mail when that e-mail server goes down. We were able to view and respond to e-mail during the outage and the affected e-mail was passed through to us when Microsoft's servers came back online. Some kind of service like this is worth considering.

One thing to note is that Microsoft has changed the spam filter settings on their Exchange Online servers since this outage. The filters are much more aggressive which means that for those using Office 365/Exchange Online it is critical to check your Junk E-mail folder regularly to see if any e-mail has been sent to this folder which should not be. You can right click on the e-mail and go down to Junk and click on Never Block Sender if the e-mail is from someone who should not be blocked.

In terms of communications tools I've been using e-mail and phone calls. I go through a lot of e-mails and phone calls every day. I'm looking into using instant messaging (IM) to replace many of the e-mails and phone calls using Microsoft Lync for messaging amongst our employees. We'll see if this is an improvement.

Windows 7 mainstream support ends in January 2015. This will have little effect on business users as security updates will continue for another 5 years. It is probable that many businesses will skip Windows 8 entirely, and upgrade directly from Windows 7 to Windows 9 in the future. The recommended strategy for

buying business computers for the next several years is to buy a Windows 8 ready computer with Windows 8 license but with Windows 7 Pro preinstalled. This gives several security advantages connected with Windows 8 but the familiar Windows 7 Pro installed. In order to implement this strategy you need to buy business computers because Window 7 Home will no longer be available on consumer oriented computers after October 2014. Also, be aware that extended supported for Windows Server 2003 goes away in July 2015 so plan now to replace these servers before then, because there will be no more security updates after that date.



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If you have any questions or comments, call me at (808) 837-2507 or send e-mail to ron@cga-cpa.com.

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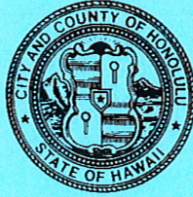
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- Homeowner must have a home exemption in effect at the time of application and for the following tax year.
- Any of the titleholders do not own any other property anywhere.
- The combined income of all titleholders cannot exceed \$50,000.

How Do I Apply for the Tax Credit Program?

Complete an application available at the following locations in early July:

- Satellite City Halls
- Treasury Division at Honolulu Hale
- Tax Relief Section at the Standard Financial Bldg.
- On line @http://www.honolulu.gov/budget/Treasury_division.htm

What is the Application Deadline? September 30 annually.

Important Reminder: You must file annually for this credit.

For more information contact the Real Property Tax Relief Office at 768-3205.

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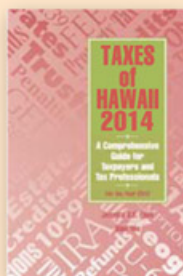
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