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Capo District Audited by IRS over Loan

The Capistrano Unified School District is being audited by the IRS for a \$37.5-million bridge-financing loan it took out in 2009. According to an IRS letter dated September 22, the audit “is intended to assess the overall compliance risk of the bond issue”. The audit is a correspondence audit in which the District is to provide answers to questions.

The District has an annual revenue generating facility called Tax and Revenue Anticipated Notes (TRANs) that is for financing any shortfall in funds it may have. The District has already arranged for two loans amounting to \$75 million this academic year.

The District usually receives most of its revenue at two times of the year, the months when citizens pay their property taxes. After people pay their taxes to the state, the state would then transfer the revenue to the district. But these past few years, the state has promised funds in deferred payments, leaving the District in need of cash until the deferred payments are disbursed. This compelled the District to join other cash-strapped school districts in 2009 in a program called the South Coast Local Education Agencies Pooled TRAN Program 2009A, aimed at raising more funds. The other districts involved were Saddleback Unified, Brea Olinda Unified and Centralia Elementary School District in Buena Park. But the IRS has only targeted Capistrano Unified District.

Ron Lebs, the District deputy superintendant for business services said the district has had its bridge-financing vehicle audited in the recent past but he could not pinpoint the exact years. The District Board of Trustees may consider hiring a team of lawyers that

specialize in complex finance deals and tax law to defend their case. Lebs is confident the case would not take long to be settled. He said, "Because the actual amount of work they are expected to perform is not that much, I believe the total estimated cost is approximately \$5,000."

The IRS has declined to comment. Its spokesman, Raphael Tulino said, "The law provides we don't offer any information about a specific file."

If you are having complicated tax problems and the IRS is giving you a hard time, call us for a free consultation at (813) 229 7100.