

## **QUESTIONS & ANSWERS RELATED TO THE IRS MATTER**

**May 13, 2022**

*These responses are being provided by the Board to help facilitate a better understanding of this matter within the community. Please note that the responses provided herein are based on information received by the Board as of the date of publication of this document (May 13, 2022) and are subject to change and further revision as additional information becomes available to the Board.*

**1. Does the IRS matter affect the 2022-2023 proposed budget?**

On April 6, 2022, the District made a tax payment to the IRS in the amount of \$843,558, which was for outstanding Q4 2020 payroll taxes. This tax payment was recorded as an expense, which reduced the unassigned fund balance in the General Fund when it was paid. This payment increased 2021-2022 estimated expenditures from what had previously been reported in the proposed budget. The tax payment was funded from the District's unassigned fund balance in the General Fund without affecting taxes to be levied or the proposed tax rate as set forth in the 2022-23 budget.

**2. What provisions of GAAP is the District's auditor relying on in advising the District that this accounting treatment is appropriate?**

As noted above, the Q4 2020 tax payment in the amount of \$843,558 is being recorded as an expense to the District's General Fund and has reduced the Fund's balance by that same amount. Please note that this payment has not been recorded as a receivable to the General Fund. The accounting in the General Fund follows GASB Statement No. 34, paragraph 79.

**3. Does the IRS matter have any state or county ramifications?**

Regarding payroll tax matters, no. This is a federal tax matter.

**4. Are there any anticipated impacts on our credit rating due to the payroll tax penalties?**

The District's municipal financial advisors, Capital Markets Advisors, LLC, is of the opinion that the IRS payroll tax matter is unlikely to have an impact on the District's credit rating given current fund balances, tax-raising capability, and remediation plan; however, no assurances can be provided as to what, if any action, Moody's Investors Service might take in the future. The District's ability to

borrow at favorable rates when required to do so is expected to remain strong. The District's next borrowing is scheduled for later this spring for the annual computer lease, pending voter budget approval.

Specifically, if the penalties paid in connection with Q1 2020 and Q3 2020 are not eventually abated and remain an expense impacting undesignated fund balance without a plan to replace those dollars, then there would be a negative impact on the overall Fund Balance position (all else being equal), however; this alone is unlikely to impact the District's Aaa Moody's rating due to the reasons mentioned above.

**5. Is the IRS lien document publicly available?**

The IRS lien document is a matter of public record and is available along with other public records [here](#).

**6. Does the federal tax lien interfere with the District's ability to get third party service providers to deliver educational, mental health, or facility maintenance services to the District?**

No.

**7. When will the IRS lien be lifted?**

Only when all Q4 2020 taxes, interest, and penalties have been paid and/or abated and the District's IRS transcript reflects a zero balance may the District be eligible for a lien release and withdrawal. Because a full resolution of the Q4 2020 matter is still pending before the IRS Office of Appeals, we do not yet know when this may be.

**8. When are we likely to learn about the resolution of the payroll tax matter?**

The Board continues to provide updates from tax counsel at Board meetings. Copies of these updates can be found on the [IRS Matter](#) page on the Scarsdale Schools website.

**9. Is the District still currently accruing interest and penalties as it cooperates with the IRS?**

At this time, the District has paid the Q4 2020 taxes due, but interest continues to accrue on any unpaid penalties.

**10. Who is communicating with the IRS on behalf of the District?**

The District's tax attorneys are currently handling communications.

**11. What changes have been made to the District's internal controls related to payroll taxes?**

The District is revising its internal controls procedures to help prevent a recurrence of the IRS matter. These procedures outline enhanced steps to be taken, such as supervisory verification of payroll submissions, to help ensure the accuracy and completeness of future payroll submissions.

**12. Why were redactions made to the investigator's contract?**

The redactions to the investigative services contract between the Board of Education and Anthony J. Brock, Esq. were made on the advice of counsel that the content would constitute an unwarranted invasion of personal privacy if disclosed and/or would otherwise fall within the scope of the attorney-client privilege.

**13. Where can I find additional information about the IRS Matter?**

The Board has created a webpage on the Scarsdale Schools website entitled [IRS Matter](#). Information is posted and updated there, including copies of Board President statements, IRS documents, and other related information. The Board's [special meeting with the District's external auditor](#), EFPR Group, on May 5th can be found in the [Board of Education's Video Library](#).