

DISCLOSURE

The copies of a redacted (1) IRS notice and of (2) the related IRS Form 4564 are posted here to give you, the borrower, an idea of the questions you may be asked in the event one of your bond issues is selected for examination by the Tax Exempt & Government Entities Division of the Department of Treasury. All information which would identify the particular issue in question herein has been redacted. As you can see the questions and information asked for can be extensive. Although all the questions are important you would be well advised to pay close attention to questions 17 and 18. If you have any questions concerning this you may wish to consult counsel experienced in these matters.

**Internal Revenue Service
Tax Exempt & Government Entities Division**

North Carolina Medical Care Commission
Attn: Finance Department
701 Barbour Drive
Raleigh, NC 27603-2008

RECEIVED
DHSR

[REDACTED]

NC MEDICAL
CARE COMMISSION

Department of the Treasury

Date: [REDACTED]

Person to Contact: [REDACTED]

Employee ID Number: [REDACTED]

Contact Telephone Number: [REDACTED]

Contact Address:
[REDACTED]
[REDACTED]
[REDACTED]

Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]
[REDACTED]

Dear Sir or Madam:

We have selected the bond issue named above for examination. At this time, we have no reason to believe that your bond issue fails to comply with any of the applicable federal tax requirements.

This correspondence examination is intended to assess the overall compliance risk of the bond issue. At this time, we are requesting general informational responses, and in limited certain instances, some supporting documentation. However, we reserve the right to expand this examination. Moreover, failure to timely respond may result in an expansion of this examination, including a request for additional supporting documentation.

What You Need to Do

Please complete the enclosed Form 4564, *Information Document Request*, and follow the instructions below for sending your response to us. If you do not have the information to answer a question, but know the party that has such information, you should coordinate with that party to provide us a complete response.

Be sure to sign and date Form 4564 on *Page 15* in the penalties of perjury statement provided. Failure to sign and date the form may result in an expansion of this examination. We will accept facts submitted by a party other than the issuer under penalties of perjury only if the issuer also certifies under penalties of perjury that to the best of its knowledge that such facts are true and accurate.

How and When to Send Your Response to Us

Send your response to us within 21 days from the date of this letter using one of the following methods.

- Save your completed Form 4564 on a compact disc (CD-ROM) and mail it to the contact person and address shown at the top of this letter.

- Email (2.5 MB file size or less) your completed Form 4564 to [REDACTED] and indicate "Qualified 501(c)(3) Bond Exam" in the email subject line.

What to Do if You Want Someone to Represent You

If you wish to have someone represent you during this examination other than officers or employees of the issuer, you must provide a completed Form 2848, *Power of Attorney and Declaration of Representative*, or other written declaration containing the same information required on Form 2848. If you do not provide a written power of attorney, the Service will not provide to or discuss with your representative any of your confidential information. A conduit borrower for which the issuer has completed Form 8821 may participate in the examination. In such a case the conduit borrower may designate its own representative under Form 2848. Copies of Form 2848 and Form 8821 are available for download at <http://www.irs.gov>.

What to Do if You Discover a Problem That Impacts the Tax-Exempt Status of the Bonds

If in the process of preparing your response to this first Information Request a problem is discovered that affects the tax-exempt status of your bond issue, you may request a closing agreement. Such a request will be evaluated in a manner similar to that used to evaluate requests submitted under the Tax Exempt Bonds Voluntary Closing Agreement Program described in Notice 2008-31. If this examination is expanded after our review of your response to this first Information Request, however, evaluation of a closing agreement request made after such expansion will be subject to the standards for closing agreements in connection with an examination. IRM section 7.2.3.1.1.3 (08-05-2011) provides that "the issuer submitting a TEB VCAP request can expect to settle the case on terms that are no less favorable, and generally on terms that are more favorable, to the issuer than the settlement terms that would be expected had the violation been discovered as a result of an examination.

During this examination, we may need to contact third parties. We are providing this notification in accordance with section 7602(c)(1) of the Internal Revenue Code. If necessary, we will request additional information by submitting information document requests.

If you have any questions or are unable to complete Form 4564 by the required due date, please contact the person named at the top of this letter or email your questions or concerns to the email address shown in the How and When To Send Your Response To Us section. Be sure to include your contact information on all correspondence.

Thank you for your cooperation in this matter. Please feel free to call or write if you have any questions or concerns about this matter or are unable to promptly respond to our request.

Sincerely,

[REDACTED]

Revenue Agent, Tax Exempt Bonds
Compliance & Program Management

Enclosure(s): Publication 1, Form 4564

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

Please provide your responses to the following questions by the due date indicated below. Instructions for returning this request to us are provided in the accompanying letter. All responses should relate to the bond issue identified above (the "Bonds"). Please use additional sheets as necessary to complete each response. For all accompanying documentation, please clearly identify the question to which the documentation relates.

Section references in this Information Request are to sections of the Internal Revenue Code unless otherwise indicated.

1. List the name and E.I.N. of each section 501(c)(3) organization using the proceeds of the bonds:

<u>Name</u>	<u>E.I.N.</u>
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2. Is there any issue that may adversely affect the exempt status of the section 501(c)(3) organization(s) using the proceeds of the bonds?

Yes No

If yes, please describe.

3. Has there been a change in the principal user or owner of the bond financed facility since the bonds were issued?

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 1
	Phone [REDACTED] FAX [REDACTED]	

To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED] Reported Issue Price: [REDACTED]	Submitted to: Dates of Previous Requests: n/a

Description of Information Requested:

Yes No

If yes, please describe.

4. Have any assets acquired or constructed with proceeds of the bonds been sold or otherwise disposed of?

Yes No

a. If yes, please describe:

- i the assets sold or disposed of;
- ii the amount of bond proceeds that were allocated to the assets;
- iii the amount of proceeds of the sale or disposition; and
- iv how and when such sale or disposition proceeds were used or are expected to be used.

b. If yes, was any remedial action taken pursuant to section 1.141-12 of the Regulations in connection with the sale or disposition?

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 2
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

Yes No

If yes, please describe the remedial action that was taken. If no, please explain why no remedial action was required to maintain the tax exemption on the bonds.

5. Has there been a change in use (within the definition of section 150(b)(3)) of any portion of the bond financed project since the bonds were issued (other than a sale or disposition of property as described in question 4 above)?

Yes No

a. If yes, please describe:

- i the change;
- ii the assets affected by the change; and
- iii the amount of bond proceeds that were allocated to the affected assets.

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED] Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 3
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

b. If yes, was any remedial action taken pursuant to section 1.141-12 of the Income Tax Regulations ("Regulations")?

Yes No

If yes, please describe the remedial action that was taken. If no, please explain why no remedial action was required to maintain the tax exemption on the bonds.

6. Have there been any material event notices published since the bonds were issued, including principal and interest payment delinquencies, adverse tax opinions affecting tax-exempt status, modifications to rights of bondholders, bond calls, defeasances, etc.?

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 4
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED] Reported Issue Price [REDACTED]	Submitted to:
	Dates of Previous Requests: n/a

Description of Information Requested:

Yes No

If yes, please attach a copy of the notice(s).

7. Have you restructured the debt service on the bonds or altered any other terms or conditions of the bonds subsequent to the date of issue, including modification, addition or removal of any credit enhancement?

Yes No

If yes, please describe.

8. Has a final allocation of proceeds of the bonds to expenditures been made?

Yes No

If yes, was the final allocation of proceeds to expenditures made within 18 months after the later of the date the expenditure was paid or the completion of the project; and in any event not later than 5 years plus 60 days after the issue date of the bonds?

Yes No

If no, please explain.

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : Charlotte K. Caldwell, Revenue Agent	Date: [REDACTED]
	Employee Number : 1000668238	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 5
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

9. The following subset of questions seeks information on expenditure of bond proceeds:

- a. Generally describe each use of bond proceeds.
- b. List the date(s) on which the financed assets were completed (or acquired, if no construction was involved).
- c. If all bond proceeds were spent before the financed assets were completed or acquired, please note that, and describe the method used to allocate proceeds and other moneys to the expenditures.
- d. Specify the amounts of proceeds allocated to costs of issuance of the bonds.
- e. Specify the amount of proceeds allocated to working capital expenditures (do not include costs of issuance) of the bonds.

10. The following subset of questions on private business use requires the issuer to report on private business use of bond-financed property. "Use" includes, among other things, leases, management contracts, research agreements and other arrangements conveying special legal entitlements for actual or beneficial use.

- a. Is any bond-financed property used by any person in a trade or business, unrelated to the trade or business, as defined by section 513 (including use as lessor to another entity), of

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 6
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

the 501(c)(3) conduit borrower or other 501(c)(3) user of the property?

Yes No

If yes, describe the use and the amount of proceeds allocable to such use.

- b. Is any bond-financed property used by any person other than state and local governmental entities or 501(c)(3) organizations (for this purpose, the Federal government and foreign nations are not state and local governmental persons).

Yes No

If yes, describe the use and the amount of proceeds allocable to such use.

- c. If any of the uses described in 10.a or 10.b are specifically permitted under the Regulations or a revenue procedure that exempts certain uses from "private use," identify the use and the manner in which it is exempted from private use.

- d. Is any bond-financed property treated as exempted from private use as use of "qualified improvements" under Regulations section 1.141-3(d)(6)?

Yes No

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED]	Page 7
	Phone [REDACTED] FAX [REDACTED]	

To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED] Reported Issue Price: [REDACTED]	Submitted to: Dates of Previous Requests: n/a

Description of Information Requested:

If yes, list all such uses, and the amount of bond proceeds allocable to such use. Also, please describe how each such use qualifies as use of "qualified improvements."

- e. If there are any management or service contracts or research agreements with respect to financed property that are exempted from private use under a revenue procedure and therefore described in 10.c that have either been amended, extended or entered into subsequent to the date of issue of the tax-exempt bonds, provide copies of the contracts or agreements. Include all extensions and amendments to such contracts or agreements.
- f. Enter the average percentage of private business use of the proceeds for each year since the bonds were issued.

11. Have you filed Form 8038-T?

Yes No

If no, check the applicable box:

- Rebate not due yet
- Exception to rebate applies

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 8
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

No rebate due

If you checked the box "No rebate due," provide the date the rebate computation was performed. _____ [mm/dd/yyyy]

12. a. Was more than 5% of the sale proceeds of the issue used to finance working capital?

Yes No

b. Were any working capital costs financed with bond proceeds that are not directly related to the capital expenditures financed with bond proceeds?

Yes No

If either 12.a or 12.b was answered yes, was the "proceeds spent last" allocation rule followed?

Yes No

13. Were there unspent proceeds remaining after the project was completed?

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED] Office Location: [REDACTED] Phone [REDACTED] FAX [REDACTED]	Page 9

To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED] Reported Issue Price: [REDACTED]	Submitted to: Dates of Previous Requests: n/a

Description of Information Requested:

Yes No

If yes, describe how and when such proceeds were used or will be used.

14. Were any proceeds invested pursuant to an agreement providing for a specified right of deposit or withdrawal at a specified interest rate, including an agreement to supply investments on two or more future dates (a "GIC")?

Yes No

If yes, please provide the documentation evidencing qualification under the safe harbor bidding rules for investment in a GIC (Regulations section 1.148-5(d)(6)(iii)). If no such documentation is applicable, describe how the fair market yield on the investment was determined.

15. Have all proceeds invested beyond the applicable temporary period been yield-restricted to the yield on the bonds?

Yes No No proceeds after applicable temporary periods

If yes, please describe the manner of yield restriction.

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED] [REDACTED] [REDACTED]	Page 10
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

16. Have you or a conduit borrower earmarked (either through gifts restricted to the project or through any endowment, or otherwise) or pledged any funds to pay debt service on the bonds that you anticipate will reasonably be available for such purpose? Include direct and indirect pledges, such as those to a lender in a private placement, a guarantor or a credit enhancer.

Yes No

If Yes, enter the amount \$ _____ and describe the pledge.

17. Section 6001 requires the retention of the records necessary to substantiate compliance with federal tax requirements. Have adequate records necessary to substantiate compliance and support the continued exclusion from gross income of the interest paid on the Bonds been retained?

Yes No

If "No," please describe any deficiencies in the records retained.

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED] Office Location: [REDACTED] [REDACTED] Phone [REDACTED] FAX [REDACTED]	Page 11

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam	
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:	
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a	

Description of Information Requested:

18. Are there written procedures, other than the bond documents provided at closing, which contain the following key characteristics to ensure that violations are timely identified and corrected so that the Bonds remain in compliance with federal tax requirements from the time they are issued until they are no longer outstanding?
- a. Due diligence review at regular intervals?
 Yes No
 - b. Identification and training of the officer or employee responsible for review?
 Yes No
 - c. Retention of adequate records to substantiate compliance (e.g. records relating to expenditure of proceeds, etc)?
 Yes No

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED] Office Location: [REDACTED] Phone [REDACTED] FAX [REDACTED]	Page 12

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

Agreement Program ("VCAP") to correct, prior to the opening of an examination of a bond issue, failures to comply with federal tax requirements that cannot be remediated under existing remedial action provisions or other tax-exempt bond closing agreement programs contained in the regulations or published guidance?

Yes No

If no, you may access the Internal Revenue Service/Tax Exempt Bonds Community website at www.irs.gov/taxexemptbond/index.html and select TEB Voluntary Compliance to learn more.

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED]	
	Office Location: [REDACTED]	Page 14
	Phone [REDACTED] FAX [REDACTED]	

Form 4564	Department of the Treasury Internal Revenue Service Information Document Request	Request Number 01
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To: North Carolina Medical Care Commission Attn: Finance Department 701 Barbour Drive Raleigh, NC 27603-2008	Subject: Qualified 501(c)(3) Bond Exam
Re: Health Care Facilities First Mortgage Revenue Refunding Bonds, [REDACTED]	Submitted to:
Reported Issue Price: [REDACTED]	Dates of Previous Requests: n/a

Description of Information Requested:

When providing your response to this Information Request, please include the following signed penalty of perjury statement:

Under penalties of perjury, I declare that I have examined this completed Information Request, including accompanying information and statements, and to the best of my knowledge and belief, the completed response contains all the relevant facts relating to the answers to the Request, and such facts are true and correct and complete.

Signature: _____ Date: _____

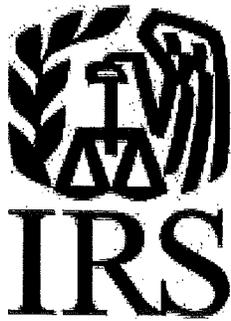
Print Name _____

Title: _____

Phone Number: _____

Information Due By [REDACTED] At Next Appointment Mail In

FROM	Name and Title of Requestor : [REDACTED]	Date: [REDACTED]
	Employee Number : [REDACTED] Office Location: [REDACTED] Phone [REDACTED] FAX [REDACTED]	Page 15



Understanding the Tax Exempt Bonds Examination Process

The first part of this publication explains some of your most important rights as a taxpayer. The second part explains the Tax Exempt Bonds examination, appeal and compliance resolution processes.

Declaration of Taxpayer Rights

The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Useful IRS Publications

<u>556</u>	Examination of Returns, Appeal Rights, and Claims for Refund
<u>3755</u>	Tax Exempt Bonds—Filing Requirements
<u>4077</u>	Tax-Exempt Bonds for 501(c)(3) Charitable Organizations
<u>4078</u>	Tax-Exempt Private Activity Bonds
<u>4079</u>	Tax-Exempt Governmental Bonds

Tax Information

The IRS provides the following sources for forms, publications, educational resources and additional information.

Internet: www.irs.gov/bonds

Bond Questions: 202-283-2999

Forms and Publications: 800-829-3676

Treasury Inspector General for Tax Administration:

If you want to confidentially report misconduct, waste, fraud, or abuse by an IRS employee, call 1-800-366-4484 (1-800-877-8339 for TTY/TDD). You can remain anonymous.

I. Protection of Your Rights

IRS employees will explain and protect your rights as a taxpayer throughout your contact with us.

II. Privacy and Confidentiality

The IRS will not disclose to anyone the information you give us, except as authorized by law. You have the right to know why we are asking you for information, how we will use it, and what happens if you do not provide requested information.

III. Professional and Courteous Service

If you believe that an IRS employee has not treated you in a professional, fair, and courteous manner, you should tell that employee's supervisor. If the supervisor's response is not satisfactory, you should write to the Director, Tax Exempt Bonds or the center where you file your return.

IV. Representation

You may either represent yourself or, with proper written authorization, have someone else represent you in your place. Your representative must be a person allowed to practice before the IRS, such as an attorney, certified public accountant, or enrolled agent. If you are in an interview and ask to consult such a person, then we must stop and reschedule the interview in most cases.

You can have someone accompany you at an interview. You may make sound recordings of any meetings with our examination, appeal, or collection personnel, provided you tell us in writing.

V. Payment of Only the Correct Amount of Tax

You are responsible for paying only the correct amount of tax due under the law - no more, no less. If you cannot pay all of your tax when it is due, you may be able to make monthly installment payments.

VI. Help with Unresolved Tax Problems

The Taxpayer Advocate Service can help you if you have tried unsuccessfully to resolve a problem with the IRS. Your local Taxpayer Advocate can offer you special help if you have a significant hardship as a result of a tax problem. For more information, call toll free 1-877-777-4778 (1-800-829-4059 for TTY/TDD) or write to the Taxpayer Advocate at the IRS office that last contacted you.

VII. Appeals and Judicial Review

If you disagree with us about the amount of your tax liability or certain collection actions, you have the right to ask the Office of Appeals to review your case. You may also ask a court to review your case.

VIII. Relief from Certain Penalties and Interest

The IRS will waive penalties when allowed by law if you can show you acted reasonably and in good faith or relied on the incorrect advice of an IRS employee. We will waive interest that is the result of certain errors or delays caused by an IRS employee.

Introduction

The primary objective of an examination is to determine if a municipal debt issuance complies with Internal Revenue Code provisions.

This document discusses general rules and procedures that we follow in examinations and how certain compliance problems can be corrected.

Selection of Returns

There are several ways a municipal debt issuance is selected for examination. It may be selected as a part of an initiative, project or referral, due to a questionable or unusual item on the return, or as a random selection. We use a centralized case selection and review process to enhance consistency of enforcement activities and to focus resources on the areas that will have the most positive impact on municipal debt issuances. Our tasks include identifying areas of noncompliance, developing corrective strategies, and assisting with those strategies.

Your Role in the Process

The issuer of the municipal debt is treated as the "taxpayer" throughout the examination process. You, any conduit borrower and any other party to the transaction, have the responsibility of maintaining and producing adequate records to substantiate the tax-exempt status of the bonds. If the requested information is organized and complete, we can conduct the examination in a timely and efficient manner. For certain tax credit bonds where direct payment of the allowable credit has been elected, the issuer of the debt is the party subject to taxation. As the actual taxpayer, the general provisions of Publication 556, including those dealing with assessments, collections, and appeals, apply to you. Because qualified tax credit bonds are similar in many respects to tax-exempt bonds, the remainder of this publication may be useful in understanding the examination process of such bonds. See your examiner regarding questions about the difference between tax-exempt and tax credit bond examination processes.

The Examination

A Tax Exempt Bonds (TEB) examiner notifies you by phone or letter that a municipal debt issuance has been selected for examination. If the initial contact is by phone, a confirmation letter will follow. The letter may indicate how the return was selected for examination and will detail the required items for the examination. We may, however, request additional items at a later date.

The examination may include a comprehensive review of the municipal debt issuance, or focus on specific aspects. The examination continues until the examiner is reasonably certain that the municipal debt issuance has met the applicable requirements.

You can authorize someone to represent you if they are eligible to practice before the IRS. If you have someone represent you in your absence, you must furnish written authorization. See Form 2848, Power of Attorney and Declaration of Representative, for more information.

Your representative may have a conflict of interest if they also had a role in the issuance of your municipal debt, such as providing the approving opinion as to the qualifications of the municipal debt issuance, or is also representing other parties to the transaction, such as the conduit borrower. A representative with a conflict of interest may not represent a client before the IRS unless: (1) The practitioner reasonably believes that the practitioner will be able to provide competent and diligent representation to each affected client; (2) The representation is not prohibited by law; and (3) Each affected client gives informed consent, confirmed in writing. The examiner may request a copy of such written confirmation of your informed consent from your representative.

You may deem it appropriate to permit direct communication between the examiner and any conduit borrower. If the examiner agrees to conduct the examination in that manner, you must provide us with a Form 8821, Tax Information Authorization. This form permits the examiner to discuss your tax matter with the conduit borrower.

During the examination, we may need to contact various third parties including underwriters, financial advisors, bond counsel, and any other parties, as well as their counsel, with a transactional relationship to the municipal debt issue.

If the examiner identifies a potential problem, this problem will be discussed with you or your representative. In some instances, Form(s) 5701-TEB, Notice of Proposed Issue, and Form(s) 886-A, Explanation of Items, may be issued to identify any areas of noncompliance. Upon completion of the examination, all unresolved issues will be included in a Notice of Proposed Adverse Determination Letter and Form(s) 886-A, Explanation of Items.

Resolving Qualification Issues— The Closing Agreement Process

With respect to tax-exempt bonds, a failure to comply with the federal tax laws that govern municipal debt issuances may result in the loss of the tax-exempt status of the bonds under examination. With respect to tax credit bonds, a failure to comply with the federal tax laws that govern municipal debt issuances may result in the loss of the tax credit status of the bonds under examination. As a result, holders of bonds issued as tax-exempt bonds would be taxed on the interest they received and holders of bonds issued as tax credit bonds would lose the ability to claim tax credits with respect to the bonds. In most situations,

however, the IRS will, as an alternative, allow the issuer to enter into a closing agreement where you agree to correct the compliance failures and pay a settlement amount to the US Treasury. As a result, the corrected violation will not cause the bond interest payable to the holders of tax-exempt bonds to lose its tax-exempt treatment or the holders of tax credit bonds to lose the ability to claim tax credits.

Closing Letter

The final step in the examination process is a letter explaining the examiner's conclusions. Sometimes the conclusion results in a tax liability for related entities and/or individuals; and may require coordination with other business units within the IRS.

Appeal Rights

The Office of Appeals settles unresolved issues. Your appeal rights are explained in detail in Publication 5, Your Appeal Rights and How to Prepare a Protest if You Don't Agree. Appeal requests must be in writing and timely. If not, we will issue a Notice of Final Adverse Determination. In certain situations, Fast Track Mediation, an expedited appeals process, is used. You should discuss this with your examiner. For more information about the appeals process, see Rev. Proc. 2006-40, Administrative Appeal of Proposed Adverse Determination of Tax-Exempt Status of Bond Issue.

Post-issuance Compliance and the TEB Voluntary Closing Agreement Program

In furtherance of its mission, TEB promotes post-issuance compliance with federal tax requirements applicable to tax-exempt and tax credit bonds in order to prevent or correct violations before they are discovered during an examination. Issuers should understand and refer to their bond documents. Additionally, TEB encourages issuers to adopt and follow written procedures for monitoring and achieving post-issuance compliance with federal tax requirements applicable to their tax-exempt and/or tax credit bonds.

TEB has a Voluntary Closing Agreement Program (TEB VCAP) available to issuers who are not under exam and who have discovered a violation of the law associated with the issuance of tax-exempt or tax credit bonds. TEB VCAP is intended to encourage issuers and other parties involved in bond transactions to exercise due diligence in complying with applicable federal tax laws and to provide a vehicle to correct violations as expeditiously as possible before the violations are discovered during an examination. You can find additional information regarding TEB VCAP on the TEB website and in Notice 2008-31, Voluntary Closing Agreement Program for Tax-Exempt Bonds and Tax Credit Bonds.