Policy: 6910P
Section: 6000 - Management Support

OKANOGAN SCHOOL DISTRICT NO. 105
BOND PROCEDURE AND COMPLIANCE POLICY

This Bond Procedure and Compliance Policy ("Policy") addresses the federal tax, federal securities, state law requirements, and contractual obligations applicable to Okanogan School District No. 105 (the "District") and its tax-advantaged governmental bond issues.[1] The purpose of this Policy is to aid the District's ability to: (1) identify its obligations under applicable statutes, regulations and other authorities associated with publicly-offered and privately-placed securities of the District; (2) identify the individual(s) responsible for monitoring compliance with such obligations; (3) timely identify and prevent potential violations of such obligations; and (4) correct identified violations through appropriate remedial steps.

This Policy applies generally to all of the District's tax-exempt governmental bonds, and other bonds subject to comparable requirements. The Business Manager will be responsible for ensuring that the District adheres to the following Policy and maintains proper compliance checklists and records.[2] The Business Manager will confer as needed with the District's bond counsel and/or financial advisor to confirm the applicability and scope of the requirements outlined in this Policy.

A. Transcripts.

1. Bond issuers must satisfy numerous federal tax, federal securities and state law requirements in connection with a bond issue. In some circumstances, issuers will also need to satisfy other covenant requirements. The bond transcript completed at a bond closing addresses these requirements, and includes legal opinions that confirm in certain respects satisfaction of such requirements.

2. For each issue of securities, the District will receive a full transcript from bond counsel. The transcript will generally include a full record of the proceedings related to the issuance, including proof of filing an Internal Revenue Service ("IRS") Form 8038-G or 8038-GC, if applicable, a tax certificate (the "Tax Certificate") with respect to the bonds, and any ongoing disclosure agreements with respect to the bonds (commonly contained in the authorizing resolution or in a separate continuing disclosure certificate).

3. The Business Manager will retain bond transcripts.

B. Federal Tax Law Requirements.

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[1] As used in this Policy, references to "bonds" and "securities" include bonds, lines of credit, bond anticipation notes, and equipment and other financing leases.

[2] References in this Policy to the "Business Manager" mean the District's Business Manager or such officer's designee.

The following section establishes a framework for compliance by the District with federal tax laws and regulations that apply to bonds the District issues. This section applies to all of the District's tax-exempt and tax-advantaged governmental bonds and other bonds subject to comparable requirements.

1. *Use of Proceeds*. The District will monitor the expenditure of bond proceeds to ensure the District expends the legally-required amount of such proceeds on capital expenditures, and does not expend more than 10 percent of the proceeds on projects that will be used in a private trade or business (including by the federal government and nonprofit entities).

a. The Business Manager, in consultation with the construction project manager, is responsible for reviewing the bond transcript—in particular, the authorizing documents and the Tax Certificate—as well as invoices and other expenditure records to verify that the District spends the bond proceeds on authorized project costs.

b. If the District funds the bond-financed project(s) with multiple sources of funds, the District must adopt an accounting methodology that:

i. maintains each source of funding separately and monitors the actual expenditure of proceeds of the securities;

ii. commingles the proceeds and monitors the expenditures on a first in, first out basis; or

iii. provides for the expenditure of funds received from multiple sources on a proportionate basis.

c. The Business Manager will maintain records of expenditures (timing of expenditure and object code) for the bond proceeds.

d. If the bond-financed project involves other sources of funds and includes both governmental and nongovernmental use of the financed facilities, the Business Manager, in consultation with other authorized District official(s), will undertake a final reconciliation of bond proceeds expenditures and expenditures of other funds with project costs no later than 18 months after the latter of the date of expenditure or the date that the District places the project in service (but in no event more than five years after the date of issue).

e. The Business Manager should review and document any change in the scope of the project financed with bond proceeds.

f. The Business Manager should discuss with bond counsel and document any delay in the bond-financed project and the expected expenditure of bond proceeds.

g. The Business Manager will maintain records of investments and interest earnings on the proceeds of securities. Such records should include the amount of each investment, the date each investment is made, the date each investment matures and, if sold prior to maturity, its sale date, and its interest rate and/or yield. Interest earnings on bonds are considered proceeds

of the issue. The District will deposit interest earnings on proceeds in the fund in which the District previously deposited the proceeds. If the District does not do so, the Business Manager will discuss with the District's bond counsel the plan for use of interest earnings.

h. The Business Manager will maintain records of interest earnings on reserve funds for the bonds, if applicable.

i. If unspent bond proceeds remain at the completion of the project, the Business Manager, conferring with bond counsel, will direct application of the excess proceeds for permitted uses under federal tax law, state law, and the bond authorization documents.

2. *Arbitrage Rebate*. Generally, under only limited circumstances may the District invest bond proceeds and certain other funds at a rate that exceeds the yield on the bonds. The District must rebate to the IRS amounts earned by investing above the bond yield, unless the District qualifies as a small issuer or meets a spending exception. The Tax Certificate executed in connection with a bond issue details the arbitrage and rebate requirements applicable to such issue. The Business Manager, acting as "Rebate Monitor," will monitor compliance with the District's arbitrage rebate obligations for each bond issue.

a. *Funds to Monitor*. The Rebate Monitor will monitor the following funds in connection with each bond issue: bond or debt service funds/accounts; project or construction funds/accounts; debt service reserve funds/accounts; any other funds or accounts with bond proceeds; and any other accounts holding amounts pledged to pay bonds.

b. *Rebate Schedule*. The first rebate payment is due five years after date of issue of the bonds plus 60 days. Rebate is due every succeeding five years, if there are unspent gross proceeds of the bonds. The final rebate payment is due 60 days after early redemption or retirement of the bonds.

c. *Rebate Exceptions.* The Rebate Monitor will review the Tax Certificate in the transcript to determine whether the District can expect to comply with a spending exception that would permit the District to avoid having to pay arbitrage rebate. If the Tax Certificate identifies this spending exception, then the Rebate Monitor will monitor the records of expenditures to determine whether the District met the spending exception (and thereby avoids having to pay any arbitrage rebate to the federal government).

d. *Rebate Consultant*. If deemed necessary and in the best interest of the District, the Rebate Monitor, in consultation with bond counsel, may select and retain the services of a rebate consultant to calculate any potential arbitrage rebate liability. The Rebate Monitor may select the rebate consultant on an issue by issue basis or for all bonds issued by the District; provided, such selection must occur no later than the completion of the bond-financed project. The selected rebate consultant will provide a written report to the District with respect to the issue and with respect to any arbitrage rebate owed. Based on the report of the rebate consultant, the District will file reports with and make any required payments to the IRS according to the rebate schedule above.

e. *Yield Reduction Payments.* If the District fails to expend all amounts required to be spent as of the close of any temporary period specified in the Tax Certificate (generally, three years for proceeds of a new money issue and 13 months for amounts held in the bond or debt service funds/accounts), the District will consult with bond counsel to determine and pay any required yield reduction payment.

f. *Limitations on Types of Investments.* The District may only invest bond proceeds as permitted under state law. In addition, the bond ordinance, bond resolution or bond insurance agreement, if any, may further limit permitted investments. To monitor compliance with these investment restrictions, the District invests bond proceeds solely in the Local Government Investment Pool.

3. *Use of the Facilities Financed with Proceeds*. In order to maintain the tax-exempt status of bonds issued on a tax-exempt or tax-advantaged basis, the financed facilities (projects) must be used for governmental purposes during the life of the issue. IRS regulations prohibit private business use (i.e., use by private parties (including nonprofit organizations and the federal government)) of tax-exempt financed facilities beyond permitted *de minimis* amounts, unless cured by a prescribed remedial action. The Business Manager will monitor and maintain records regarding any private use of the projects financed with tax-exempt bond proceeds.

Private use may arise as a result of:

a. Sale of all or a portion of the facilities;

b. Lease of all or a portion of the facilities, including leases, easements or use arrangements for areas outside the four walls (e.g., hosting of cell phone towers);

c. Management contracts in which the District authorizes a third party to operate a facility (e.g., a cafeteria or parking operator), except for qualified management contracts under IRS Rev. Proc. 2017-13 or any successor guidance;

d. Preference arrangements in which the District grants a third party preference of the facilities (e.g., preference parking in a public parking lot); and/or

e. Entering into contracts giving "special legal entitlement" to the facility (e.g., selling advertising space or naming rights).

The Business Manager will review all leases and other contracts involving use or management of bond-financed property. The Business Manager will confer with personnel responsible for bond-financed projects at least annually to discuss any existing or planned use of bond-financed or refinanced facilities. The Business Manager will annually calculate private use for each bond-financed project.

If the Business Manager identifies private use of tax-exempt, debt-financed facilities, the Business Manager will consult with the District's bond counsel to determine whether private use will adversely affect the tax-exempt status of the issue, and, if so, what remedial action is appropriate. For instance, the District may allocate private use to those facilities (or portions of

facilities) funded from sources other than bond proceeds. The District will determine the deadline for remediating noncompliance under existing remedial action provisions or tax-exempt bond closing agreement programs contained in the regulations or other published guidance from the IRS, and proceed with diligence to take the required remedial actions. If remedial actions are unavailable, the District will determine whether to make a submission to the Tax-Exempt Bonds Voluntary Closing Agreement Program ("VCAP") under Internal Revenue Manual 7.2.3.

The District has adopted Policy 4260 and Policy 4260P regarding the use of school facilities. The Business Manager will review with bond counsel any use of bond financed school facilities not defined in Board policy.

4. *Refundings.* For refunding escrows, the Business Manager will confirm that any scheduled purchases of State and Local Government Series ("SLGS") or open market securities proceed as scheduled. On the redemption date, the Business Manager will confirm that the refunded bonds have been redeemed and canceled. Promptly following the redemption date, the Business Manager will confirm that the District has spent all proceeds of the bonds and the refunded bonds, and will verify that excess proceeds, if any, do not exceed an amount permitted by IRS regulations.

5. *Reissuance*. A significant modification of the bond documents may result in bonds being deemed refunded or "reissued." Such an event will require, among other things, that the District file new information returns with the federal government and execute a new Tax Certificate. The District will consult with bond counsel in the event of modification of the bond documents.

6. *Records Retention.* The District will retain records with respect to matters described in this section for the life of the bond issue (and any issue that refunds the bond issue) and for a period of four years thereafter. Unless otherwise specified, the Business Manager will maintain the records. The records the District will retain include:

a. The complete bond transcript;

b. Records of investment of bond proceeds in a format showing the date and amount of each investment, its interest rate and/or yield, the date any earnings are received and the amount earned, and the date each investment matures and, if sold prior to maturity, the sale date and sale price;

c. Records demonstrating compliance with arbitrage and rebate requirements, including arbitrage calculations, documentation of spending exceptions to rebate, arbitrage rebate reports prepared by the Rebate Monitor or by outside consultants, and work papers provided to outside consultants;

d. Records of expenditure of bond proceeds in a format showing the amount, timing and the type of expenditure, including records of invoices or requisitions, together with supporting documentation showing payee, payment amount and type of expenditure, and such other records as necessary to document the allocation of bond proceeds and other sources of funds to particular projects or portions of projects;

e. Records documenting the final allocation of bond proceeds to projects, including any reallocations of bond proceeds, in a format showing the timing and substance of the reallocation, if applicable;

f. Copies of all contracts relating to ongoing compliance with respect to the bonds, including contracts relating to the use of the bond-financed facilities including leases, concession agreements, management agreements and other agreements that give usage rights or legal entitlements with respect to the facility to nongovernmental persons (e.g., advertising displays, cell tower leases, and naming rights agreements); and

g. Copies of all records noting compliance with this Policy, including any filings or correspondence with the IRS or other regulatory body, including copies of all certificates and returns filed with the IRS (e.g., for payment of arbitrage rebate).

C. Federal Securities Law Requirements.

The following section establishes a framework for compliance by the District with its disclosure and/or contractual obligations with respect to bonds, notes, and other securities it issues or that are issued on its behalf (as defined for the purposes of this section, the "securities"), pursuant to the requirements of federal and state securities laws and other applicable rules, regulations, and orders. The purpose of this section is to facilitate compliance with applicable law and existing ongoing disclosure agreements when preparing and distributing initial and ongoing disclosure documents to reduce exposure of the District, its officials and employees to liability for damages and enforcement actions based on material misstatements and omissions in such documents, and to promote good investor relations. This section applies generally to all of the District's tax-exempt, tax-advantaged bonds and taxable bonds, and other debt issued on the District's behalf subject to comparable requirements.

The District will comply fully with applicable securities laws regarding disclosure in connection with the issuance of securities and with the terms of its continuing disclosure agreements, including Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934, particularly Rule 10b-5, and regulations adopted by the Securities and Exchange Commission ("SEC") under those Acts (the "Anti-Fraud Rules").[3]

The Anti-Fraud Rules require that, in connection with the sale or issuance of securities, the District provide to potential investors all material information relating to such offered securities. The information provided to investors must not contain any material misstatements, and the District must not omit material information necessary to provide investors with a materially complete description of the securities and the District's financial condition. In the context of the sale of securities, a fact is "material" if there is a substantial likelihood that a reasonable investor

[3] For example, the Anti-Fraud Rules provide that "It shall be unlawful for any person, directly or indirectly . . . (a) To employ any device, scheme, or artifice to defraud, (b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person . . . in connection with the purchase or sale of any security."

would consider such fact important in determining whether or not to purchase the offered securities, in light of the total mix of information made available to investors.

The Anti-Fraud Rules apply to all statements and other communications the District intends (or can reasonably expect) to be accessible to and relied upon by potential investors in the District's securities. Investor communications include: Preliminary and Final Official Statements (i.e., the offering documents used in connection with the sale of securities), filings made on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system (including filings made pursuant to continuing disclosure agreements and voluntary postings), and may include, depending on the context, information uploaded, linked or posted to the District's website, and the District's press releases and other formal and/or public statements.

1. *Guidelines for Preparing Disclosure Documents*.

a. All District staff members and officials involved in the preparation or review of disclosure documents or other investor communications are responsible for being familiar with the Anti-Fraud Rules. Violations of the Anti-Fraud Rules may be punishable by civil or criminal penalties against the District and the individual staff members and officials responsible for the violations.

b. Staff members and officials involved in the preparation or review of disclosure documents and other investor communications must err on the side of raising any potential disclosure issues they encounter during such preparation or review. If there are questions regarding whether an issue is material, officials and staff should consult with bond counsel, disclosure counsel (which may be bond counsel), if any, other legal counsel to the District, and/or the District's municipal advisor, if any. Officers and staff should immediately report any concerns regarding the accuracy of a disclosure document or other investor communication to bond counsel, disclosure counsel (which may be bond counsel), if any, and/or other legal counsel to the District.

c. The officers and employees charged by this Policy with performing or refraining from any action may depart from this Policy when they and the Business Manager in good faith determine that such departure is in the best interests of the District and consistent with the duties of the District under the Anti-Fraud Rules. Prior to any such departure, the Business Manager should consult with bond counsel, disclosure counsel (which may be bond counsel), if any, and/or other legal counsel to the District.

d. Prior to the public release of any disclosure document or communication to be posted on EMMA, the Business Manager will complete a final review of the material. This review will consist of comparing and resolving any material discrepancies between the District's audited (and unaudited, if needed) financial statements and other source materials, and cover-to-cover review of the document. The Business Manager will also submit the document or communication to the Superintendent, or such officer's designee, for review and comment.

2. *Preliminary and Final Official Statements*. For the purpose of satisfying the underwriter's compliance with SEC Rule 15c2-12, as amended (the "Rule"), the Business Manager (and/or any other official designated by the District Board of Directors) will "deem final" the Preliminary Official Statement as of its date, except for the omission of information as to offering

prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, maturity dates, delivery dates, and other terms of the securities dependent on such matters or permitted under the Rule to be omitted.

Prior to release of a Final Official Statement, the Business Manager will review and approve the document. Such officer may document their approval in the form of the signed closing certificate. In connection with the closing of the transaction, the Business Manager (and any other official designated by the District Board of Directors) will execute a certificate under the Anti-Fraud Rules stating that the Preliminary and Final Official Statements, as of their respective dates and as of the dates of pricing and closing, as applicable, do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained therein not misleading in light of the circumstances under which they were made.

3. *Ongoing Disclosure*. The provisions of the Rule require underwriters to obtain an agreement for ongoing disclosure in connection with the public offering of securities. The transcript for each issue subject to the Rule (e.g., all publicly-sold securities) will include an ongoing disclosure agreement or "undertaking" by the District to comply with the Rule. The Business Manager will be responsible for and monitor compliance by the District with its undertakings. As further described below, these undertakings may require an annual filing of operating and financial information and will include a requirement to file notices of certain "listed events."

Prior to filing each annual filing or material event notice, the Business Manager will circulate the draft filing or notice to bond counsel for review.

a. *Annual Filings*. The District will file, on a timely basis, its audited financial statements and any operating data as required under its continuing disclosure agreements. If audited financial information is not available by the filing date specified in the undertaking, the District must file unaudited information, and must file the audited information as soon as it is available. Further, the Business Manager is responsible for providing, in a timely manner, notice of any failure to provide required annual financial information by such filing date.

Prior to posting an annual filing, the Business Manager will complete a final review, consisting of comparing and noting material discrepancies with source materials and compliance with the Anti-Fraud Rules. The Business Manager must approve each continuing disclosure filing prior to posting on EMMA. The Business Manager must exercise reasonable care to file the annual filings in word-searchable PDF format and with the identifying information required by the continuing disclosure agreements, including applicable CUSIP numbers for the securities. The Business Manager will enroll on the EMMA website to receive annual email reminders of annual filing deadlines.

b. *Listed Events*. The District must file notice of certain listed events in a timely manner not more than *ten (10) business days* after the occurrence of the event. As of the date of this Policy, the listed events include the following:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the bonds;
(7) Modifications to the rights of bondholders, if material;
(8) Bond calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the bonds, if material;
(11) Rating changes (both upgrades and downgrades);
(12) Bankruptcy, insolvency, receivership or similar event of the District;
(13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
(15) Incurrence of a Financial Obligation (as defined below) of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Security holders, if material; and
(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

Continuing disclosure agreements executed after February 27, 2019 require the disclosure of events 15 and 16. The Rule defines "financial obligation" to mean a (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of clause (A) or (B) of this definition ("Financial Obligation"). The term "financial obligation" does not include municipal securities for which the issuer has filed a final Official Statement consistent with the Rule.

To facilitate compliance with these listed events, the Business Manager will maintain an inventory of all Financial Obligations of the District. The Business Manager will review each Financial Obligation (with the assistance of disclosure counsel and/or bond counsel as needed) to determine whether it is material and subject to reporting under the District's continuing disclosure agreements. The Business Manager will periodically review the Rule's definition of Financial Obligation and the District's inventory of existing Financial Obligations with the appropriate District officers and employees. District officers and employees must inform the Business Manager of any foreseeable possibility of a default, event of acceleration, termination event, modification of terms or other similar event.

4. *Other Investor Communications*. The Anti-Fraud Rules apply to all investor communications. Such investor communications may include, but are not limited to, voluntary filings made on EMMA, information on the District's website (such as on an investor relations webpage), communications with investors (or potential investors), press releases and other formal statements of the District intended to reach investors. The Business Manager and other officers of the District will exercise reasonable care to make sure that the information in investor communications is materially accurate and complete and otherwise in compliance with this Policy.

5. *Document Retention*. The Business Manager will maintain the following documents in connection with each security, with the purpose of retaining adequate records to substantiate compliance with the Anti-Fraud Rules.

a. A complete bond transcript;

b. A written record of any Financial Obligation or the occurrence of other notice events that the District determines to be immaterial or not reflecting financial difficulty and thus not requiring disclosure, and the facts and circumstances substantiating such conclusion;

c. Documentation of the actions the District takes to prepare, check, review and approve each investor communication made pursuant to these procedures, including the sources of the information included;

d. Electronic copies of confirmations from EMMA of all continuing disclosure filings; and

e. Copies of all records noting compliance with these policies, including any filings or correspondence with the SEC or other regulatory body.

6. *Periodic Check of Information Regarding Bonds on EMMA*. Prior to each new bond issue, the District will search (or cause to be searched) EMMA for its continuing disclosure filings to confirm proper filings have been made.

D. <u>Training; Schedule of Review.</u>

The District will provide opportunities for training to the Business Manager, legal counsel, department managers/directors, elected officials and other individuals responsible for complying with this Policy, as needed, specifically including the following training opportunities: at or after bond closing, a conference call or meeting with bond counsel to review the requirements applicable to a new bond issue; in-house training sessions, CPE seminars, or seminars/webinars conducted by professional organizations; and additional training as necessary to address any changes in federal tax or securities laws or this Policy.

The District will review this Policy at least annually and upon each issuance of new bonds, including refunding bonds. In connection with this periodic review, the District will consider whether to amend or supplement the Policy to address any particular requirements associated with the new bond issue, or to reflect general changes in requirements since the prior bond issue.

E. Other Notice Requirements.

In some instances, the proceedings authorizing the issuance of bonds will require the District to file information periodically with other parties, e.g., bond insurers, banks, rating agencies. Such information may include (1) budgets, (2) annual financial reports, (3) issuance of additional debt obligations, and (4) amendments to financing documents. The Business Manager will maintain a listing of such requirements and monitor compliance by the District.

Adopted: 07.28.25