

FAIRFIELD AREA SCHOOL DISTRICT

TAX-EXEMPT BONDS COMPLIANCE PROCEDURES

8700

8700.1

Purpose

The following procedures are to be followed by the Fairfield Area School District, Adams County, Pennsylvania ("School District") with respect to School District debt the interest on which is intended to be excluded from gross income for Federal income purposes (the "Tax Exempt Bonds") under the Internal Revenue Code of 1986, as amended (the "Code") and regulated by Rule 15c2-12 of the Securities and Exchange Act of 1934 (the "Rule").

8700.2

The Issue Price of Tax-Exempt Bonds

The issue price of Tax-Exempt Bonds is used to compute the arbitrage yield on the issue of Tax-Exempt Bonds.

Any Underwriter will be required to offer all of the Tax-Exempt Bonds in a bona fide public offering, to disclose whether any Tax-Exempt Bonds in the initial offering to the public were sold to an affiliate or affiliated accounts of the Underwriter, and to certify to the issue price.

Such certificate will be retained in the records of the School District for each issue of Tax-Exempt Bonds.

8700.3

Timely Expenditure of Tax-Exempt Bonds Proceeds

Prior to the issuance of Tax-Exempt Bonds, the School District will determine that all the statements in the Non-Arbitrage Certificate prepared by the School District's Bond Counsel are true and correct, and all the School District's promises set forth in the Certificate are expected to be fulfilled.

Prior to the issuance of Tax-Exempt Bonds, the School District will confirm that (1) there are no funds that would have been used for the purposes for which the proceeds of the Tax-Exempt Bonds will be used if proceeds of the Tax-Exempt Bonds were not to be used for those purposes, (2) the Tax-Exempt Bonds are not being issued earlier than necessary and will not remain outstanding longer than necessary and (3) the amount of the Tax-Exempt Bonds do not exceed the amount necessary to accomplish its governmental purpose.

Prior to the issuance of the Tax-Exempt Bonds, the School District will confirm that (1) the School District will be able to expend an amount in excess of five percent (5%) of the net sale proceeds of the Tax-Exempt Bonds on capital projects that constitute a governmental purpose of the Tax-Exempt Bonds within six (6) months of the date of issuance of the Tax-Exempt Bonds; (2) completion of the capital projects and allocation of net sale proceeds of the Tax-Exempt Bonds to expenditures will proceed with due diligence; and (3) at least eighty five percent (85%) of the net sale

proceeds of the Tax-Exempt Bonds will be expended on capital projects within three years after the date of issuance of the Tax-Exempt Bonds.

The School District's Business Manager or her or his designee ("Business Manager") will monitor expenditures on the projects, in a separate fund, on a monthly basis, to confirm the expenditure rate. At the end of the project, if there are any unspent bond proceeds, the School District will proceed with diligence to apply such unspent proceeds to other capital expenditures of the School District, as permitted by state law and School District protocols.

8700.4 Arbitrage Yield Restriction and Rebate

On or before the issuance of a series of Tax-Exempt Bonds, the School District working with its Bond Counsel shall prepare a tax compliance agreement that will set forth the applicable arbitrage yield restrictions and rebate compliance procedures with respect to the particular series of Tax-Exempt Bonds.

With respect to Tax-Exempt Bonds, the School District shall covenant that it will not make any use of the proceeds of the Tax-Exempt Bonds which may cause the Tax-Exempt Bonds to be "arbitrage bonds" as such term is defined in Section 148 of the Code and the regulations applicable thereto.

For the purposes of calculating the yield on any Nonpurpose Investment, the purchase price of the Nonpurpose Investment must be the fair market value of the obligation on an established market. The School District will not pay or cause to be paid a premium to adjust the yield, accept a lower interest rate than is usually paid or otherwise enter into a transaction that reduces the amount of earnings on Nonpurpose Investments by producing a smaller profit or larger loss than would have resulted if the transaction had been at arm's length and artificially reducing the yield on the Nonpurpose Investments had not been relevant to the School District. The tax compliance agreement executed with respect to Tax-Exempt Bonds shall set forth procedures for the School District to follow to insure that the purchase price for each Nonpurpose Investment will be the fair market value of the obligation on an established market. As used herein the term "Nonpurpose Investment" shall mean any investment in which gross proceeds of the Tax-Exempt Bonds are invested and which is not acquired to carry out the governmental purpose of the Tax-Exempt Bonds.

Earnings on the gross proceeds of the Tax-Exempt Bonds will be subject to rebate unless otherwise exempted as permitted in the Code. The tax compliance agreement executed with respect to the Tax-Exempt Bonds shall

set forth the rebate exceptions, if any, that may be applicable for the Tax-Exempt Bonds.

The School District, in consultation with Bond Counsel, will determine whether it is necessary or useful to engage the services of an arbitrage rebate calculation firm to assist the School District in complying with the requirements of the arbitrage yield restrictions and rebate rules for each series of Tax-Exempt Bonds, and if necessary or useful, will engage such a firm. The Board and outside auditors will review all rebate reports prepared by any arbitrage consultant.

8700.5 Proper Use of Bond Financed Property

No less frequent than annually, and more often if appropriate or required in order to comply with Treasury Regulations, the School District shall review the amount of private business use of the facilities financed with the proceeds of the Tax-Exempt Bonds, and any private security or payments allocable to the Tax-Exempt Bonds, in accordance with Section 141 of the Code, and Treasury Regulations thereunder.

Under the private business test, the School District shall not use any portion of the proceeds of the Tax-Exempt Bonds in such a manner that (a) an amount exceeding ten percent (10%) of the proceeds of the Tax-Exempt Bonds is to be used in a trade or business of a person or persons other than a governmental unit as defined in Section 141(b)(6) of the Code, and (b) direct or indirect payments exceeding ten percent (10%) percent of the debt service on the Tax-Exempt Bonds is to be made with respect to such trade or business. The percentages in clause (a) and clause (b) in this Section are reduced to five percent (5%) in regards to any use by a person other than a governmental unit if unrelated or disproportionate to the governmental use financed by the Tax-Exempt Bonds.

8700.6 Timely Identification and Correction of Violations

The School District will monitor all procedures set forth herein and will consult with nationally recognized bond counsel in the event the School District fails to adhere to any of its enumerated policies or the tax compliance agreement delivered at settlement for the Tax-Exempt Bonds.

The School District will consider the options recommended by nationally recognized bond counsel to correct any identified violations through remedial actions described in the Treasury Regulations and through the Tax-Exempt Bond Voluntary Closing Agreement Program.

(See www.irs.gov/taxexemptbond/index.html and select TEB Voluntary Compliance).

8700.7 Maintenance of Records

For each Nonpurpose Investment acquired with or allocated to gross proceeds of a series of Tax-Exempt Bonds, the School District shall record or cause to be recorded its purchase date or allocation date, its purchase price (reduced by broker's or dealer's commissions or other administrative expenses, unless such commissions or expenses constitute qualified administrative expenses, as defined in Regulation Sections 1.148-5(e)(2)(i), which shall also be separately stated), or, if not acquired directly with gross proceeds, its fair market value on the allocation date, accrued interest due to its purchase date or allocation date, its face amount, its coupon or interest rate, its yield-to-maturity, the frequency of its interest payments, its disposition price (not reduced by any broker's or dealer's commission or discount, unless such commissions or expenses constitute qualified administrative expenses, as defined in Regulation Section 1.148-5(e)(2)(i), accrued interest due on its disposition date and its disposition date.

The School District shall record or cause to be recorded the date and amount of all expenditures made with the gross proceeds of the Tax-Exempt Bonds.

The School District will retain these records until six (6) years after the Tax-Exempt Bonds have been retired, or if refunded with Tax-Exempt Bonds (if then permitted by law), the School District will retain the records until six (6) years after the last refunding bond has been retired.

Records will be maintained on paper or on electronic media, or a combination of both, depending on the source and how such records are transmitted to the School District.

8700.8 Securities Laws and Anti-Fraud Provisions

The Business Manager will consult with Bond Counsel and/or the School District's legal counsel and advisors, as necessary, to ensure that all applicable securities laws as set forth in the Rule, any Disclosure Agreement executed by the School District in conjunction with the issuance of Tax Exempt Bonds ('Disclosure Agreements'), other documents relating to the Tax Exempt Bonds, and requirements of bondholders, are met. This will include, without limitation, consultation in connection with any potential changes in ratings of the Tax Exempt Bonds.

The Business Manager will actively participate in the preparation of all primary disclosure materials. The Business Manager, will review and prepare all post-issuance disclosure materials, which includes, without limitation the materials for all required annual filings and Material Event Filings, and any

other voluntary or required disclosure to the market.

The Business Manager will review all primary and post-issuance disclosure materials and consult with all officers, employees, directors, agents and officials of the School District as necessary to ensure that such materials do not contain materially false information or omit material information that investors would want to know in making an informed investment decision about the Tax Exempt Bonds.

8700.9 Required Annual Filings

Each year, on or prior to the date specified in the Disclosure Agreements, the Business Manager will file with the MSRB via its Electronic Municipal Market Access website (“EMMA”), the Annual Financial Information as defined in the Rule and in the Disclosure Agreements (the “Required Annual Filing”). The Business Manager will coordinate the preparation of the Required Annual Filing materials, and will prepare the necessary information at the time and in the manner consistent with the annual financial audit and other financial information review as is regularly undertaken by the School District. The Business Manager will review the Required Annual Filing prior to submission of the filing.

If the audited financial statements of the School District are not available by the required time, then the unaudited financial statements of the School District shall be filed as required under the Disclosure Agreements, with the audited statements to be filed soon as they are available.

8700.10 Material Event Disclosure

Certain “material events” are defined in the Rule and required to be disclosed by the School District to investors through the filing of a material event notice via EMMA (a “Material Event Filing”). These “material events” are included in the Disclosure Agreements. The Business Manager will make all required Material Event Filings via EMMA, consistent with the requirements of the Rule and the provisions of the Disclosure Agreements.

The occurrence of certain material events, including payment defaults, requires a Material Event Filing without the need for a materiality determination (i.e. they are deemed material under the Rule). Other material events, such as non-payment related defaults, must be analyzed to determine if the material event is material and if so, a Material Event Filing is required. The Business Manager will consult with Bond Counsel regarding any questions as to whether a material event has occurred and what filings are required.

The Business Manager is to be immediately notified by all employees, officers, directors, agents and officials of the School District, of the occurrence of any listed Event so that he or she may determine whether a Material Event Filing is required pursuant to the Rule and the Disclosure Agreements. As soon as the Business Manager learns of the occurrence of a material event that is either deemed material or that knowledge of such material event would be material under Applicable Securities Law, the Business Manager will prepare and file, in a timely manner not in excess of ten (10) business days of the occurrence, a Material Event Filing via EMMA.

The Business Manager will review the material events contained in the Disclosure Agreements not less often than annually, and consult with Bond Counsel or other advisors, as necessary, to update the list of material events under the Rule.

8700.11 Failure to File

In the event the Business Manager fails to make any Required Annual Filing or Material Event Filing, the Business Manager shall immediately notify the School District of such failure to file.

8700.12 Voluntary Disclosure

Nothing in a Disclosure Agreement prevents the School District from making a voluntary filing with the MSRB of other material information in addition to the material events that give rise to a Material Event Filing under the Rule and the Disclosure Agreements.

If the Business Manager determines to file any material information in addition to that which is specifically required by the Rule and the Disclosure Agreements, there is no obligation to update such information on an annual basis or to otherwise include such additional, voluntary information in any future Annual Required Filing or Material Event Filing.

8700.13 Correspondence from Securities and Exchange Commission

Upon receipt of any correspondence from the SEC, the Business Manager will immediately notify the School District.

In connection with any SEC inquiry, the School District will consult with Bond Counsel and provide a reasonable opportunity to review all responses to the SEC prior to submission to the SEC.