

Industrial Development Authority (IDA)

Of the City of Lexington, Virginia

Wednesday, March 30, 2016 5:00 p.m.

City Hall, 1st Floor Meeting Room

300 East Washington Street, Lexington, Virginia

1. **Call to Order – John DeVogt, Chair**
2. **VMI request for IDA to serve as conduit for VMI Bond reissue and approval of required documents - Larry Mann and T.W. Bruno***
3. **Adjourn – John DeVogt, Chair**

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McGUIREWOODS

March 23, 2016

Industrial Development Authority of
the City of Lexington, Virginia
300 East Washington Street
Lexington, Virginia 24450

**Proposed Issuance of Refunding Bonds
on behalf of V.M.I. Development Board and V.M.I. Foundation**

Ladies and Gentlemen:

In 2006, the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") issued its Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006 (the "Series 2006 Bonds") to benefit the V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated (collectively, the "Borrower"). The proceeds of the Series 2006 Bonds were used by the Borrower and the Virginia Military Institute (the "Institute") to finance several projects on and around the Institute's main post within the City, including improvements to the football stadium, baseball stadium, the Leadership and Ethics Center, Crozet Hall, Jackson Memorial Hall and parking lots and facilities.

The application submitted to the Authority for the initial financing in 2006 is included with this letter. The application describes in detail the projects and the expected economic impact of those projects on the City.

We respectfully request that the Authority consider a resolution that would authorize refunding of all or a portion of the Series 2006 Bonds in order to realize significant economic savings at its meeting on March 30, 2016.

Please do not hesitate to call me if you have any questions or concerns.

Very truly yours,



T.W. Bruno, Esq.,
on behalf of V.M.I. Development Board,
Incorporated and V.M.I. Foundation, Incorporated

Enclosures

**INDUSTRIAL DEVELOPMENT AUTHORITY
CITY OF LEXINGTON, VIRGINIA
300 East Washington Street
Lexington, Virginia 24450**

APPLICATION FOR BOND FINANCING

Instructions: This application must be completed and returned to the Authority's Officer (with a proposed inducement resolution of the City Council no later than thirty (30) working days prior to a hearing before the Authority, which time limitation may be waived by majority vote of the IDA polled by telephone. The Industrial Development Authority meets on an "as needed" basis.

Return to: The Industrial Development Authority of the City of Lexington, Virginia
ATTN: City Manager
Post Office Box 922
300 East Washington Street
Lexington, Virginia 24450

A. APPLICANT INFORMATION

1. Date: April 12, 2006

2. Legal name of applicant and, if a corporation, state of incorporation.

V.M.I. Development Board, Incorporated, a
Virginia non-stock, non-profit corporation

3. Address and location of principal office.

P. O. Box 932
304 Letcher Avenue
Lexington, Virginia 24450

4. Telephone Number: 540-464-7287

<p>5. Names and addresses of Officers, or of Principals if not a corporation</p> <p>James L. Adams -- Executive Vice President David L. Prasnicki -- Treasurer Warren J. Bryan -- Secretary P. O. Box 932 Lexington, VA 24450</p>
<p>6. To whom correspondence shall be directed and address.</p> <p>David Prasnicki P. O. Box 932 Lexington, VA 24450 (540) 464-7287 (X-223)</p>
<p>7. Provide background regarding applicant, including history and type(s) of business.</p> <p>501 (c)(3) Non Profit corporation, affiliated with the V.M.I. Foundation, Incorporated, and organized in 1978 to support the activities of Virginia Military Institute</p>
<p>B. STATEMENT OF BENEFITS TO CITY OF LEXINGTON AND THE COMMONWEALTH OF VIRGINIA</p>
<p>1. State what new employment opportunities will be created as a result of this project.</p> <p>VMI expects to add an estimated 16 new positions as a result of the projects. This consists of 1 housekeeper and 2 grounds workers for the football and baseball stadiums; 1 teaching faculty member, 1 director, 1 program coordinator, 1 assistant program coordinator, and 1 administrative assistant for the Leadership & Ethics Center; 1 grounds worker for the north Post area; 1 HVAC maintenance technician for the football and baseball stadium, Crozet Hall, and Jackson Memorial Hall; and 6 food service workers for Crozet Hall (employed by ARAMARK as the Corps expands to 1,500 cadets).</p> <p>The football and baseball stadium projects will also result in some additional attendants for the new expanded concession stands.</p>

<p>2. Estimate the local taxes projected to be paid as a result of this project.</p> <p>None -- Project will be owned by VMI, a State agency</p>
<p>3. State what other potential benefits will accrue to the local economy, including non-monetary benefits.</p> <p>Since the 1800's, the Institute has been a proud community member of the City of Lexington, Virginia, and the Institute continually strives to remain a productive and contributing member of the business and cultural community of the City of Lexington. The proposed projects are part of the Institute's Vision 2039 Plan, which the Institute anticipates will assist it in achieving its goals of remaining competitive with other educational institutions among students, faculty and visitors in the areas of education, military training and cultural programs.</p> <p>The construction of the Leadership and Ethics Center and the renovations to the Institute's museum in Jackson Memorial Hall will attract additional visitors and permit hosting of additional theatrical events, seminars, symposiums, concerts, lectures and other cultural events. The renovations to the football and baseball stadiums and the military and athletic facilities will attract spectators and visitors and permit hosting of additional competitions. These activities will stimulate local lodging and dining businesses. Additional parking lots and facilities will help alleviate some of the parking concerns in and around the Institute. The additional parking will make visiting the Institute and the City of Lexington more enjoyable for out of town visitors and will relieve some concerns of local community and business members.</p>
<p>4. Explain how financial assistance of the Authority will encourage or induce applicant to locate or remain in the City of Lexington and the Commonwealth of Virginia.</p> <p>VMI has determined that expanding and improving its post facilities within the City of Lexington is more advantageous than building facilities on VMI property in Rockbridge County.</p>
<p>C. IDENTIFICATION AND DESCRIPTION OF PROPOSED PROJECT OR EQUIPMENT</p>
<p>1. Brief description of proposed project or equipment and type of business or industry to be conducted.</p> <p>a) Completion of the renovations to the Institute's football stadium and baseball stadium and their related facilities, fields and infrastructure. The renovations at the football stadium include the expansion of the existing football building, Clarkson Mckenna Hall. The football and baseball stadiums are</p>

- used for intercollegiate activities, with supplemental use for intramural sports, physical education, and ROTC activities.
- b) The construction, acquisition, and equipping of an approximately 42,500 square foot Leadership and Ethics Center including a 500 seat auditorium, an 800 seat assembly space, meeting rooms and administrative space. The Leadership and Ethics Center shall be used for classes, lectures, conferences and theater productions.
 - c) Renovations to the approximately 31,000 square foot Jackson Memorial Hall. After the renovations Jackson Memorial Hall will have two levels used to house the Institute's museum and two levels of auditoriums to be used for classes and meeting space.
 - d) An approximate 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building. Crozet Hall is the only dining facility at the Institute for cadets.
 - e) Construction, renovation and equipping of improvements to athletic and military facilities on the Institute's north Post area, including without limitation athletic fields, military and leadership training facilities, obstacle courses, parking facilities, infrastructure, roads and landscaping. The athletic and military facilities on the Institute's north Post area serve as leadership, physical and military training facilities and are used for intercollegiate, club athletic and ROTC activities.
 - f) The addition of parking lots and facilities in the north Post area and South Institute Hill on or near Maiden Lane, Letcher Avenue, or North Main Street. Parking is provided for faculty, cadets, and visitors.
 - g) Refinancing of the Authority's Variable Rate Tax-Exempt Bonds (V.M.I. Development Board), Series 2004, originally issued to finance expansions to the football and baseball stadiums and related facilities, fields and infrastructure. The refinancing will result in debt service savings for the Borrower.

2. General location of proposed project or equipment.

VMI Post, City of Lexington, Virginia

3. Present owner of the property: VMI, Commonwealth of Virginia

If applicant is owner, give date of purchase: Prior to 1900

If applicant is not the present owner of the property, indicate the following:

Option of Purchase: N/A

Date of option: _____ Expiration date of option _____

Contract to purchase: _____

Date of Contract: _____

4. Indicate 1) the acreage of the proposed site, 2) if there are existing buildings, 3) present use of the site, and 4) present zoning.

(1) VMI's main campus covers 154 acres;

(2)/(3) (a) the projects related to the football stadium, baseball stadium, Crozet Hall, and Jackson Memorial Hall are projects related to already existing buildings at the Post and (b) the Leadership and Ethics Center will take up approximately 2 acres on vacant land on the Institute's Post; (c) the athletic and military facilities will take up approximately 15 acres on the vacant land on the Institute's north Post area; and (d) the parking lots and facilities will involve the demolition of nine family housing units, as well as utilizing vacant land on the Institute's Post; and

(4) property zoning is not applicable to VMI (property currently zoned residential).

5. Indicate the type of building or facility to be constructed (describe construction, square footage, amount for each operation such as manufacturing, storage, office, etc.)

- a) The Leadership and Ethics Center consists of approximately 42,500 square feet, including an 800 seat assembly hall (5800 sq.ft.), a 500 seat auditorium (8600 sq. ft.), meeting rooms (2300 sq. ft.), gallery (1400 sq. ft.), lobby (3200 sq. ft.), theater space (1600 sq. ft.), food service space (1400 sq. ft.), and administrative offices (1200 sq. ft.).
- b) Additional parking lots or facilities consists of a 93 vehicle surface parking lot in the North Institute Hill area near Letcher Avenue, a 98 vehicle surface parking lot in South Institute Hill near Letcher Avenue and Main Street and a surface parking lot and/or parking structure in the north Post area.
- c) Construction, renovation and equipping of improvements to athletic and military facilities on the Institute's north Post area, includes without limitation athletic fields, military and leadership training facilities, obstacle courses, parking facilities, infrastructure, roads and landscaping. This is the initial phase of a larger project on the Institute's north Post area, which is anticipated to include additional stadium and parking facilities, additional locker rooms, an administrative building and several additional athletic fields.
- d) The proposed projects will also include the renovations further described in Question 6.

6. Does the project contemplate additions and/or renovations to existing buildings?

Yes:

- a) The football stadium project includes the expansion and renovation of the football building, Clarkson McKenna Hall and existing stadium and related facilities, fields and infrastructure, including new home and visiting team locker rooms, landscaping, public address system, fencing, improvements to the practice fields, a concession concourse, a weight training room, public restrooms, handicap access improvements and cosmetic improvements.
- b) The baseball stadium project involves renovations to the existing stadium and related facilities, fields and infrastructure, including improvements to the concession stands, press box, dugouts, fencing and lighting.
- c) The Jackson Memorial Hall project involves renovations to approximately 31,000 square feet of Jackson Memorial Hall, including renovations to the two auditorium levels, renovation of one museum level and conversion of a physical education level to a second museum level.
- d) The Crozet Hall project is an approximately 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building. The expansion and renovations will include the construction of a new modern kitchen, conversion of the previous kitchen area into a serving area and renovations to the main dining area.

7. Is rezoning required? If yes, state classification to be requested.

No

8. Estimated cost of the total project:

Land Improvements	\$ 7,000,000
Buildings	25,000,000
Equipment	1,000,000
Engineering and architecture	1,800,000
Cost of financing	57,000
Bond Counsel/Foundation Counsel	51,000
Other Counsel	30,000
Out-of-pocket costs	0
Underwriting costs	49,500
Refunding	<u>10,000,000</u>
TOTAL COST:	<u>\$44,941,500</u>

9. Method of financing. Indicate type of bonds (industrial, pollution control, medical or other).

Industrial Development Authority bonds*	\$ 45,000,000
Equity	_____
Land	_____
Other (specify)	_____
TOTAL COST	\$ 45,000,000

*Bond proceeds will provide funding for only a portion of the costs of the project. Additional funding sources include (1) state appropriations, (2) proceeds of state bonds, and (3) private gifts.

10. If any space in the project is to be leased to third parties, indicate total square footage of the project, amount to be leased to each tenant and proposed use of each tenant.

None

11. Proposed Virginia Bond Counsel, address, telephone number, and contact person.

Renee B. Fain, Esquire
 McGuireWoods LLP
 One James Center, 901 East Cary Street
 Richmond, Virginia 23219-4030
 (804) 775-1096
rfain@mcguirewoods.com

12. Bond offering (private or public)

Private Placement

13. If private placement, state name of lending institution(s):

Wachovia Bank, N.A.

14. Underwriter and/or Investment Banker to be used, if any, and address, telephone number and contact person for same.

Financial Advisor: Jim Johnson
Morgan Keegan
951 East Byrd Street, Suite930
Richmond, Virginia 23219

15. Does proposed Bond Counsel have errors and omissions insurance coverage?

Yes

16. In accordance with the Code of Virginia, as amended, Section 15.2-4907, the following FISCAL IMPACT STATEMENT must be completed:

- | | | |
|-------|---|----------------------|
| 1. | Maximum amount of financing sought: | <u>\$ 45,000,000</u> |
| 2. | Estimated taxable value of the facility's real property to be constructed in the municipality | <u>N/A</u> |
| 3. | Estimated real property tax per year using present tax rates | <u>N/A</u> |
| 4. | Estimated personal property tax per year using present tax rates | <u>N/A</u> |
| 5. | Estimated merchant's capital tax | <u>N/A</u> |
| *6(a) | Estimated dollar value per year of goods that will be purchased from Virginia companies within the locality | <u>\$ 100,000</u> |
| (b) | Estimated dollar value per year of goods that will be purchased from non-Virginia companies within the locality | <u>\$ 1,000</u> |
| (c) | Estimated dollar value of services that will be purchased from Virginia companies within the locality | <u>\$ 1,600,000</u> |
| (d) | Estimated dollar value of services that will be purchased from non-Virginia companies within the locality | <u>\$ 4,300,000</u> |
| *7. | Estimated number of regular employees on a year round basis | <u>580</u> |
| *8. | Average annual salary per employee | <u>\$ 56,000</u> |

 Chairman, Industrial Development
 Authority of the City of Lexington, Virginia

If one or more of the above questions do not apply to the facility indicate by writing N/A (not applicable on the appropriate line)

***Expenditures and payroll of Virginia Military Institute based on annual budget.
 See attachment for a discussion of project's fiscal impact.**

Question # 16 Attachment: Fiscal Impact Statement for Project

Since the 1800's, the Institute has been a proud community member of the City of Lexington, Virginia and the Institute continually strives to remain a productive and contributing member of the business and cultural community of the City. The proposed projects are part of the Institute's Vision 2039 Plan, which the Institute anticipates will assist it in achieving its goals of remaining competitive with other educational institutions among students, faculty and visitors in the areas of education, military training and cultural programs. The Institute is a historical site that attracts thousands of visitors to the City of Lexington each year. In addition, the Institute is an award winning educational institution that attracts students and faculty from across the nation. The Institute's continued success in attracting students and distinguished faculty members allows the Institute to be a contributing community member of the City of Lexington. The Institute is able to provide cultural programs, theatrical programs, conferences, seminars, athletic events and athletic competitions and these activities draw patrons to the City of Lexington for dining, lodging, and shopping.

More Spectators and Visitors to the City of Lexington:

The proposed project includes the financing and refinancing of renovation and improvements to the football and baseball stadiums. This includes a greatly improved football stadium which will encourage increased local and distant spectator participation due to the state of the art facilities, concession stands, landscaping and promotional activities involving spectators. The baseball stadium will enjoy a similar upgrade as well as the addition of 1,300 seats. The increased seating capacity for the baseball stadium will make VMI an eligible and attractive location to host tournaments for the Big South Conference. There are generally 5 to 6 home football games and approximately 30 home baseball games each year. VMI estimates that up to an additional 7,000 football spectators and an additional 1,500 baseball spectators annually will attend games at VMI, or a total of 8,500. It is expected that approximately 70%, or almost 6,000 of the spectators will be overnight visitors and stay in area lodging and eat in the local restaurants. Assuming that each visitor spends approximately \$75 each with local businesses, the additional dollar value of services from local businesses will be \$450,000 annually. Some of the other 2,500 non-overnight visitors will also probably eat in local restaurants if they are a day's drive from here. This could add another \$25,000 in spending bringing the total increase in annual spending to approximately \$475,000.

The renovations to VMI's museum in Jackson Memorial Hall will result in a more attractive facility with space for larger and more numerous exhibits. The average 40,000 to 45,000 visitors per year is expected to grow significantly as VMI displays on a grand scale for the first time its world-class collection of firearms that previously could only be partially displayed due to the lack of museum space. This and other new exhibits will

draw more visitors to the museum and to the City of Lexington and Rockbridge County and enhance this area as a travel destination. Visitors will eat and shop at local businesses and overnight guest will stay in local lodging and purchase fuel and other services. The increase in visitors to the City of Lexington will increase local business sales.

The construction of the Leadership and Ethics Center and the renovations to the auditorium space in Jackson Memorial Hall will allow for more theatrical events, seminars, symposiums, concerts, lectures and other cultural events to take place at the Institute. VMI's successful Environment Virginia Symposium which draws hundreds of participants already over two to three days is expected to grow larger with the new improved facilities. VMI expects to begin hosting other similar events. These activities attract additional visitors to the City of Lexington and Rockbridge County. Overnight visitors will stay in local lodging, eat at local restaurants and shop at local businesses. The increase in visitors to the City of Lexington will increase local business sales.

Additional parking lots and facilities will help alleviate some of the parking concerns in and around the Institute. The additional parking will make visiting the Institute and the City of Lexington more enjoyable for out of town visitors and will relieve some congestion concerns of local community and business members.

Additional Employees:

These projects are expected to result in an increase of up to 16 additional employees to include new hires by VMI's outside food contractor when the size of the Corps grows to 1,500 as planned in the next several years. These positions include teaching faculty, conference directors and assistants, maintenance workers, and food service workers. The salaries will vary from approximately \$16,000 to \$90,000 plus fringe benefits.

Attach to application copies of annual reports, balance sheets, and profit-loss statement for preceding three (3) years of operation.

If the application is a new or recently formed business entity, without recent financial statements, the applicant should furnish a statement of financial condition as required by the application for each principal shareholder, partner, or other principal of the applicant. If the applicant is a subsidiary corporation without its own financial statements, financial statements of the parent corporation or consolidated financial statements may be submitted in lieu of financial statements for the applicant. If the obligations of the applicant will be guaranteed by any person or business entity, then financial statements of such guarantor should also be included with the application. Proforma financial statements, if available, should be submitted with the application. Since the application will become a part of the public records of the Authority, in the event the applicant does not desire financial records not otherwise available to the public to be included in the public record, please so indicate so such records may be returned to the applicant.

The applicant hereby agrees to defray all costs of the bond financing, including, but not limited to any necessary costs of the Authority and legal fees.

Upon bond closing, the applicant agrees to provide the Authority with two bound volumes of the bond documents (one for the Authority's Secretary and one for the Authority's Counsel).

The applicant will advise the Authority in writing of any material changes to the information contained in this application

Name of applicant: V.M.I. Development Board, Incorporated

By: _____ Title: _____

Date: _____

Debbie Desjardins

From: Noah Simon
Sent: Thursday, March 24, 2016 9:12 AM
To: Debbie Desjardins
Subject: FW: Lexington IDA - March 30 Meeting Materials for VMI
Attachments: Attachments.zip

Noah A. Simon
City Manager
City of Lexington
300 East Washington Street
PO Box 922
Lexington, Virginia 24450
540.462.3700
NSimon@lexingtonva.gov
<http://lexingtonva.gov>

From: Bruno, Thomas William [mailto:TBruno@mcguirewoods.com]
Sent: Wednesday, March 23, 2016 5:23 PM
To: Noah Simon <nsimon@lexingtonva.gov>; Brenda Doyle <BDoyle@lexingtonva.gov>; Larry Mann <LMann@lexingtonva.gov>
Cc: Randolph, Jessica C. <jrandolph@mcguirewoods.com>
Subject: Lexington IDA - March 30 Meeting Materials for VMI

Good afternoon,

Attached are copies of the following materials related to the IDA's March 30 meeting to consider a bond resolution for V.M.I. Development Board and V.M.I. Foundation:

1. Letter to IDA explaining the request and the projects being refinanced
2. IDA bond resolution for consideration after the public hearing
3. Bond Indenture
4. Financing Agreement
5. Escrow Agreement
6. Bond Purchase Agreement
7. Preliminary Official Statement (with separate Appendix A)
8. City Council Approval Package (called the TEFRA package)

Items 3-7 are referenced in the bond resolution, which is why I am including them. Should you have any questions, or need anything further, please do not hesitate to contact me. I plan to attend the meeting on March 30 and am happy to bring along additional items that may be helpful.

If you need anything further to place an approval resolution on the City Council's agenda for April 7, please let me know. A form resolution is included in the approval package, but I can send you it as a single file as well.

Regards,

T.W.

T.W. Bruno

McGuireWoods LLP

Gateway Plaza

800 East Canal Street

Richmond, VA 23219-3916

T: +1 804.775.1853

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tbruno@mcguirewoods.com

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RESOLUTION OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA APPROVING THE ISSUANCE OF UP TO \$39,000,000 EDUCATIONAL FACILITIES REVENUE REFUNDING BONDS (V.M.I. DEVELOPMENT BOARD, INCORPORATED PROJECT) SERIES 2016 AND AUTHORIZING THE EXECUTION AND DELIVERY OF BOND DOCUMENTS SUBJECT TO CERTAIN BOND TERMS FOR THE BENEFIT OF V.M.I. DEVELOPMENT BOARD, INCORPORATED AND V.M.I. FOUNDATION, INCORPORATED

RECITALS

A. The Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), a political subdivision of the Commonwealth of Virginia, is empowered by the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the "Act"), to issue its revenue bonds to finance facilities for the Commonwealth of Virginia (the "Commonwealth") and its agencies, and governmental and nonprofit organizations to promote the health, welfare, convenience or prosperity of the Commonwealth's inhabitants.

B. The Authority has received a request from V.M.I. Development Board, Incorporated (the "Development Board") and V.M.I. Foundation, Incorporated (the "Foundation" and collectively with the Development Board, the "Borrowers"), each a non-stock, not-for-profit corporation, organized and existing under the laws of the Commonwealth, requesting the Authority issue and sell its revenue refunding bonds (the "Bonds"), in one or more series at one time or from time to time, to assist the Borrowers in the refunding of all or a portion of the outstanding amount of the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project) (the "2006 Bonds"), issued in the original aggregate amount of \$46,000,000 to (a) finance and/or refinance all or a portion of the costs of the acquisition, renovation, construction and equipping by the Virginia Military Institute (the "Institute"), a public institution of higher education in the Commonwealth, of the following facilities all located on the Institute's post in the City of Lexington, Virginia (the "Post") or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity: (1) improvements to the Institute's football stadium, including improvements to related facilities, fields, and infrastructure, located on North Main Street, (2) improvements to the Institute's baseball stadium, including related facilities, fields, and infrastructure, located on Anderson Drive, (3) an approximately 42,500 square foot Leadership and Ethics Center, including without limitation a 500 seat auditorium, an 800 seat assembly space, meeting rooms and administrative space, to be located on or near Maiden Lane, (4) an approximately 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building located on Letcher Avenue, (5) renovations to the approximately 31,000 square foot Jackson Memorial Hall located on Letcher Avenue, including renovations to the Institute's museum and renovations to two auditorium levels, (6) improvements to athletic and military facilities in the Institute's north Post area consisting of approximately 15 acres located on or near Woods Creek, including, without limitation, athletic fields, military and leadership training facilities, obstacle courses, parking facilities, infrastructure, roads and landscaping, (7) additional parking lots or parking facilities on or near Maiden Lane, Letcher Avenue or North Main Street,

and (8) other capital expenditures on the Post or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity, and working capital (collectively, the "Projects"); and (b) refund all or a portion of the outstanding amount of the Authority's Variable Rate Tax-Exempt Bonds (V.M.I. Development Board), Series 2004 issued to finance or refinance costs associated with the foregoing Projects. A portion of the proceeds of the Bonds may also be used to fund costs of issuance, accrued interest and any redemption premium, reserve and other funds, original issue premium/discount and/or other financing costs related to the Bonds or the 2006 Bonds.

C. The Bonds are expected to be sold by the Authority to Wells Fargo Bank, National Association (the "Underwriter"), pursuant to the terms of a Bond Purchase Agreement, to be dated the date of its execution and delivery (the "Bond Purchase Agreement"), among the Authority, the Underwriter, and the Borrowers.

D. The Bonds are to be offered for sale by the Underwriter pursuant to an Official Statement in preliminary form, to be dated the date of its delivery, and in final form, to be dated the date of the sale of the Bonds, prepared in connection with the offering and sale of the Bonds (the "Official Statement").

E. The foregoing arrangements will be reflected in the following documents, preliminary forms of which have been presented to the Authority and filed with the records of the Authority, and which are necessary to carry out the transaction described above:

(i) the Indenture of Trust dated as of June 1, 2016 (the "Indenture of Trust"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee");

(ii) the Financing Agreement dated as of June 1, 2016, between the Authority and the Borrower;

(iii) the form of the Bonds, to be dated the date of their delivery, bearing interest and payable as provided therein and in the Indenture of Trust and incorporated into the Indenture of Trust;

(iv) the Bond Purchase Agreement; and

(v) the Official Statement in preliminary form.

All of the documents listed above, except the Bonds, are referred to in this Resolution as the "Bond Documents."

F. The Bond Documents shall reflect the following terms for the Bonds (the "Bond Terms"): (1) the aggregate principal amount of the Bonds shall not exceed \$39,000,000, (2) the net present value savings achieved from refunding the 2006 Bonds selected for refunding (the "Refunded Bonds") shall produce a net present value savings of not less than 3% of the principal amount of the Refunded Bonds, and (3) the final maturity date shall not be later than the last fiscal year in which a Refunded Bond matures.

G. (a) No member of the Board of Directors of the Authority is an officer or employee of the City of Lexington, Virginia, (b) each member, before entering upon such member's duties during such member's current term of office, has taken and subscribed to the oath prescribed by Section 49-1 of the Code of Virginia of 1950, as amended, and (c) at the time of their appointments and at all times thereafter, including the date hereof, all of the members of the Board of Directors of the Authority have satisfied the residency requirements of the Act.

H. No member of the Board of Directors of the Authority has any personal or business interest in the Borrowers, the Bonds, the Bond Documents, or any of the transactions contemplated therein or has otherwise engaged in conduct prohibited under the Conflict of Interests Act, Chapter 31, Title 2.2 of the Code of Virginia of 1950, as amended (the "Conflict of Interests Act") in connection with this resolution or any other official action of the Authority in connection therewith.

NOW, THEREFORE, IT IS RESOLVED BY THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA:

1. The issuance of the Bonds, to be styled the "Industrial Development Authority of the City of Lexington, Virginia Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016," with principal amounts, maturities, and interest rates consistent with the Bond Terms, is hereby authorized and approved. The Bonds shall be in substantially the form attached as an exhibit to the Indenture of Trust. The Board of Directors hereby finds that the issuance of the Bonds promotes the welfare, convenience and prosperity of the Commonwealth's inhabitants.

2. The Chairman of the Authority is hereby authorized and directed to execute and deliver on behalf of the Authority the Bond Purchase Agreement and the Official Statement upon approval by such executing officer of their final forms, terms and conditions, provided that such forms, terms and conditions are consistent with the Bond Terms. The use and distribution of the Official Statement in preliminary and final form by the Underwriter is authorized, and the Chairman is authorized to deem the Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to approve the preparation and distribution of such amendments or supplements to the Official Statement as may be necessary to comply with the Bond Purchase Agreement. Such distribution shall constitute conclusive evidence that the Authority has deemed such preliminary official statement to be final as of its date within the meaning of the Rule, with respect to the information contained therein pertaining to the Authority. The sale of the Bonds to the Underwriter is hereby approved and authorized, provided the terms of such sale shall be consistent with the Bond Terms.

3. The execution, delivery and performance by the Authority of the Bond Documents to which the Authority is a party, in substantially the forms presented at this meeting with principal amounts, maturities and interest rates consistent with the Bond Terms are authorized, with such changes (including to the dates thereof), insertions or omissions consistent with the Bond Terms as may be approved by the Chairman, whose approval shall be evidenced conclusively by their execution and delivery thereof. The execution of the Bonds and their delivery against payment therefor, the amount of such payment to be disbursed in accordance with the terms of the Indenture of Trust, are authorized.

4. The Chairman is hereby authorized and directed to execute and deliver on behalf of the Authority the Bonds and the Bond Documents to which the Authority is a party, with terms consistent with the Bond Terms, and the Secretary of the Authority is hereby authorized and directed to affix the seal of the Authority to the Bonds and, if required, the Bond Documents and to attest such seal. The signatures of the Chairman and the Secretary, and the seal of the Authority may be by facsimile. Each officer of the Authority is authorized to execute and deliver on behalf of the Authority such instruments, documents or certificates consistent with the Bond Terms, including without limitation documents that may be necessary to preserve the tax-exempt status of the Bonds or to obtain credit enhancement and/or liquidity facilities for the Bonds, and to do and perform such other things and acts, as such officer deems necessary or appropriate to carry out the transactions authorized by this Resolution or contemplated by the Bonds, the Bond Documents or such other instruments, documents or certificates, and all of the foregoing, previously done or performed by such officers of the Authority, are in all respects approved, ratified and confirmed.

5. The Authority determines that the issuance of the Bonds in accordance with the terms of the Bond Documents, including the Bond Terms, and all action of the Authority contemplated by them will be in furtherance of the purposes for which the Authority was organized.

6. At the request of the Borrowers, the Authority approves McGuireWoods LLP, as Bond Counsel in connection with the issuance of the Bonds.

7. The Authority acknowledges receipt of the letter dated _____, 2016, from the Underwriter to the Authority regarding certain disclosures described by Municipal Securities Rulemaking Board ("MSRB") Rule G-17 as set forth in MSRB Notice 2012-25.

8. All costs and expenses incurred in connection with the issuance of the Bonds, including without limitation the fees and expenses of the Authority, Bond Counsel and Authority Counsel, will be paid by the Borrowers or, to the extent permitted by applicable law, from the proceeds of the Bonds. If for any reason the Bonds are not issued, it is understood that all such expenses shall be paid by the Borrowers, and that the Authority will have no responsibility for them.

9. The Bond Documents shall provide for indemnification and limitation of liability of the Authority, its members, and its officers, all in usual form.

10. The Bonds will not constitute a debt or pledge of the faith and credit or taxing power of the Commonwealth or any of its political subdivisions, including the Authority and the City of Lexington, Virginia. Neither the Commonwealth nor any of its political subdivisions, including the Authority and the City of Lexington, Virginia, will be obligated to pay the principal of, premium, if any, or interest on the Bonds or other costs incident to them except from the revenues and monies pledged for such purposes, and neither the faith and credit nor the taxing power of the Commonwealth or any of its political subdivisions, including the Authority and the City of Lexington, Virginia, is pledged to the payment of principal of, premium, if any, or interest on the Bonds or other costs incident to them.

11. Any authorization of the Chairman may be carried out by the Vice Chairman.

12. The Authority will not knowingly take or approve any action, investment or use of Bond proceeds that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

13. This resolution shall take effect immediately upon its adoption.

CERTIFICATE

The undersigned Secretary of the Industrial Development Authority of the City of Lexington, Virginia ("Authority"), hereby certifies that the foregoing is a true, correct and complete copy of a resolution adopted by a majority of the Directors of the Authority present and voting at a meeting duly called and held on March 30, 2016, in accordance with law, with a quorum present and acting throughout, and that such resolution has not been repealed, revoked, rescinded or amended but is in full force and effect on this date.

WITNESS the following signature and seal of the Authority as of March 30, 2016.

[SEAL]

Secretary, Industrial Development Authority of the
City of Lexington, Virginia

Government & Institutional Banking
Public Finance
150 E. 42nd Street, 25th Floor
New York, NY 10017
212-214-6770
Sally.E.Bednar@wellsfargo.com



March 14, 2016

John DeVogt
Industrial Development Authority
Of the City of Lexington, Virginia
300 E. Washington Street
Lexington, VA 24450

Re: Disclosures by Wells Fargo Securities
Pursuant to MSRB Rule G-17 in connection with
VMI plans to advance refund its currently outstanding Series 2006B and 2006C bonds

Dear Mr. DeVogt:

We are writing to provide you, as Chairman of Industrial Development Authority of the City of Lexington (the "Issuer"), with certain disclosures relating to the captioned bond issue (the "Bonds"), as required by the Municipal Securities Rulemaking Board (MSRB) Rule G-17 as set forth in MSRB Notice 2012-25 (May 7, 2012)¹ (the "Notice").

Wells Fargo Securities² has been engaged to serve as senior managing underwriter, and not as a financial advisor or municipal advisor, in connection with the issuance of the Bonds. As part of our services as senior managing underwriter, Wells Fargo Securities may provide advice concerning the structure, timing, terms, and other similar matters concerning the issuance of the Bonds. We may also have provided such advice as part of the process of seeking to be selected to serve as your underwriter. Any such advice was, and would be, provided by Wells Fargo Securities as an underwriter and not as your financial advisor in this transaction, and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. As senior managing underwriter, we are providing this letter on behalf of the underwriters that are members of the underwriting syndicate for the Bonds, except with respect to the disclosures relating to actual or perceived material conflicts of interest, which are being made solely for Wells Fargo Securities. You also may receive additional separate disclosure letters pursuant to Rule G-17 from one or more co-managing underwriters for the Bonds.

As the issuer of the Bonds, you will be issuing the Bonds for the benefit of the conduit borrower, Virginia Military Institute Development Board, (the "Obligor") and will be a party to a bond purchase agreement and certain other legal documents to be entered into in connection with the issuance of the Bonds. Any material financial risks described in this letter will be borne by the Obligor, as set forth in those legal documents. A copy of this letter is also being sent to the Obligor.

Pursuant to the Notice, we are required by the MSRB to advise you that:

- MSRB Rule G-17 requires an underwriter to deal fairly at all times with both municipal issuers and investors.

¹ Interpretive Notice Concerning the Application of MSRB Rule G-17 to Underwriters of Municipal Securities (effective August 2, 2012).

² - Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, N.A.

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- The underwriters' primary role is to purchase the Bonds with a view to distribution in an arm's-length commercial transaction with the Issuer in which the underwriters would be acting solely as a principal. As such, the underwriters have financial and other interests that differ from those of the Issuer.
- Unlike a municipal advisor, the underwriters do not have a fiduciary duty to the Issuer under the federal securities laws and are, therefore, not required by federal law to act in the best interests of the Issuer without regard to their own financial or other interests.
- The underwriters have a duty to purchase the Bonds from the Issuer at a fair and reasonable price, but must balance that duty with their duty to sell the Bonds to investors at prices that are fair and reasonable.
- As underwriter, we will review the official statement for the Bonds in accordance with, and as part of, our responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of this transaction³.

The underwriters will be compensated by a fee and/or an underwriting discount that will be set forth in the bond purchase agreement to be negotiated and entered into in connection with the issuance of the Bonds. Payment or receipt of the underwriting fee or discount will be contingent on the closing of the transaction and the amount of the fee or discount may be based, in whole or in part, on a percentage of the principal amount of the Bonds. While this form of compensation is customary in the municipal securities market, it presents a conflict of interest since an underwriter may have an incentive to recommend a transaction that is unnecessary or to recommend that the size of a transaction be larger than is necessary.

We would also like to ensure that you are aware of the following actual or perceived material conflicts of interest relating to Wells Fargo Securities:

- We have entered into an agreement with our affiliate, Wells Fargo Advisors, LLC ("WFA") for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to this agreement, we will share a portion of our underwriting compensation with WFA for any Bonds sold by WFA to its customers. We also utilize the distribution capabilities of our affiliate, Wells Fargo Securities, LLC ("WFSLLC") for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC we pay a portion of WFSLLC's expenses based on its municipal securities transactions. Wells Fargo Securities, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.
- In the ordinary course of business, we and/or our affiliates have engaged, and may in the future engage, in transactions with, and/or perform services for, the Issuer and/or the Obligor or its affiliates for which has been received or will be received customary fees and expenses. Those business activities may include (i) commercial banking services, including accepting deposits from the Issuer and/or the Obligor or its affiliates and extending various forms of credit to the Issuer and/or the Obligor or its affiliates and (ii) purchasing, selling or holding a broad array of investments and trading securities, derivatives, loans, commodities, currencies and other financial instruments for our own account and/or for the accounts of customers, including investment and trading activities relating to assets, securities and/or other financial instruments of the Issuer and/or the Obligor or its affiliates (whether directly, as collateral securing other

³ Under federal securities law, an issuer of securities has the primary responsibility for disclosure to investors. The review of the official statement by the underwriters is solely for purposes of satisfying the underwriters' obligations under the federal securities laws and such review should not be construed by an issuer as a guarantee of the accuracy or completeness of the information in the official statement.

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obligations or otherwise) and/or persons and entities with relationships with the Issuer and/or the Obligor or its affiliates. We and/or our affiliates also may communicate independent investment recommendations, and market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments. Furthermore, certain Wells Fargo & Company employees may receive various forms of revenue credit, in a manner consistent with applicable MSRB rules, for (i) having a mutual client relationship with the Issuer and/or the Obligor or its affiliates or (ii) referring this transaction to Wells Fargo Securities; which depending upon the compensation program applicable to any such employee, may impact such employee's compensation.

- If the Issuer decides to sell short-term maturities of the Bonds through a competitive sealed bid process, then Wells Fargo Securities' underwriting desk may manage the process by soliciting bids from the syndicate and potential investors and identifying any winning purchasers. Wells Fargo Securities' secondary trading desk may elect to place bids on its own behalf. When the underwriting desk manages the competitive sealed bid process, it does not share information regarding any bids with Wells Fargo Securities' secondary trading desk or any other potential investors prior to disclosing the identity of the winning purchasers.

Please note that since the Bonds will refund certain of the Issuer's outstanding bonds ("Refunded Bonds"), such refunding may constitute a disclosure event pursuant to the terms of any continuing disclosure agreement(s) that may apply to the Refunded Bonds. We encourage you to discuss this, as well as publishing a refunding notice as soon as possible, with your municipal advisor and/or counsel.

Please note nothing in this letter is an expressed nor an implied commitment by us to provide financing or to purchase or place the Bonds or any other securities. Any such commitment shall only be set forth in a bond purchase agreement or other appropriate form of agreement for the type of transaction undertaken by you.

Further, our participation in any transaction (contemplated herein or otherwise) remains subject to, among other things, the execution of a bond purchase agreement or other appropriate form of agreement.

Wells Fargo Securities is acting independently in seeking to act as an underwriter in the transactions contemplated herein and shall not be deemed for any purpose to be acting as an agent, joint venturer or partner of the other underwriters. Except as set forth in a bond purchase agreement (or other appropriate form of agreement) Wells Fargo Securities assumes no responsibility, express or implied, for any actions or omissions of, or the performance of services by, the other underwriters in connection with the transactions contemplated herein or otherwise.

If you or any other Issuer representatives have any questions or concerns about these disclosures, please make those questions or concerns known immediately to the undersigned. In addition, the Issuer should consult with its own financial, municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate.

It is our understanding that you have the authority to bind the Issuer by contract with us, and that you are not a party to any conflict of interest relating to the subject transaction. If our understanding is incorrect, please notify the undersigned immediately.

The MSRB requires that we seek your acknowledgement that you have received this letter. Accordingly, please send me an email to that effect, or sign and return the enclosed copy of this letter to me at the address set forth above within five (5) business days of the date of this letter. Depending on the structure of the transaction that the Issuer decides to pursue, or if additional actual or perceived material conflicts are identified, we may be required to send

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you additional disclosures. At that time, we also will seek your acknowledgement of receipt of any such additional disclosures.

We look forward to working with you, the Issuer and the Obligor in connection with the issuance of the Bonds, and we appreciate the opportunity to assist with your financing needs. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Sally Bednar".

Sally Bednar
Managing Director

Acknowledgement:
Industrial Development Authority of the City of Lexington

By: _____
John DeVogt, Chairman

Date: _____

CC: Virginia Military Institute

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST is made as of June 1, 2016, between the **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA**, a political subdivision of the Commonwealth of Virginia (the "Authority"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association, as trustee (the "Trustee").

The Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended ("Act"), authorizes the creation of industrial development authorities by the several counties, cities and towns in Virginia and empowers such authorities to acquire, construct, improve, maintain, equip, own, lease and dispose of facilities for private, accredited and nonprofit institutions of secondary education in the Commonwealth of Virginia whose primary purpose is to provide secondary education to the end that such authorities may protect and promote the health and welfare of the inhabitants of the Commonwealth of Virginia, and further authorizes any such authority to issue its revenue bonds for the purpose of carrying out its powers.

To further the Act's purposes, the Authority proposes to issue and sell under this Indenture its Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "Bonds"), in the original aggregate principal amount of \$ _____ and to lend the proceeds thereof to V.M.I. Development Board, Incorporated (the "Development Board") and V.M.I. Foundation, Incorporated (the "Foundation," and together with the Development Board, the "Borrowers"), each a non-stock, not-for-profit Virginia corporation, under the Financing Agreement dated as of June 1, 2016 (the "Financing Agreement"), between the Authority and the Borrowers. The Borrowers will apply the proceeds of the Bonds, [along with other available Borrowers funds,] under the terms of the Financing Agreement (a) to refund all or a portion of the Authority's outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Fund, Incorporated Project), Series 2006 (the "2006 Bonds"), including redemption premium, if any, and accrued interest thereon, and (b) to finance the costs of issuance of the Bonds and refunding the 2006 Bonds.

All things necessary to make the Bonds valid, binding and legal limited obligations of the Authority, when authenticated by the Trustee and issued as provided in this Indenture, and to constitute this Indenture as a valid and binding agreement securing the payment of the principal of and premium, if any, and interest on the Bonds issued under this Indenture have been done and performed. The execution and delivery of this Indenture and the execution and issuance of the Bonds have in all respects been duly authorized.

The Authority covenants and agrees with the Trustee and with the registered owners, from time to time, of the Bonds, as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.1 Definitions. The following words and terms have the following meanings in this Indenture unless the context otherwise requires:

"2006 Bonds" means the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Fund, Incorporated Project), Series 2006.

"Act" means the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended.

"Authority" means the Industrial Development Authority of the City of Lexington, Virginia, its successors and assigns.

"Bond Counsel" means any nationally recognized bond counsel experienced in matters of municipal finance.

"Bond Fund" means the fund by that name established by Section 5.1.

"Bond Purchase Agreement" means the Bond Purchase Agreement dated the date of execution and delivery thereof, among the Authority, the Borrowers and Wells Fargo Bank, National Association.

"Bondholder", "holder" or "owner" means the registered owner of any Bond.

"Bonds" means the \$_____ Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016.

"Borrowers" means the Development Board and the Foundation, each a nonprofit nonstock Virginia corporation.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commonwealth" means the Commonwealth of Virginia.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement dated _____, 2016, executed and delivered by the Borrowers.

"Cost of Issuance" means the costs incurred with respect to the issuance of the Bonds, including without limitation, counsel fees; financial advisory fees; fees paid to an organization to evaluate the credit quality of an issue; accounting fees; printing costs for bonds and offering documents; public approval process costs; engineering and feasibility study costs; guarantee fees, other than for qualified guarantees; and similar costs.

"Cost of Issuance Fund" means the fund by that name established by Section 5.1.

"Development Board" means V.M.I Development Board, Incorporated, a non-stock, not-for-profit Virginia corporation.

"DTC" has the meaning given in Section 3.14.

"Escrow Agent" means U.S. Bank National Association.

"Escrow Agreement" means the agreement dated _____, 2016 between the Authority, the Borrowers and U.S. Bank National Association, as escrow agent.

"Event of Default" means any of the events enumerated in Section 9.1.

"Financing Agreement" means the Financing Agreement dated as of June 1, 2016, between the Authority and the Borrowers, including any supplements or amendments as permitted by this Indenture.

"Foundation" means V.M.I. Foundation, Incorporated, a non-stock, not-for-profit Virginia corporation.

"Government Certificates" means certificates representing ownership of United States Treasury bond principal at maturity or interest payments for accrued periods, which bonds or coupons are held by a bank or trust company, organized and existing under the laws of the United States of America or any of its states acceptable to the Trustee, in the capacity of custodian independent of the seller of the certificates.

"Government Obligations" mean direct obligations of, or obligations the payment of the principal of and premium, if any, or interest on which is unconditionally guaranteed by, the United States of America.

"Letter of Representations" means the Depository Trust Company's Blanket Issuer Letter of Representations, dated March 25, 1999, from the Authority to DTC, a copy of which is attached as Appendix B.

"Indenture" means this Indenture of Trust, including any supplements permitted by it.

"Note" means the unconditional general obligation promissory note of the Borrowers in the original principal amount of \$_____, dated the date of its delivery payable to the Authority and assigned to the Trustee.

"Opinion of Counsel" means a written opinion of any Counsel in form and substance acceptable to the Trustee.

"Outstanding" means, at any date, the aggregate of all Bonds authorized, issued, authenticated and delivered under this Indenture, except:

- (a) Bonds canceled or surrendered to the Trustee for cancellation;
- (b) Bonds deemed to have been paid as provided in Section 8.1 or 8.2; and

(c) Bonds in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to this Indenture unless proof satisfactory to the Trustee is presented that any such Bond is held by a bona fide owner.

"Rebate Fund" means the fund by that name established by Section 5.4.

"Supplement" means any supplemental indenture of trust supplementing this Indenture executed pursuant to Article XII.

"Tax Compliance Agreement" means the Tax Compliance Agreement dated _____, 2016, between the Borrowers and the Authority.

"Trustee" means U.S. Bank National Association, or its successor serving as trustee under this Indenture.

Section 1.2 Rules of Construction. The following rules apply to the construction of this Indenture unless the context otherwise requires:

(a) Singular words connote the plural number as well as the singular and vice versa.

(b) Words importing the redemption or calling for redemption of Bonds will not be deemed to refer to or connote the payment of Bonds at their stated maturity.

(c) All references to particular articles or sections are references to articles or sections of this Indenture unless otherwise indicated.

(d) The headings and table of contents used in this Indenture are solely for convenience of reference and do not constitute a part of this Indenture or affect its meaning, construction or effect.

ARTICLE II ESTABLISHMENT OF TRUST

In order to provide for the payment of the principal of and premium, if any, and interest on the Bonds, and to secure the performance of all of the obligations of the Authority under the Bonds and this Indenture, the Authority, subject to the terms of this Indenture, pledges, assigns and grants to the Trustee a security interest in the following:

Section 2.1 Pledge. In order to provide for the payment of the principal of and premium, if any, and interest on the Bonds, and to secure the performance of all of the obligations of the Authority under the Bonds and this Indenture, the Authority, subject to the terms of this Indenture, pledges, assigns and grants to the Trustee a security interest in the following:

The Note, all rights of the Authority pursuant to the Financing Agreement and the Note, and all revenues, receipts and money receivable by the Authority from the Note or Financing Agreement, but excluding the payments made directly to the Authority or other parties entitled to

them pursuant to Sections 3.9, 5.7 and 6.4 of the Financing Agreement, the right of the Authority to receive notices pursuant to Section 7.2 of the Financing Agreement and the right of the Authority to enforce compliance with Section 3.4 of the Financing Agreement.

(a) The funds, accounts, money and investments held by the Trustee pursuant to the terms of this Indenture, except the Rebate Fund.

(b) Any and all other property of any kind mortgaged, pledged or hypothecated at any time as and for additional security under this Indenture by the Authority or by anyone on its behalf or with its written consent in favor of the Trustee, which is authorized to receive all such property at any time and to hold and apply it subject to the terms of this Indenture.

Section 2.2 Property Held in Trust. The property described in Section 2.1 is to be held by the Trustee in trust for the equal and proportionate benefit and security of the holders from time to time of the Bonds issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the others upon the terms and conditions set forth in this Indenture.

**ARTICLE III
AUTHORIZATION, EXECUTION, AUTHENTICATION,
REGISTRATION AND DELIVERY OF BONDS**

Section 3.1 Authorization of Bonds. The Authority hereby authorizes the issuance of its \$ _____ Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016.

Section 3.2 Details of Bonds. (a) The Bonds authorized by Section 3.1 will be issuable as registered bonds in denominations of \$5,000 or any integral multiple of \$5,000, will be dated the date of their delivery and bear interest from that date, will be numbered from R-1 upward sequentially, with the appropriate series designation, will bear interest payable commencing on _____, 201_, and thereafter semiannually on each _____ and _____ at the rates set forth below, and will mature, subject to prior redemption on _____, in the years and in the amounts set forth below:

Maturity Date (_____)	<u>Amount</u>	Interest <u>Rate</u>	Maturity Date (_____)	<u>Amount</u>	Interest <u>Rate</u>
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(b) Each Bond will bear interest (i) from their dated date, if it is authenticated before _____, 201_, (ii) otherwise, from the _____ or _____ that is, or immediately precedes, the date on which the Bond is authenticated (unless the payment of interest on the Bond is in default, in which case the Bond will bear interest from the date to which interest has been paid).

Principal of and premium, if any, and interest on the Bonds will be payable in lawful money of the United States of America, but only from the revenues and receipts pledged for such purpose under this Indenture. Principal of and premium, if any, on the Bonds will be payable upon presentation and surrender of the Bonds as they become due at the designated corporate trust office of the Trustee. Interest on the Bonds will be payable to the registered owners by check or draft mailed to the owners at their addresses as they appear on registration books kept by the Trustee as Bond Registrar, provided that such payments may be made by wire transfer to any owner of \$1,000,000 or more in aggregate principal amount of Bonds pursuant to such wire instructions as the owner may designate in writing to the Trustee.

Interest on the Bonds will be computed on the basis of a year of 360 days and twelve 30-day months. Principal of and premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. If the date of maturity of the principal of the Bonds or the date fixed for the payment of interest on or the redemption of the Bonds is a Saturday or Sunday or a day on which banking institutions located in Virginia are required or authorized to remain closed, then the payment of the principal of and premium, if any, and interest on the Bonds need not be made on such date, but may be made on the next succeeding date which is not such a day, and if made on such next succeeding date no additional interest will accrue for the period after such date of maturity or date fixed for the payment of interest or for redemption.

Section 3.3 Provisions to be Included in Each Bond. Each of the Bonds shall contain the following provisions:

THE BOND AND THE PREMIUM, IF ANY, AND THE INTEREST ON IT WILL NOT BE DEEMED TO CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF VIRGINIA OR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA. NEITHER THE COMMONWEALTH OF VIRGINIA NOR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, ARE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THIS BOND OR OTHER COSTS INCIDENT TO IT EXCEPT FROM REVENUES PLEDGED FOR SUCH PURPOSE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF VIRGINIA OR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THIS BOND OR OTHER COSTS INCIDENT TO IT.

Section 3.4 Execution of Bonds. The Bonds will be executed on behalf of the Authority with the manual or facsimile signature of the Chairman or Vice Chairman of the Authority. The seal of the Authority will be impressed or printed on the Bonds and attested by

the manual or facsimile signature of the Secretary or Assistant Secretary of the Authority. In case any officer whose signature or a facsimile of whose signature appears on any Bond ceases to be such officer before the delivery of the Bonds, the signature or the facsimile will nevertheless be valid and sufficient for all purposes as if the officer had remained in office until the delivery. Any Bond may bear the facsimile signature of or may be signed by the persons as at the actual time of the execution are the proper officers to sign the Bond although at the date of delivery of the Bond the persons may not have been such officers.

Section 3.5 Authentication of Bonds. The Bonds will bear a certificate of authentication duly executed by the Trustee. The Trustee will authenticate each Bond with the signature of an authorized representative of the Trustee, but it will not be necessary for the same officer to authenticate all of the Bonds. Only authenticated Bonds are entitled to any right or benefit under this Indenture, and the certificate of authentication on any Bond will be conclusive evidence that the Bond has been duly issued and is secured by the provisions of this Indenture.

Section 3.6 Form of Bonds. The Bonds will be substantially in the form attached as Appendix A, with such appropriate variations, omissions and insertions as permitted or required by this Indenture.

Section 3.7 Delivery of Bonds. The Trustee will authenticate and deliver the Bonds when there has been filed with it the following:

- (a) A certified copy of a resolution or resolutions of the Authority authorizing (i) the execution and delivery of this Indenture, the Tax Compliance Agreement, and the Financing Agreement, and (ii) the issuance, sale, execution and delivery of the Bonds;
- (b) An original executed counterpart of this Indenture, the Tax Compliance Agreement, the Continuing Disclosure Agreement and the Financing Agreement;
- (c) The original executed Note assigned to the Trustee;
- (d) The written Opinion of Counsel to the Borrowers that (i) each Borrower is an organization described under Section 501(c)(3) of the Code, (ii) each Borrower's issuance of the Note has been duly authorized, and (iii) the Note is a valid and binding obligation of each of the Borrowers;
- (e) The written opinion of Bond Counsel that interest on the Bonds is excludable from gross income for federal income tax purposes under current law, and interest on the Bonds is exempt from Virginia income taxes under current law;
- (f) A request and authorization of the Authority, signed by its Chairman or Vice Chairman, to the Trustee to authenticate and deliver the Bonds to such person or persons named in the certificate upon payment to the Trustee for the account of the Borrowers of a specified sum plus accrued interest to the date of delivery; and
- (g) Such other closing documents and opinions of counsel as the Trustee or the Authority may reasonably specify.

The Trustee will use the proceeds of the Bonds as provided in Section 3.13.

Section 3.8 Exchange of Bonds; Persons Treated as Owners. The Trustee will maintain books for the registration of exchange of the Bonds. Upon surrender of any Bond at the designated corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or his or her duly authorized attorney or legal representative in such form as is satisfactory to the Trustee, the Bond may be exchanged for an equal aggregate principal amount of Bonds of authorized denominations, of the same series, form and maturity and bearing interest at the same rate as the surrendered Bond and registered in the name or names requested by the then registered owner. No Bond may be registered to bearer. The Authority will execute and the Trustee will authenticate any Bonds necessary to provide for exchange of Bonds pursuant to this Section.

Before due presentment for registration of transfer of any Bond the Trustee will treat the registered owner as the person exclusively entitled to payment of principal, premium, if any, and interest and the exercise of all other rights and powers of the owner, except that interest payments will be made to the person registered on the fifteenth day of the month preceding the interest payment date as owner on the registration books maintained by the Trustee.

Section 3.9 Charges for Exchange of Bonds. Any exchange of Bonds will be at the expense of the Borrowers, except that the Trustee will charge the Bondholder requesting the exchange the amount of any tax or other governmental charge required to be paid with respect to it.

Section 3.10 Temporary Bonds. Before the preparation of Bonds in definitive form the Authority may issue temporary Bonds in registered form and in such denominations as the Authority may determine but otherwise in substantially the form provided for by this Indenture with appropriate variations, omissions and insertions. The Authority will promptly prepare, execute and deliver to the Trustee Bonds in definitive form, and upon presentation and surrender of Bonds in temporary form, the Trustee will authenticate and deliver in exchange for them Bonds in definitive form of the same maturity for the same aggregate principal amount. Until exchanged for Bonds in definitive form, Bonds in temporary form will be entitled to the lien and benefit of this Indenture. Notwithstanding the foregoing, so long as the Bonds are held in book-entry-only form, they may be typewritten.

Section 3.11 Mutilated, Lost or Destroyed Bonds. If any Bond is mutilated, lost or destroyed, the Authority will execute, and the Trustee will authenticate and deliver, a replacement Bond of like date and tenor in exchange and substitution for, and upon cancellation of, the mutilated Bond or in lieu of and in substitution for the lost or destroyed Bond; provided, the holder of the mutilated, lost or destroyed Bond has paid the reasonable expenses and charges of the Authority and the Trustee in connection with the issuance of the replacement Bond, and, in the case of a lost or destroyed Bond, (i) has filed with the Authority and the Trustee evidence satisfactory to them that the Bond was lost or destroyed and that the holder was the owner of it and (ii) has furnished to the Authority and the Trustee indemnity satisfactory to them. If any lost Bond has matured, instead of issuing a replacement Bond, the Trustee may pay the Bond without its surrender upon paying the expenses and charges and furnishing the evidence and indemnity described above.

Section 3.12 Cancellation and Disposition of Bonds. All Bonds which have been paid or delivered to the Trustee by the Authority for cancellation will not be reissued, and the Trustee will, unless otherwise directed by the Authority, cremate, shred or otherwise dispose of such Bonds. The Trustee will deliver to the Authority a certificate of any such cremation, shredding or other disposition.

Section 3.13 Use of Proceeds of Bonds. The Trustee will apply the proceeds from the sale of the Bonds (\$ _____) equal to the par amount of the Bonds (\$ _____) [less/plus] the aggregate net original issue [discount/premium] (\$ _____) less the aggregate Underwriter's discount (\$ _____), as follows:

(i) The sum of \$ _____ will be transferred to the Escrow Agent [and, with \$ _____ of other funds of the Borrowers deposited with the Escrow Agent,] will be used to refund, redeem and defease the 2006 Bonds in accordance with the Escrow Agreement; and

(ii) The remaining sum of \$ _____ will be deposited in the Cost of Issuance Fund and used to pay all or a portion of the Cost of Issuance.

Section 3.14 Book Entry Provisions. (a) The Bonds will be registered in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), and immobilized in DTC's custody. One Bond for the original principal amount of each maturity will be registered to Cede & Co. Beneficial owners of the Bonds will not receive physical delivery of the Bonds. Individual purchases of the Bonds may be made in book-entry form only in original principal amounts of \$5,000 and integral multiples of \$5,000. Payments of principal of and premium, if any, and interest on the Bonds will be made to DTC or its nominee as the sole Bondholder on the applicable payment date.

DTC is responsible for the transfer of the payments of the principal of and premium, if any, and interest on the Bonds to its participants, which include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations (the "Participants"). Transfer of the payments of the principal of and premium, if any, and interest on the Bonds to beneficial owners of the Bonds is the responsibility of the Participants and other nominees of such beneficial owners.

Transfer of the beneficial ownership interests in the Bonds shall be made by DTC and its Participants, acting as nominees of the beneficial owners of the Bonds, in accordance with rules specified by DTC and its Participants. Neither the Authority nor the Trustee makes any assurances that DTC, its Participants or other nominees of the beneficial owners of the Bonds will act in accordance with such rules or on a timely basis.

THE AUTHORITY AND THE TRUSTEE DISCLAIM ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, (II) THE PAYMENT BY DTC TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND PREMIUM, IF ANY,

AND INTEREST ON THE BONDS, (III) THE DELIVERY BY DTC TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THIS BOND INDENTURE TO BE GIVEN TO BONDHOLDERS, (IV) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN ANY PARTIAL REDEMPTION OF THE BONDS, OR (V) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

So long as Cede & Co., as nominee of DTC, is the sole Bondholder, references in this Indenture to the Bondholders, holders or registered owners of the Bonds shall mean Cede & Co. and not the beneficial owners of the Bonds. Any notice to or consent requested of Bondholders under this Indenture shall be given to or requested of Cede & Co.

(b) Replacement Bonds (the "Replacement Bonds") will be registered in the name of and be issued directly to beneficial owners of the Bonds rather than to DTC, or its nominee, but only if:

(1) DTC determines not to continue to act as securities depository for the Bonds; or

(2) The Authority has advised DTC of the Authority's determination that DTC is incapable of discharging its duties or that it is otherwise in the best interests of the beneficial owners of the Bonds to discontinue the book-entry system of transfer.

Upon the occurrence of an event described in clause (1) or (2) (and the Trustee and the Authority undertake no obligation to make any investigation regarding the matters described in clause (2)), the Authority may attempt to locate another qualified securities depository. If the Authority fails to locate another qualified securities depository to replace DTC, the Authority shall execute and the Trustee shall authenticate and deliver to the Participants the Replacement Bonds (substantially in the form set forth in Appendix A with such appropriate variations, omissions and insertions as are permitted or required by this Indenture) to which the Participants are entitled for delivery to the beneficial owners of the Bonds. The Trustee shall be entitled to rely on the records provided by DTC as to the Participants entitled to receive Replacement Bonds. The holders of the Replacement Bonds shall be entitled to the lien and benefits of this Indenture.

Section 3.15 Letter of Representations. The Authority and the Trustee agree that, so long as Cede & Co. or some other nominee of DTC is the sole Bondholder, they each will give notices, make payments and establish record dates for consents and similar purposes with respect to the Bonds as set forth in the Letter of Representations, a copy of which is attached as Appendix B and hereby incorporated by reference into this Indenture.

ARTICLE IV REDEMPTION OF BONDS

Section 4.1 Redemption of Bonds. The Bonds may not be called for redemption by the Authority except as provided in this Article.

Section 4.2 Optional Redemption. The Bonds maturing on or after _____, 202__ are subject to optional redemption by the Authority at the direction of the Borrowers prior to maturity on or after _____, 202__, in whole or in part at any time, at a price equal to the principal amount thereof without premium, plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

Section 4.3 [Mandatory Sinking Fund Redemption. (a) The Bonds maturing on _____, 20__ are required to be redeemed in part before maturity by the Authority (but only from funds provided by the Borrowers or otherwise available to the Trustee) on _____ in the years and in the amounts set forth below, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date:

<u>Year</u>	<u>Amount</u>
	\$

(Final Maturity)

(b) The Authority will receive a credit against payments required to be made with respect to any Bonds subject to mandatory redemption on any mandatory redemption date in an amount equal to the principal amount of any Bonds subject to mandatory redemption on that date that have been redeemed (other than by mandatory redemption) before the mandatory redemption date or that have been purchased by the Borrowers or the Trustee on behalf of the Borrowers and delivered to the Trustee for cancellation at least seventy days before the mandatory redemption date, provided the Bonds have not previously been applied as a credit against any mandatory redemption payment.]

Section 4.4 Selection of Bonds. Subject to any applicable procedures of DTC, if less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected by the Trustee in such manner as the Borrowers in its discretion may direct, each \$5,000 principal amount being counted as one Bond for this purpose. If a Bond having a principal amount of more than the amount called for redemption is called for redemption, a new registered Bond in principal amount equal to the unredeemed portion will be issued to the registered owner upon the surrender of the Bond.

Section 4.5 Notice of Redemption. The Trustee will cause notice of the call of any Bonds for redemption identifying the Bonds to be redeemed to be sent by first class mail to the registered owner of each Bond to be redeemed at the address of the registered owner as it appears on the registration books not less than 30 nor more than 60 days before the redemption date; provided, that failure to give such notice by mailing, or any defect in it, will not affect the validity of any proceedings for the redemption of any Bonds with respect to which no such failure or defect has occurred. Such notice may be conditioned upon the occurrence of future events, including the availability of funds to effect the redemption on the redemption date.

On or before the date fixed for redemption, funds will be deposited with the Trustee to pay the principal of and premium, if any, and interest accrued to the redemption date on the

Bonds called for redemption. Upon the happening of the above conditions, the Bonds called for redemption will cease to bear interest from and after the redemption date, will no longer be entitled to the benefits provided by this Indenture, and will not be deemed to be outstanding under the provisions of this Indenture.

ARTICLE V REVENUES AND FUNDS

Section 5.1 **Establishment of Funds.** The following trust funds are established:

(a) Industrial Development Authority of the City of Lexington, Virginia (V.M.I. Development Board, Incorporated Project), Bond Fund, to be held by the Trustee, in which there is established a Principal Account and an Interest Account; and

(b) Industrial Development Authority of the City of Lexington, Virginia (V.M.I. Development Board, Incorporated Project), Cost of Issuance Fund, to be held by the Trustee.

Section 5.2 **Bond Fund.** The Trustee will deposit in the Interest Account of the Bond Fund accrued interest, if any, received upon the sale of the Bonds. The Trustee will deposit in the Interest Account all other payments of interest received under the terms of the Note and any amounts transferred from the Costs of Issuance Fund pursuant to Section 5.3. The Trustee will deposit in the Principal Account of the Bond Fund all payments of principal and premium received under the terms of the Note. If the Trustee fails to receive any payment on the Note when due, the Trustee will immediately notify the Borrowers by phone to be promptly confirmed in writing. The Trustee will use the amounts on deposit in the Bond Fund to pay when due the principal of and premium, if any, and interest on the Bonds. All income earned from the investment of money in the Principal Account of the Bond Fund, and all income earned from the investment of money in the Interest Account of the Bond Fund, shall be retained in the Bond Fund and credited against the Borrowers' payments on the Note.

Section 5.3 **Cost of Issuance Fund.** Money in the Cost of Issuance Fund will be used to pay or reimburse the Borrowers for Costs of Issuance upon written request from an officer of the Borrowers stating the amount and purpose of any payment using a requisition form similar to the one attached as Appendix C. Any money remaining in the Cost of Issuance Fund after all Costs of Issuance have been paid, or remaining after one hundred twenty (120) days after the issuance of the Bonds, will be deposited by the Trustee into the Interest Account of the Bond Fund.

Section 5.4 **Rebate Fund.** (a) The Authority hereby establishes with the Trustee for so long as any of the Bonds remain outstanding a separate account to be known as the "Rebate Fund - V.M.I. Development Board, Incorporated Project" (the "Rebate Fund"). Notwithstanding any provisions of this Article VI to the contrary, the Trustee shall (i) transfer money on deposit in any of the trust funds established under this Article VI to the Rebate Fund as directed in writing by the Borrowers and (ii) deposit into the Rebate Fund all amounts transferred to the

Trustee by or on behalf of the Borrowers for deposit therein. The Trustee shall transfer money out of the Rebate Fund pursuant to written directions from the Borrowers.

(b) The Trustee will be fully protected in acting on any "rebate amount" determination made by the Borrowers at any time or contained in any Rebate Amount Certificate and any direction given by the Borrowers under the Tax Compliance Agreement and will not be liable or responsible in any manner to any person for so acting, notwithstanding any error in any such determination or direction.

(c) Money and securities held by the Trustee in the Rebate Fund shall not be deemed funds of the Authority and are not pledged or otherwise subject to any security interest in favor of the Bondholders to secure the Bonds or any other obligation.

(d) Notwithstanding anything to the contrary in this Indenture, no payment from the Rebate Fund will be made by the Trustee to the United States if the Borrowers furnishes to the Trustee an opinion of Bond Counsel to the effect that such payment is not required under Section 148(f) of the Code in order to maintain the tax exemption of interest on the Bonds under Section 103(a) of the Code. In such event the Trustee shall transfer all of the funds in the Rebate Fund to the Interest Account of the Bond Fund.

Section 5.5 Accounts within Funds. The Trustee will at the direction of the Borrowers create accounts within any fund established by this Indenture and will credit amounts deposited to such fund in accounts as directed by the Borrowers. In making transfers from any fund, the Trustee will draw on accounts within the fund as directed by the Borrowers so long as required transfers can be made consistent with those directions.

Section 5.6 Non-Presentation of Bonds. If any Bond is not presented for payment when its principal amount becomes due, all liability of the Authority to the owner of the Bond for the payment of the Bond will cease and be discharged if funds sufficient to pay the Bond and the interest, if any, due on it are held by the Trustee for the benefit of the owner. It will be the duty of the Trustee to hold such funds, without liability for interest on them, for the benefit of the owner of the Bond who will be restricted exclusively to such funds for any claim of whatever nature under this Indenture or on, or with respect to, the Bond.

Any money which has been set aside by the Trustee for the payment of the principal of or premium, if any, or interest on the Bonds and which remains unclaimed by the registered owner of any of the Bonds for a period of five years after the date on which such amounts become payable, will, unless otherwise required by law, be paid to the Borrowers, and thereafter the registered owners of such Bonds may look only to the Borrowers as unsecured creditors for the payment thereof and then only to the extent of the amount so received by the Borrowers, without any interest, and the Authority and the Trustee will have no responsibility with respect to such money.

Section 5.7 Moneys to Be Held in Trust. All money required to be deposited with or paid to the Trustee for the account of any of the funds created by this Indenture will be held by the Trustee in trust, and except for money deposited with or paid to the Trustee for deposit in the Rebate Fund or for the redemption of Bonds, notice of the redemption of which has been duly

given, will, while held by the Trustee, constitute part of the trust estate and be subject to the lien of this Indenture.

Section 5.8 Repayment to Borrowers from Funds. After payment in full of the Bonds, the fees, charges and expenses of the Trustee and any other paying agent, any other amounts required to be paid under this Indenture, the fees, charges and expenses of the Authority, and any other amounts required to be paid by the Borrowers under the Note or the Financing Agreement, all amounts remaining in any of the funds and accounts created by this Indenture (other than the Rebate Fund) will be paid to the Borrowers.

ARTICLE VI INVESTMENTS

Section 6.1 Investment of Funds. (a) Any money held by the Trustee in any funds and accounts established by this Indenture, except the Bond Fund, may be invested by the Trustee as directed in writing by the Borrowers in any investments that are legal investments for public funds under the Investment of Public Funds Act (Chapter 45, Title 2.2, Code of Virginia of 1950; as amended, "Investment Act"), or any subsequent provision of law applicable to such investments.

(b) Any money held by the Trustee in the Bond Fund will be separately invested and reinvested by the Trustee, at the request of and as directed in writing by the Borrowers, only in investments described in paragraphs (1), (2), (3), (4) and (5) of subsection (a) of this Section, which are at the time legal investments for public sinking funds under the Investment Act, or any subsequent provisions of law applicable to such investments.

(c) Any investments may be purchased by the Trustee pursuant to a repurchase agreement with any bank, savings institution or trust company, including the Trustee and its affiliates, or any securities firm registered under the Securities Exchange Act of 1934, as amended, in either case having (1) a rating which is rated "A-1" or better by S&P and "P-1" or better by Moody's, and (2) combined capital, surplus and undivided profits of not less than \$50,000,000. Such repurchase agreement will be considered a purchase of the investments even if title to and/or possession of the investments is not transferred to the Trustee so long as (i) the repurchase obligation is collateralized by the investments themselves, (ii) the investments have a fair market value determined at least once every fourteen days at least equal to the amount invested in the repurchase agreement, and any failure to maintain the fair market value of the investments at such level will require the Trustee to give notice to the other party to the agreement to correct the deficiency and if not corrected to liquidate the collateral, (iii) the investments are held by the Trustee or an agent acting for the Trustee, (iv) the investments are not subject to liens or claims of third parties, (v) a perfected security interest under the Uniform Commercial Code of Virginia or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq., as amended, in the investments is created for the benefit of the owners, and (vi) the repurchase agreement is for a term of not longer than two years.

(d) Any investments described in subsection (a) of this Section may be held in the form of securities of any open-end investment funds registered under the Securities Act of

Virginia or the Investment Company Act of 1940, as amended, provided that the portfolio of the investment fund is limited to such investments.

(e) All investments will be held by or under the control of the Trustee and while so held will be deemed a part of the fund in which the money was originally held. All interest accruing on and any profit realized from such investments will be credited to the fund and any loss resulting from such investments will be charged to the fund. The Trustee will, to the extent consistent with other provisions of this Section, make any investment requested by the Borrowers. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash balance in any fund is insufficient for its purposes.

Investment of monies in the Bond Fund shall mature not later than the respective dates when the money will be required for the purposes intended.

Section 6.2 Investments through Trustee's Bond Department. The Trustee may make investments permitted by Section 6.1 through its own bond department or commercial banking department or those of its affiliates.

ARTICLE VII GENERAL COVENANTS OF AUTHORITY AND TRUSTEE

Section 7.1 Payment of Bonds. The Authority will promptly pay when due the principal of and premium, if any, and interest on the Bonds at the places, on the dates and in the manner provided in this Indenture and in the Bonds; provided, however, that the obligations are not general obligations of the Authority but are limited obligations and (except to the extent payment with respect to the Bonds is made from the proceeds of their sale or the income, if any, from their investment) are payable solely from the revenues and receipts derived from the Financing Agreement and the Note, or from the funds created under this Indenture, which revenues and receipts are specifically pledged and assigned to the Trustee for such purposes in the manner and to the extent provided in this Indenture. **THE BONDS AND THE PREMIUM, IF ANY, AND INTEREST ON THEM WILL NOT BE DEEMED TO CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF VIRGINIA OR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA. NEITHER THE COMMONWEALTH OF VIRGINIA NOR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, ARE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR OTHER COSTS INCIDENT TO THEM EXCEPT FROM THE REVENUES PLEDGED FOR SUCH PURPOSE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF VIRGINIA OR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR OTHER COSTS INCIDENT TO THEM.**

Section 7.2 Covenants and Representations of Authority. The Authority will faithfully observe and perform all covenants, conditions and agreements on its part contained in this Indenture, in every Bond executed, authenticated and delivered under this Indenture and in

all proceedings of its Board of Directors pertaining to this Indenture or the Bonds; provided, however, that the liability of the Authority for money damages under any covenant, condition or agreement for any breach or default by the Authority is limited solely to and may be satisfied solely from the sources of payment described in Section 7.1. The Authority represents that it is duly authorized under the Constitution and laws of the Commonwealth of Virginia, including the Act, to issue the Bonds and to execute this Indenture, to execute and assign the Financing Agreement, to assign the Note and to pledge the revenues, receipts and money in the manner and to the extent set forth in this Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken; and that the Bonds in the hands of the holders are and will be valid and enforceable limited obligations of the Authority according to their terms.

Section 7.3 Rights under Financing Agreement and Note. The Trustee in its own name or in the name of the Authority may enforce all rights of the Authority and all obligations of the Borrowers under and pursuant to the Financing Agreement and the Note for and on behalf of the Bondholders, whether or not the Authority is in default under this Indenture.

Section 7.4 Prohibited Activities. The Authority will not knowingly engage in any activities or knowingly take or permit any action which might result in (i) the income of the Borrowers becoming taxable to the Borrowers; (ii) any Bond becoming an "arbitrage bond" within the meaning of Section 148 of the Code; or (iii) interest on any Bond becoming includable in the gross income of its registered owner under the federal income tax laws.

Section 7.5 Arbitrage; Compliance with Tax Compliance Agreement. The Authority agrees that it will not knowingly take any action, or omit to take any action, if any such action or omission would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes under Section 103 of the Code. The Authority agrees that it will not knowingly directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Authority or knowingly take or omit to take any action that would cause the Bonds to be "arbitrage bonds" under Section 148(a) of the Code and the applicable regulations and rulings thereto. To those ends, the Authority will comply, at the Borrowers' direction and expense, with all requirements of Sections 141 through 150 of the Code, including the rebate requirement of Section 148(f), to the extent applicable to the Bonds; it being understood that the Authority shall not be responsible for the calculation of the rebate amount or the payment thereof other than from funds provided by the Borrowers. The Authority agrees, if requested by the Borrowers, to execute the appropriate Internal Revenue Service forms.

Without limiting the generality of the foregoing, the Authority agrees that (i) barring unforeseen circumstances, it will not knowingly directly or indirectly use or permit the use of the proceeds of the Bonds except in accordance with the Authority's Non-Arbitrage Certificate to be dated the date the Bonds are issued and (ii) insofar as the Tax Compliance Agreement imposes duties and responsibilities on the Authority, the Tax Compliance Agreement is specifically incorporated by reference into this Indenture.

The Trustee agrees to comply with all instructions of the Borrowers purported to be given by the Borrowers in accordance with the Non-Arbitrage Certificate and the Tax Compliance Agreement. The Trustee will be entitled to receive and may request from time to time from the

Borrowers written instructions from a nationally recognized Bond Counsel acceptable to the Trustee regarding the interpretation of Sections 141 through 150 of the Code, and the Trustee agrees that it will comply with such directions (upon which the Trustee and the Authority may conclusively rely) so as to enable the Authority and the Borrowers to perform its covenants under this Section.

Notwithstanding any provisions of this Section, if the Borrowers provide the Authority and the Trustee an opinion of Bond Counsel to the effect that any action required under this Section is no longer required to maintain the exclusion from gross income of the interest on the Bonds under Section 103 of the Code, the Borrowers, the Authority and the Trustee may rely conclusively on such opinion in complying with the provisions of this Section.

ARTICLE VIII DISCHARGE OF INDENTURE

Section 8.1 Discharge of Indenture. If (i) all Bonds secured by this Indenture have become due and payable or have been duly called for redemption or irrevocable instructions to call the Bonds or pay them at maturity has been given by the Authority to the Trustee and (ii) the Trustee holds for such payment cash or noncallable Government Obligations or Government Certificates the principal of and the interest on which at maturity will be sufficient (A) if Bonds have been called for redemption, to redeem in accordance with the relevant section of this Indenture all such Bonds on the date set for such redemption, (B) to pay at maturity all Bonds not called for redemption, (C) to pay interest accruing on all Bonds before their redemption or payment at maturity, and (D) to pay to the Trustee its reasonable fees and expenses and any other fees and expenses for which the Borrowers are responsible under this Indenture and the Financing Agreement, including the costs and expenses of canceling and discharging this Indenture, then the Trustee will at the expense of the Borrowers cancel and discharge this Indenture and execute and deliver to the Borrowers such instruments in writing as may be required to cancel the lien of this Indenture, and assign and deliver to the Borrowers any property at the time subject to this Indenture which may then be in its possession, except funds or securities in which such funds are invested which are held by the Trustee for the payment of Bonds.

In the event that all of the Bonds secured by this Indenture are paid or deemed paid in accordance with the terms of this Indenture, then the right and interest of the Trustee in and to the trust estate created by this Indenture and all covenants, agreements and other obligations of the Authority to the owners will cease and be discharged and satisfied. In the event any Bonds are paid or deemed paid in accordance with the terms of this Indenture, then such Bonds will cease to be entitled to any lien, benefit or security under this Indenture (other than the right to receive payment and certain rights regarding registration and transfer) and all covenants, agreements and other obligations of the Authority to the owners of such Bonds will cease and be discharged and satisfied.

Section 8.2 Bonds Deemed Paid. Bonds will be deemed paid and no longer outstanding for the purposes of this Indenture when there has been deposited with the Trustee cash or noncallable Government Obligations or Government Certificates the principal of and interest on which will be sufficient to pay or redeem such Bonds and to pay interest accruing on

such Bonds to their payment or redemption date (whether on or before their maturity or redemption date); provided, however, that if such Bonds are to be redeemed before their maturity, notice of the redemption must have been duly given or irrevocable instructions to redeem such Bonds must have been given by the Authority to the Trustee.

**ARTICLE IX
DEFAULT PROVISIONS AND REMEDIES**

Section 9.1 Events of Default. Each of the following events will be an Event of Default:

- (a) Default in the payment when due of any interest on any Bond;
 - (b) Default in the payment when due of the principal of or premium, if any, on any Bond;
 - (c) The occurrence of an "Event of Default" under the Financing Agreement;
- or
- (d) Failure of the Authority to observe and perform any of its other covenants, conditions or agreements under this Indenture for a period of thirty days after notice, either from the Trustee to the Authority and the Borrowers or from the owners of 25% in aggregate principal amount of Bonds then outstanding to the Trustee, the Authority and the Borrowers (unless the Trustee agrees in writing to an extension of such time before its expiration), specifying the failure and requesting that it be remedied, or in the case of any default which can be cured but cannot with due diligence be cured within such thirty day period, failure of the Authority to proceed promptly to cure the default and thereafter prosecute the curing of the default with due diligence.

Section 9.2 Remedies on Default. Whenever an Event of Default has happened and is continuing, the Trustee will have the following rights and remedies;

- (a) The Trustee, as the assignee of the Authority, may exercise all of the rights and remedies under the Financing Agreement and the Note.
- (b) The Trustee may take whatever actions at law or in equity may appear necessary or desirable to collect the amounts then due and to become due or to enforce observance or performance of any covenant, condition or agreement of the Authority under this Indenture.

Section 9.3 Acceleration. If an Event of Default occurs and is continuing, the Trustee may, and if requested by the owners of 25% in aggregate principal amount of Bonds then outstanding will, by notice to the Authority and the Borrowers, declare the entire unpaid principal of and interest on the Bonds due and payable. The Authority covenants that upon any such declaration it will pay to the owners of the Bonds the entire unpaid principal of and accrued interest on the Bonds, but only from the revenues and receipts specifically pledged by this Indenture for such purpose. Upon a declaration of acceleration under this Indenture, the Trustee,

as assignee of the Authority, will immediately exercise its option under the Financing Agreement to declare the Note immediately due and payable.

Section 9.4 Rights of Bondholders. If an Event of Default has occurred and is continuing, if requested to do so by the owners of 25% in aggregate principal amount of Bonds then outstanding and if indemnified as provided in Section 10.1(k), the Trustee will be obliged to exercise such one or more of the rights and powers conferred by this Article as the Trustee, upon being advised by counsel, deems most expedient in the interests of the Bondholders.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other remedy, but each remedy is cumulative and is in addition to any other remedy given to the Trustee or to the Bondholders under this Indenture or now or hereafter existing at law, in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence in it. Every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under this Indenture, whether by the Trustee pursuant to Section 9.11 or by the Bondholders, will extend to or affect any subsequent default or Event of Default or will impair any rights or remedies.

Section 9.5 Right of Bondholders to Direct Proceedings. Anything in this Indenture to the contrary notwithstanding, the owners of a majority in aggregate principal amount of Bonds then outstanding have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture or any other proceedings under this Indenture; provided, however, that such direction will not be otherwise than in accordance with the provisions of law and of this Indenture.

Section 9.6 Application of Money. All money received by the Trustee pursuant to any right given or action taken under the provisions of this Article will, after payment of the cost and expenses of the proceedings resulting in the collection of the money, the expenses, liabilities and advances incurred or made by the Trustee, and the fees and the expenses of the Trustee and the Authority and their respective counsel in carrying out this Indenture or the Financing Agreement, be deposited in the Bond Fund. All money in the Bond Fund will be applied as follows:

(a) Unless the principal of all the Bonds has become or has been declared due and payable, all money will be applied:

First - To the payment to the owners entitled to it of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the owners entitled

to it, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

Second - To the payment to the holders entitled to it of the unpaid principal of and premium, if any, on any of the Bonds which have become due (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of this Indenture), in the order of their due dates, with interest on such Bonds at the respective rates specified in them from the respective dates on which they became due and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then first to the payment of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the amount of principal due on such date, to the owners entitled to it, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(b) If the principal of all the Bonds has become due or has been declared due and payable, all money will be applied to the payment of the principal and interest then due and unpaid on the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the owners entitled to it, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(c) If the principal of all the Bonds has been declared due and payable and if the declaration has thereafter been rescinded and annulled under the provisions of this Article, then, subject to the provisions of subsection (b) of this Section in the event that the principal of all the Bonds later becomes due or is declared due and payable, the money will be applied in accordance with the provisions of subsection (a) of this Section.

Whenever money is to be applied pursuant to the provisions of this Section, it will be applied at the times and from time to time as the Trustee determines, having due regard to the amount of money available for application and the likelihood of additional money becoming available for application in the future. Whenever the Trustee applies money, it will fix the date (which will be an interest payment date unless it deems another date more suitable) on which the application is to be made and on such date interest on the amounts of principal to be paid will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any money and of the fixing of any date, and will not be required to make payment to the owner of any Bond until the Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever the principal of and premium, if any, and interest on all Bonds have been paid under the provisions of this Section and all expenses and charges of the Trustee have been paid, any balance remaining in the several funds and accounts created under this Indenture (other than the Rebate Fund) will be paid to the Borrowers as provided in Section 5.8.

Section 9.7 Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under this Indenture or under any of the Bonds may be enforced by the

Trustee without the possession of any of the Bonds or the production of them in any trial or other proceeding. Any suit or proceeding instituted by the Trustee may be brought in its name as trustee without the necessity of joining as plaintiffs or defendants any holders of the Bonds, and any recovery of judgment will be for the equal benefit of the holders of the outstanding Bonds.

Section 9.8 Limitation on Suits. Except to enforce the rights given under Sections 9.5 and 9.9, no owner of any Bond has any right to institute any action, suit or proceeding at law or in equity for the enforcement of this Indenture or any other remedy under this Indenture, unless (i) a default has occurred and is continuing of which the Trustee has been notified as provided in Section 10.1(h), or of which by such Section it is deemed to have notice, (ii) such default has become an Event of Default and the owners of 25% in aggregate principal amount of Bonds then outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers granted by this Indenture or to institute the action, suit or proceeding in its own name, (iii) they have offered to the Trustee indemnity as provided in Section 10.1(k), (iv) the Trustee has for thirty days after such notice failed or refused to exercise the powers granted by this Indenture, or to institute the action, suit or proceeding in its own name, (v) no direction inconsistent with the written request has been given to the Trustee during such thirty day period by the owners of a majority in aggregate principal amount of Bonds then outstanding, and (vi) notice of such action, suit or proceeding is given to the Trustee. It being understood and intended that no one or more owners of the Bonds have any right to affect, disturb or prejudice this Indenture or to enforce any right under this Indenture except in the manner provided in this Section, and that all proceedings at law or in equity must be instituted and maintained in the manner provided in this Section and for the equal benefit of the owners of all Bonds then outstanding. The notification, request and offer of indemnity set forth above, at the option of the Trustee, are conditions precedent to the execution of the powers and trusts of this Indenture and to any action or cause of action for the enforcement of this Indenture or for any other remedy under it.

Section 9.9 Unconditional Right to Receive Payments. Nothing in this Indenture will, however, affect or impair the right of any Bondholder to enforce, by action at law, payment of the principal of or premium, if any, or interest on any Bond at and after its maturity, or on the date fixed for redemption or on being declared due before maturity as provided in this Indenture, or the obligation of the Authority to pay the principal of and premium, if any, and interest on each of the Bonds issued under this Indenture to the respective owners at the time, place, from the source and in the manner expressed in this Indenture and in the Bonds.

Section 9.10 Termination of Proceedings. In case the Trustee has proceeded to enforce any right under this Indenture and such proceedings have been discontinued or abandoned for any reason or have been determined adversely to the Trustee, then the Authority and the Trustee will be restored to their former positions and rights under this Indenture, and all rights, remedies and powers of the Trustee will continue as if no such proceedings had been taken.

Section 9.11 Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and rescind any declaration of maturity of principal of and interest on the Bonds, and will do so at the written request of the owners of (i) a majority in aggregate principal amount of Bonds then outstanding in respect of which default in the payment

of principal or premium, if any, or interest exists, or (ii) a majority in aggregate principal amount of Bonds then outstanding in the case of any other default; provided, however, that

(a) There shall not be waived without the consent of the owners of all Bonds then outstanding (i) any Event of Default in the payment when due of the principal of any outstanding Bonds, or (ii) any default in the payment when due of the interest on any such Bonds unless, before such waiver or rescission,

(1) there has been paid or provided for all arrears of interest in respect of which the default occurred, all arrears of principal and premium, if any, and all expenses of the Trustee in connection with the default, and

(2) in case of any such waiver or rescission or in case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Trustee on account of any default, the Authority, the Trustee and the Bondholders will be restored to their former positions and rights under this Indenture, and

(b) No declaration of maturity under Section 9.3 made at the request of the owners of 25% in aggregate principal amount of Bonds then outstanding will be rescinded unless requested by the owners of a majority in aggregate principal amount of Bonds then outstanding.

No such waiver or rescission will extend to any subsequent or other default or impair any right or remedy.

Section 9.12 Borrowers May Cure Default. The Borrowers may perform any covenant, condition or agreement the nonperformance of which is alleged to constitute a default under this Indenture in the name and stead of the Authority, with full power to perform any things and acts to the same extent that the Authority could do and perform such things.

ARTICLE X THE TRUSTEE

Section 10.1 Acceptance of Trusts and Obligations. The Trustee accepts the trusts and obligations imposed upon it by this Indenture and agrees to perform such trusts and obligations, but only upon and subject to the following express terms and conditions and no implied covenants or obligations will be read into this Indenture against the Trustee:

(a) The Trustee, before the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform the duties and only the duties as are specifically set forth in this Indenture and as a corporate trustee ordinarily would perform the duties under a corporate indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee will exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a corporate trustee under a corporate indenture ordinarily would exercise and use under the circumstances.

(b) The Trustee may execute any of the trusts or powers of this Indenture and perform any of its duties by or through attorneys, agents, receivers or employees but will be answerable for the conduct of such persons in accordance with the standard specified above, and will be entitled to act on the opinion or advice of its counsel concerning all matters of trust and the duties under this Indenture, and may in all cases pay reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with this Indenture. The protection provided the Trustee under this Indenture will extend to its directors, officers, agents and employees. The Trustee may act on an Opinion of Counsel and will not be responsible for any loss or damage resulting from any action or nonaction by it taken or omitted to be taken in good faith in reliance on such Opinion of Counsel.

(c) The Trustee is not responsible for any recital in this Indenture or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds), or for the recording, re-recording, filing or re-filing of any financing or continuation statement or other document or instrument, or for the validity of the execution by the Authority of this Indenture or of any supplements or instruments of further assurance, or for the sufficiency of the security for the Bonds issued under or intended to be secured by this Indenture. The Trustee is not bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Authority under this Indenture or on the part of the Borrowers under the Financing Agreement, except as set forth in this Indenture. The Trustee is not responsible or liable for any loss suffered in connection with any investment of money made by it in accordance with Section 6.1.

(d) The Trustee is not accountable for the use of any Bonds authenticated or delivered under this Indenture. The bank or trust company acting as trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in the Bonds and may join in any action which any Bondholder may be entitled to take with like effect as if such bank or trust company were not the Trustee. To the extent permitted by law, such bank or trust company may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee will be protected in acting on any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture at the request, authority or consent of any person who at the time of making the request or giving the authority or consent is the owner of any Bond will be conclusive and binding on all future owners of the Bond and any Bonds issued in exchange or in place of it.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee is entitled to rely on a certificate signed (i) on behalf of the Authority by its Chairman or Vice Chairman and attested by its Secretary or Assistant Secretary under its seal, or such other person or persons as may be designated for such purposes by resolution of the Authority, or (ii) on behalf of the Borrowers by any officer and attested by its Secretary or Assistant Secretary under its seal, or by such other person or persons as may be designated for such purposes by resolution of the Borrowers' Board of Trustees, as sufficient evidence of the facts in the certificate. Before the occurrence of a

default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by such subsection it is deemed to have notice, the Trustee may also accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but will in no case be bound to do so. The Trustee may accept a certificate of the Secretary or Assistant Secretary of the Authority or the Borrowers under its respective seal to the effect that a resolution in the form set forth or attached to the certificate has been adopted by the Board of Directors of the Authority or the Board of Trustees of the Borrowers, as the case may be, as conclusive evidence that such resolution has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture will not be construed as a duty, and the Trustee will not be answerable for other than its negligence or willful misconduct.

(h) The Trustee will not be required to take notice or be deemed to have notice of any default under this Indenture, except the failure by the Borrowers to cause to be made any of the payments to the Trustee required to be made by Article VI or the failure by the Authority or the Borrowers to file with the Trustee any document required by this Indenture or the Financing Agreement to be filed, unless the Trustee has been notified of the default by the Authority or by the owners of 25% in aggregate principal amount of Bonds then outstanding.

(i) The Trustee is not required to give any bond or surety with respect to the execution of its rights and obligations under this Indenture.

(j) Notwithstanding any other provision of this Indenture, the Trustee has the right, but is not required, to demand, as a condition of any action by the Trustee in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence of it, in addition to that required by the terms of this Indenture.

(k) Before taking any action under this Indenture the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses to which it may be put and to protect it against all liability by reason of any action so taken, except liability which is adjudicated to have resulted from its negligence or willful misconduct. No provision of this Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under this Indenture, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(l) All money received by the Trustee will, until used or applied or invested as provided in this Indenture, be held in trust in the manner and for the purposes for which it was received but need not be segregated from other funds except to the extent required by this Indenture or law. The Trustee is not liable for interest on any money received under this Indenture except as may be agreed upon.

Section 10.2 Fees, Charges and Expenses of Trustee. The Trustee is entitled to payment of and reimbursements for such fees, charges and expenses as may specifically be agreed upon with the Borrowers and, absent such agreement, for reasonable fees for services rendered by it under this Indenture, including all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon an Event of Default, but only upon an Event of Default, the Trustee will have first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond for the foregoing fees, charges and expenses incurred by the Trustee. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default caused by the occurrence of an "Event of Default" specified in Section 6.1(c), (d) or (e) of the Financing Agreement, the expenses and compensation for the services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Section 10.3 Notice Required of Trustee. If the Borrowers fails to make any payment on the Note on the day the payment is due and payable, the Trustee will give notice of the failure by telephone or telegram to the Borrowers on the next succeeding business day and will promptly confirm the notice in writing by first class registered or certified mail. In the event of (i) the continuance for thirty days of any failure to make payment, or (ii) notification to the Trustee by the owners of 25% in aggregate principal amount of Bonds then outstanding of any default under this Indenture, the Trustee will give notice of the failure or default to the owner of each Bond then outstanding.

Section 10.4 Intervention by Trustee. In any judicial proceeding to which the Authority is a party and which in the opinion of the Trustee has a substantial bearing on the interests of the owners of the Bonds, the Trustee may intervene on behalf of Bondholders and, subject to Section 10.1(k), will do so if requested by the owners of 25% in aggregate principal amount of Bonds then outstanding. The rights and obligations of the Trustee under this Section are subject to the approval of a court of competent jurisdiction.

Section 10.5 Merger or Consolidation of Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party will be and become successor Trustee under this Indenture and vested with all the trusts, powers, discretion, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to this Indenture, anything in this Indenture to the contrary notwithstanding.

Section 10.6 Resignation by Trustee. The Trustee and any successor trustee may at any time resign from the trusts created by this Indenture by giving thirty days' notice to the Authority and each registered owner of Bonds then outstanding. The resignation will take effect upon the appointment of a successor Trustee by the Bondholders or the Authority.

Section 10.7 Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Trustee and to the Authority and

signed by the owners of a majority in aggregate principal amount of Bonds then outstanding. In addition, provided that no Event of Default or event which, with notice or lapse of time or both, would become an Event of Default has occurred and is continuing, the Authority, at the direction and request of the Borrowers, will remove the Trustee by an instrument in writing filed with the Trustee so removed and the owners of the Bonds then outstanding.

Section 10.8 Appointment of Successor Trustee; Temporary Trustee. If the Trustee under this Indenture resigns, is removed, is dissolved, is in the course of dissolution or liquidation, or otherwise becomes incapable of acting under this Indenture, or in case the Trustee is taken under the control of any public officer or officers or of a receiver appointed by a court, then unless an Event of Default has occurred and is continuing, a successor may be appointed by the Authority, with the written approval of the Borrowers, by an instrument signed in writing by the Chairman or Vice Chairman of the Authority. Copies of the instrument will promptly be delivered by the Authority to the predecessor Trustee and the Trustee so appointed and notice will be given to the owners of the Bonds then outstanding. If an Event of Default has occurred and is continuing, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding, by an instrument or concurrent instruments in writing signed by such owners. Copies of the instrument or instruments will be promptly delivered to the predecessor Trustee and the Trustee so appointed and notice will be given to the holders of the Bonds then outstanding. In case of such vacancy, the Authority, by an instrument signed by its Chairman or Vice Chairman and attested by its Secretary or Assistant Secretary under its seal, may appoint a temporary trustee to fill the vacancy until a successor trustee is appointed in the manner provided above. Any temporary trustee appointed by the Authority will immediately and without further act be superseded by the trustee appointed in the manner provided above. Every trustee appointed pursuant to this Section will be, if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms, (i) a bank or trust company having a reported capital, surplus and undivided profits of not less than \$25,000,000, or (ii) a subsidiary trust company under the Trust Subsidiary Act, Article 3.1, Chapter 2, Title 6.1, Code of Virginia of 1950, as amended, whose parent Virginia bank or bank holding company has undertaken to be responsible for the acts of such subsidiary trust company pursuant to the provisions of Section 6.1-32.7(a) of the Trust Subsidiary Act, or any successor provision of law, and whose capital, surplus and undivided profits, together with that of its parent Virginia bank or bank holding company, as the case may be, is not less than \$25,000,000.

Section 10.9 Concerning any Successor Trustee. Every successor trustee appointed under this Indenture will execute, acknowledge and deliver to its predecessor and also to the Authority an instrument in writing accepting the appointment under this Indenture, and thereafter the successor, without any further act, deed or conveyance, will become fully vested with all the properties, rights, powers, trusts, duties and obligations of its predecessor. The predecessor will, nevertheless, on the written request of the Authority or the successor trustee, execute and deliver an instrument transferring to the successor trustee all the properties, rights, powers and trusts of the predecessor under this Indenture. Every predecessor trustee will deliver all securities and money held by it as trustee under this Indenture to its successor. Should any instrument in writing from the Authority be required by any successor Trustee to more fully and certainly vest in the successor the properties, rights, powers and duties vested or intended to be vested by this

Indenture in the predecessor, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the Authority.

Section 10.10 Successor Trustee as Bond Registrar, Custodian of Funds and Paying Agent. In the event of a change in the office of trustee, the predecessor trustee which has resigned or been removed will cease to be Bond Registrar, custodian of the funds created under this Indenture and paying agent for principal of and premium, if any, and interest on the Bonds and the successor trustee will become such Bond Registrar, custodian and paying agent.

Section 10.11 Reports by Trustee. The Trustee will make annual reports to the Authority and the Borrowers of all money received and expended by it under this Indenture.

ARTICLE XI SUPPLEMENTAL INDENTURES

Section 11.1 Supplemental Indentures Not Requiring Consent of Bondholders. The Authority and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into an indenture or indentures supplemental to this Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in this Indenture.
- (b) To grant to or confer on the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred on the Bondholders or the Trustee or either of them.
- (c) To subject to this Indenture additional revenues, properties or collateral.
- (d) To modify, amend or supplement this Indenture in such manner as required to permit the qualification of this Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add to this Indenture such other terms, conditions and provisions as may be required by such Trust Indenture Act of 1939, as amended, or similar federal statute; or
- (e) To make any other change in this Indenture which, in the opinion of the Trustee, which may be based solely upon an Opinion of Counsel, will not prejudice in any material respect the rights of the owners of the Bonds then outstanding.

Section 11.2 Supplemental Indentures Requiring Consent of Bondholders. In addition to supplemental indentures covered by Section 11.1 and subject to the terms and provisions contained in this Section, the owners of a majority in aggregate principal amount of Bonds then Outstanding have the right from time to time, notwithstanding any other provision of this Indenture, to consent to and approve the execution by the Authority and the Trustee of such other indenture or indentures supplemental to this Indenture as may be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Indenture will permit, or be

construed as permitting (i) an extension of the maturity of the principal of or the interest on any Bond, (ii) a reduction in the principal amount of, or premium, if any, on any Bond or the rate of interest on it, (iii) an extension of time or a reduction in amount of any payment required by any mandatory redemption that may be applicable to any Bonds, (iv) a privilege or priority of any Bond over any other Bond, or (v) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental indenture, without the consent and approval of the owners of all of the affected Bonds then Outstanding.

If at any time the Authority requests the Trustee to enter into any supplemental indenture for any of the purposes of this Section, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of the supplemental indenture to be sent to each registered owner of Bonds then Outstanding by first class mail to the address of the Bondholder as it appears on the registration books; provided, however, that failure to give the notice by mailing, or any defect in it, will not affect the validity of any proceedings pursuant to this Indenture. The notice will briefly set forth the nature of the proposed supplemental indenture and will state that copies of it are on file at the designated corporate trust office of the Trustee for inspection by all Bondholders. If, within sixty days or such longer period as may be prescribed by the Authority following the giving of the notice, the owners of a majority in aggregate principal amount of Bonds then outstanding have consented to and approved the execution of the proposed supplement as provided for in this Section, no owner of any Bond will have any right to object to any of the terms and provisions contained in the proposed supplement, or its operation, or in any manner to question the propriety of its execution, or to enjoin or restrain the Trustee or the Authority from executing the supplemental indenture or from taking any action pursuant to its provisions. Upon the execution of any supplemental indenture permitted by this Section, this Indenture will be and be deemed to be modified and amended in accordance with it.

Bonds owned or held by or for the account of the Authority or the Borrowers or any person controlling, controlled by or under common control with them will not be deemed Outstanding for the purpose of consent or any calculation of outstanding Bonds provided for in this Article. At the time of any such calculation, the Authority and the Borrowers will furnish the Trustee a certificate of an officer of the Authority or the Borrowers, upon which the Trustee may rely, describing all Bonds so to be excluded.

Notwithstanding any other provision in this Indenture, the Authority and the Trustee may enter into any indenture supplemental to this Indenture upon receipt of the consent of the owners of all Bonds then Outstanding.

Section 11.3 Opinion of Counsel and Consent of Borrowers. The Trustee will not execute any indenture supplemental to this Indenture unless there has been filed with the Trustee and the Authority (i) an Opinion of Counsel stating that the supplemental indenture is authorized or permitted by this Indenture and complies with its terms and that upon execution the supplemental indenture will be valid and binding on the Authority in accordance with its terms, and (ii) the written consent of the Borrowers to the supplemental indenture.

Section 11.4 Trustee's Obligation Regarding Supplemental Indentures. The Trustee will not unreasonably (i) refuse to enter into any supplemental indenture permitted by

this Article or (ii) withhold its consent to any amendment, change or modification of this Indenture.

ARTICLE XII AMENDMENT OF FINANCING AGREEMENT AND NOTE

Section 12.1 Amendments Not Requiring Consent of Bondholders. The Authority and the Trustee may, without the consent of or notice to the Bondholders, consent to any amendment, change or modification of the Financing Agreement or the Note required:

- (a) By the provisions of the Financing Agreement, the Note or this Indenture;
- (b) For the purpose of curing any ambiguity or formal defect or omission;
- (c) To make any changes required to comply with regulations issued under Section 148(f) of the Code; or
- (d) To make any other change, which, in the opinion of the Trustee, which may be based solely upon an Opinion of Counsel, will not prejudice in any material respect the rights of the owners of the Bonds then Outstanding.

Section 12.2 Amendments Requiring Consent of Bondholders. Except for amendments, changes or modifications as provided for in Section 12.1, neither the Authority nor the Trustee will consent to any amendment, change or modification of the Financing Agreement or the Note without the written approval or consent of the owners of a majority in aggregate principal amount of Bonds then Outstanding given and procured as provided in Section 11.2. If at any time the Authority and the Borrowers requests the consent of the Trustee to any such proposed amendment, change or modification, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed amendment, change or modification to be given in the same manner as provided by Section 11.2 with respect to supplemental indentures. The notice will briefly set forth the nature of the proposed amendment, change or modification and will state that a copy of the instrument embodying it is on file at the designated corporate trust office of the Trustee for inspection by all Bondholders.

Section 12.3 Limitation on Amendments. No amendment, change or modification may decrease the obligation of the Borrowers under the Financing Agreement and the Note to pay amounts sufficient to pay principal of and premium, if any, and interest on the Bonds when due.

Section 12.4 Amendment by Unanimous Consent. Notwithstanding any other provision of this Indenture, the Authority and the Trustee may consent to any amendment, change or modification of the Financing Agreement or the Note upon receipt of the consent of the owners of all Bonds then Outstanding.

Section 12.5 Opinion of Counsel Required. The Trustee will not consent to any amendment, change or modification of the Financing Agreement or the Note unless there has been filed with the Trustee and the Authority an Opinion of Counsel that such amendment,

change or modification is authorized or permitted by this Indenture and complies with its terms and that on execution it will be valid and binding on the party or parties executing it in accordance with its terms.

ARTICLE XIII MISCELLANEOUS

Section 13.1 Consents of Bondholders and Underwriters. (a) Any consent, request, direction, approval, objection or other instrument required by this Indenture to be signed and executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be signed or executed by the Bondholders in person or by agent appointed in writing. Proof of the execution of any consent, request, direction, approval, objection or other instrument or of the writing appointing any agent will be sufficient for any of the purposes of this Indenture, and will be conclusive in favor of the Trustee with regard to any action taken under the request or other instrument, if the fact and date of the execution by any person of any writing is proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing the writing acknowledged before him or her its execution, or by affidavit of any witness to such execution.

(b) Any consent, request, direction, approval, objection or other instrument required by this Indenture to be signed and executed by the Bondholders may be provided by any broker, dealer or municipal securities dealer acting as an underwriter for the Bonds during any period that such broker, dealer or municipal securities dealer holds the Bonds. Proof of the execution of any consent, request, direction, approval, objection or other instrument will be sufficient for any of the purposes of this Indenture, and will be conclusive in favor of the Trustee with regard to any action taken under the request or other instrument, if the fact and date of the execution by any person of any writing is proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing the writing acknowledged before him or her its execution, or by affidavit of any witness to such execution.

Section 13.2 Limitation of Rights. With the exception of rights expressly conferred in this Indenture, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or will be construed to give to any person or entity other than the parties to this Indenture, the Borrowers and the owners of the Bonds any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and agreements contained in it. This Indenture and all of its covenants, conditions and agreements is intended to be for the sole and exclusive benefit of its parties, the Borrowers and the holders of the Bonds.

Section 13.3 Limitation of Liability of Directors, etc. of Authority. No covenant, agreement or obligation contained in this Indenture will be deemed to be a covenant, agreement or obligation of any past, present or future director, officer, employee or agent of the Authority in his or her individual capacity, and neither the directors of the Authority nor any of its officers executing the Bonds will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of their issuance. No director, officer, employee, agent or adviser of the Authority will incur any personal liability with respect to any action taken by him or her

pursuant to this Indenture or the Act, provided such director, officer, employee, agent or adviser acts in good faith.

Section 13.4 Notices. Unless otherwise provided in this Indenture, all demands, notices, approvals, consents, requests, opinions and other communications under this Indenture will be in writing and will be deemed to have been given when delivered in person or mailed by first class registered or certified mail, postage prepaid, addressed (i) if to the Authority, to Industrial Development Authority of the City of Lexington, Virginia, 300 East Washington Street, Lexington, Virginia 24450, Attention: Chairman; (ii) if to the Borrowers, to 304 Letcher Avenue, Lexington, Virginia 24450, Attention: Chief Financial Officer, with a copy to McGuireWoods LLP, 800 East Canal Street, Gateway Plaza, Richmond, Virginia 23219, Attention: David L. Richardson, II; or (iii) if to the Trustee, at 1021 East Cary Street, 18th Floor, Richmond, Virginia 23219 (Attention: Corporate Trust Department). The Authority, the Trustee, and the Borrowers may, by notice given under this Indenture, designate any further or different addresses to which subsequent demands, notices, approvals, consents, requests, opinions or other communications are to be sent or persons to whose attention they are to be directed.

Section 13.5 Successors and Assigns. This Indenture will be binding on, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 13.6 Severability. If any provision of this Indenture is held invalid by any court of competent jurisdiction, the holding will not invalidate any other provision.

Section 13.7 Applicable Law. This Indenture will be governed by the applicable laws of the Commonwealth.

Section 13.8 Counterparts. This Indenture may be executed in several counterparts, each of which will be an original and all of which together will constitute one and the same instrument.

Section 13.9 Patriot Act Requirements of the Trustee. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. Accordingly, the Trustee will require documentation from each non-individual person such as a business entity, a charity, a trust, or other legal entity, verifying its formation as a legal entity. The Trustee may also request identifying information to sufficiently verify the identities of individuals claiming authority to represent the entity.

[Signature Page Follows]

IN WITNESS WHEREOF, the Authority and the Trustee have caused this Indenture to be executed in their respective corporate names by their duly authorized officers.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON**

By: _____
Chairman

**U.S. BANK NATIONAL ASSOCIATION, as
Trustee**

By: _____
Its: Vice President

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

[FORM OF BOND]

No. R-__

UNITED STATES OF AMERICA
COMMONWEALTH OF VIRGINIA
INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF LEXINGTON, VIRGINIA

Educational Facilities Revenue Refunding Bonds
(V.M.I. Development Board, Incorporated Project),
Series 2016

<u>MATURITY</u> <u>DATE</u>	<u>ANNUAL</u> <u>INTEREST RATE</u>	<u>DATED</u> <u>DATE</u>	<u>CUSIP</u>
_____, 20__	_____ %	_____, 2016	52976T__

REGISTERED OWNER: CEDE & CO

PRINCIPAL AMOUNT: _____ AND 00/100 DOLLARS (\$_____)

The INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA, a political subdivision of the Commonwealth of Virginia (the "Authority"), for value received, promises to pay, at the designated corporate trust office of U.S. Bank National Association, as trustee or its successor trustee (the "Trustee"), upon presentation and surrender of this Bond, solely from the sources and as hereinafter provided, to the registered owner of this Bond, or registered assigns or legal representative, the principal sum stated above on the maturity date stated above, subject to prior redemption as hereinafter provided, and to pay, solely from such sources, interest on this Bond semiannually on each _____ and _____, beginning on _____, 201_. This Bond will bear interest (a) from the dated date, if this Bond is authenticated before _____, 201_, or (b) otherwise from the _____ or _____ that is, or immediately precedes, the date on which this Bond is authenticated (unless payment of interest is in default, in which case this Bond will bear interest from the date to which interest has been paid). Interest is payable by check or draft mailed to the registered owner at the address

of the owner as it appears on registration books kept by the Trustee on the fifteenth day of the month preceding the interest payment date, provided that interest may be paid by wire transfer to any owner of \$1,000,000 or more in aggregate principal amount of Bonds pursuant to such wire transfer instructions as the owner may designate in writing to the Trustee. Interest on this Bond will be computed on the basis of a year of 360 days and twelve 30-day months. Principal of and premium, if any, and interest on this Bond are payable in lawful money of the United States of America. If the date of maturity of the principal of this Bond or the date fixed for the payment of interest on or the redemption of this Bond is a Saturday or Sunday or a day on which banking institutions located in Virginia are required or authorized to remain closed, then the payment of the principal of and premium, if any, and interest on this Bond need not be made on such date, but may be made on the next succeeding date which is not such a day, and if made on such next succeeding date no additional interest will accrue for the period after such date of maturity or date fixed for the payment of interest or for redemption.

This Bond and the issue of which it is a part and the premium, if any, and the interest on this Bond are limited obligations of the Authority payable solely from the revenues and receipts which have been pledged and assigned to the Trustee to secure payment of this Bond. THE BOND AND THE PREMIUM, IF ANY, AND THE INTEREST ON IT WILL NOT BE DEEMED TO CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF VIRGINIA OR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA. NEITHER THE COMMONWEALTH OF VIRGINIA NOR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, IS OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THIS BOND OR OTHER COSTS INCIDENT TO IT EXCEPT FROM REVENUES PLEDGED FOR SUCH PURPOSE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF VIRGINIA OR ANY OF ITS POLITICAL SUBDIVISIONS, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THIS BOND OR OTHER COSTS INCIDENT TO IT.

This Bond is one of an issue of \$ _____ Industrial Development Authority of the City of Lexington, Virginia, Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "Bonds"), of like date and tenor, except as to number and denomination, authorized and issued pursuant to the Industrial Development and Revenue Bond Act (Chapter 49, Title 15.2., Code of Virginia of 1950, as amended), for the purposes of (a) refunding all or a portion of the Authority's outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Fund, Incorporated Project), Series 2006 (the "2006 Bonds"), including premium and accrued interest thereon, and (b) financing costs related to the issuance of the Bonds and refunding the 2006 Bonds.

The Bonds are issued under and are equally and ratably secured by an Indenture of Trust dated as of June 1, 2016 (the "Indenture"), between the Authority and the Trustee. Reference is made to the Indenture and to all amendments and supplements to it for a description of the revenues pledged and assigned and the provisions, among others, with respect to the nature and

extent of the security, the rights, duties and obligations of the Authority and the Trustee, the terms on which the Bonds are issued and secured, the rights of the owners of the Bonds and the provisions for defeasance of such rights.

The Authority has assigned to the Trustee as security for the Bonds (i) certain of the Authority's rights under the terms of a Financing Agreement dated as of June 1, 2016 (the "Financing Agreement"), between the Authority and the Borrowers and (ii) the Authority's rights under an unsecured general obligation promissory note of the Borrowers dated the date of its delivery (the "Note").

The Bonds may not be called for redemption by the Authority except as provided in this Bond and in the Indenture.

Bonds maturing on or after _____, 202_ are subject to optional redemption by the Authority at the direction of the Borrowers prior to maturity on or after _____, 202_, in whole or in part at any time, at a price equal to the principal amount thereof without premium, plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

The Bonds maturing on _____, 203_ are required to be redeemed in part before maturity by the Authority (but only from funds provided by the Borrowers or otherwise available to the Trustee) on _____ in the years and in the amounts set forth below, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date:

<u>Year</u>	<u>Amount</u>
-------------	---------------

(final maturity)

Subject to any applicable procedures of a securities depository for the Bonds, less than all Bonds are called for redemption, the Bonds to be redeemed shall be selected by the Trustee in such manner as the Borrowers in its discretion may direct, each portion of \$5,000 principal amount being counted as one Bond for this purpose.

If any Bonds are called for redemption, the Trustee will send a notice by first class mail not less than thirty nor more than sixty days before the redemption date to the registered owner of each Bond to be redeemed at such owner's address as it appears on the registration books. Provided funds for their redemption are on deposit at the place of payment on the redemption date, Bonds called for redemption will cease to bear interest on such date, will no longer be secured by the Indenture, and will not be deemed to be outstanding under the provisions of the Indenture. If a portion of this Bond is called for redemption, a new registered Bond in a principal amount equal to the unredeemed portion will be issued to the registered owner upon the surrender of this Bond.

The registered owner of this Bond has no right to enforce the provisions of the Indenture, to institute action to enforce its covenants, to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect to it, except as provided in the Indenture. In certain events, on conditions, in the manner and with the effect set forth in the Indenture, the principal of all Bonds issued under the Indenture and then outstanding may become due and payable before their stated maturities, together with interest accrued on them. Modifications or alterations of the Indenture, or of any supplement to it, may be made only to the extent and in the circumstances permitted by the Indenture.

The Bonds are issuable in registered form in denominations of \$5,000 and integral multiples of \$5,000. Upon presentation of this Bond at the designated corporate trust office of the Trustee, the Authority will execute and the Trustee will authenticate and deliver in exchange, a new Bond or Bonds of the same maturity, in authorized denominations, bearing interest at the same rate and registered in names as requested by the then registered owner or by his or her duly authorized attorney or legal representative, all subject to the limitations and conditions provided in the Indenture. Any exchange of Bonds will be at the expense of the Borrowers, except that the Trustee will charge to any bondholder requesting the exchange the amount of any tax or other governmental charge required to be paid with respect to it.

The Trustee will treat the registered owner as the person exclusively entitled to payment of the principal of and premium, if any, and interest on this Bond and the exercise of all other rights and powers of the owner, except that interest payments will be made to the person registered as owner of this Bond on the registration books of the Trustee on the fifteenth day of the month preceding the interest payment date.

All acts, conditions and things required to happen, exist or be performed precedent to and in connection with the issuance of this Bond have happened, exist and have been performed.

This Bond will not become obligatory for any purpose or be entitled to any security or benefit under the Indenture or be valid until the Trustee has executed the Certificate of Authentication appearing on this Bond.

IN WITNESS WHEREOF, the Industrial Development Authority of the City of Lexington, Virginia has caused this Bond to be signed by the facsimile signature of its Chairman, a facsimile of its seal to be printed on it and attested by the facsimile signature of its Secretary, and this Bond to be dated the date stated above.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON**

By: _____
Chairman

[SEAL]

ATTEST:

Secretary

Certificate of Authentication

This Bond is one of the Bonds described in the within-mentioned Indenture.

**U.S. BANK NATIONAL ASSOCIATION,
Trustee**

By: _____

Authorized Representative

ASSIGNMENT

FOR VALUE RECEIVED the undersigned sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
TAX IDENTIFICATION NUMBER OF ASSIGNEE:

this Bond and all rights under it, and irrevocably constitutes and appoints

_____, Attorney to transfer this Bond on the books
kept for its registration, with full power of substitution.

Dated: _____

(Signature of Registered Owner)

NOTICE: The signature above must
correspond with the name of the Registered
Owner as it appears on the front of this
Bond.

Signature Guaranteed:

NOTICE: Signature(s) must be
guaranteed by a member firm of
the New York Stock Exchange or
commercial bank or trust company

LETTER OF REPRESENTATIONS

See Tab No. __

No. _____

REQUISITION

**INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF LEXINGTON, VIRGINIA
EDUCATIONAL FACILITIES REVENUE REFUNDING BONDS
(V.M.I. DEVELOPMENT BOARD, INCORPORATED PROJECT)
SERIES 2016**

_____ , _____

U.S. Bank National Association, Trustee
1021 East Cary Street, 18th Floor
Richmond, Virginia 23219
Attention: Corporate Trust Department

On behalf of the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), I requisition, pursuant to Section 5.3 of an Indenture of Trust (the "Indenture") dated as of June 1, 2016, between the Authority and you as Trustee, from the Cost of Issuance Fund created by the Indenture, the sum of \$_____ to be paid to

for _____

All capitalized terms not otherwise defined in this requisition [or in the attached certificate] shall have the meanings set forth in the Indenture.

Authorized Representative of
V.M.I. Development Board,
Incorporated
and of
V.M.I. Foundation, Incorporated

CERTIFICATE

In connection with the attached requisition, the undersigned hereby certifies that:

(1) The payment of this requisition will not result in an amount greater than 2% of the proceeds of the Bonds being expended for "issuance costs" within the contemplation of Section 147(g) of the Code, including, without limitation, any counsel fees, financial advisor fees, rating agency fees, trustee fees, paying agent and certifying and authenticating agent fees, accountant fees, printing costs and costs incurred in connection with the required public approval of the Bonds, when aggregated with any applicable underwriter's discount;

(2) The payment of this requisition will not result in any of the proceeds of the Bonds expended or to be expended under such requisition and all prior requisitions being used directly or indirectly in the trade or business carried on by a related person within the meaning of Section 144(a) or Section 145(b)(3) of the Code, or by any person who is not a "501(c)(3) corporation" within the meaning of Section 145 of the Code;

(3) The obligation stated on this requisition is a proper charge against the Cost of Issuance Fund and the obligation has not been the basis for a prior requisition that has been paid;

(4) As of the date of this certificate no event or condition has happened or existed or is happening or exists that constitutes, or that with notice or lapse of time or both, would constitute, an Event of Default, or if such an event or condition has happened or existed, or is happening or exists, specifying the nature and period of the event or condition and what action the Borrowers have taken, is taking or proposes to take with respect to it.

Dated: _____, 20__

Authorized Representative of
V.M.I. Development Board, Incorporated

Authorized Representative of
V.M.I. Foundation, Incorporated

FINANCING AGREEMENT

Between

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON**

And

**V.M.I. DEVELOPMENT BOARD, INCORPORATED and
V.M.I. FOUNDATION, INCORPORATED**

**\$ _____
Educational Facilities Revenue Refunding Bonds
(V.M.I. Development Board, Incorporated Project)
Series 2016**

June 1, 2016

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EXHIBIT A - FORM OF NOTE

FINANCING AGREEMENT

THIS FINANCING AGREEMENT is made as of June 1, 2016, between the **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA**, a political subdivision of the Commonwealth of Virginia (the "Authority"), **V.M.I. DEVELOPMENT BOARD, INCORPORATED** (the "Development Board") and **V.M.I. FOUNDATION, INCORPORATED** (the "Foundation," and together with the Development Board, the "Borrowers"), each a non-stock, not-for-profit Virginia corporation.

The Authority has determined to issue its \$_____ Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "Bonds"), in accordance with the provisions of an Indenture of Trust dated as of _____, 2016 (the "Indenture"), between the Authority and U.S. Bank National Association as Trustee (the "Trustee") (a) to refund all or a portion of the Authority's outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006 (the "2006 Bonds"), including redemption premium, if any, and accrued interest thereon, and (b) to finance costs related to the issuance of the Bonds and the refunding of the 2006 Bonds.

The Borrowers have determined to issue an unsecured unconditional promissory note to the Authority in the principal amount of \$_____, to be dated the date of delivery (the "Note"), to evidence the Borrowers' general obligations under this Agreement.

All things necessary to constitute the Note and this Agreement valid and binding agreements have been done and performed and the execution and delivery of the Note and this Agreement have in all respects been duly authorized.

The Borrowers hereby covenant and agree with the Authority and with the holder of the Note as follows:

ARTICLE I DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.1 Definitions. Each capitalized term used but not defined herein has the meaning given to it in the Indenture. In addition, the following words and terms have the following meanings in this Agreement unless the context requires otherwise.

"City" means the City of Lexington, Virginia.

"Event of Default" means any of the events enumerated in Section 6.1.

"Fiscal Year" means, with respect to the Borrowers, the 12-month period ending June 30 of each year or such other annual fiscal accounting period for the Borrowers as may be established in the future by its board of trustees and evidenced to the Trustee in a certificate signed by the chairman of the Board of Trustees, the chief financial or executive officer, or the chairman of the finance committee of the Board of Trustees.

"Indebtedness" means (i) all indebtedness of the Borrowers for borrowed money and (ii) all installment sales obligations and capitalized lease obligations, incurred or assumed by the Borrowers.

"Institute" means Virginia Military Institute.

"Refinanced Project" means the projects financed by the 2006 Bonds, including: (1) improvements to the Institute's football stadium, including improvements to related facilities, fields, and infrastructure, located on North Main Street, (2) improvements to the Institute's baseball stadium, including related facilities, fields, and infrastructure, located on Anderson Drive, (3) an approximately 42,500 square foot Leadership and Ethics Center, including without limitation a 500 seat auditorium, an 800 seat assembly space, meeting rooms and administrative space, to be located on or near Maiden Lane, (4) an approximately 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building located on Letcher Avenue, (5) renovations to the approximately 31,000 square foot Jackson Memorial Hall located on Letcher Avenue, including renovations to the Institute's museum and renovations to two auditorium levels, (6) improvements to athletic and military facilities in the Institute's north Post area consisting of approximately 15 acres located on or near Woods Creek, including, without limitation, athletic fields, military and leadership training facilities, obstacle courses, parking facilities, infrastructure, roads and landscaping, (7) additional parking lots or parking facilities on or near Maiden Lane, Letcher Avenue or North Main Street, and (8) other capital expenditures of the Institute, a Borrower or any other affiliated entity.

"Restricted Pledges" mean payments on pledges and other contributions to the Borrowers that are restricted by their donors or by operation of law to pay any portion of the costs financed or refinanced by the Bonds or to make debt service payments on the Bonds.

"Tax Compliance Agreement" means the Tax Compliance Agreement dated as of _____, 2016, between the Borrowers and the Authority.

Section 1.2 Rules of Construction. The following rules apply to the construction of this Agreement unless the context otherwise requires:

(a) Singular words connote the plural number as well as the singular and vice versa.

(b) Words importing the redemption or calling for redemption of Bonds will not be deemed to refer to or connote the payment of Bonds at their stated maturity.

(c) All references to particular articles or sections are references to articles or sections of this Agreement unless otherwise indicated.

(d) The headings and table of contents used in this Agreement are solely for convenience of reference and do not constitute a part of this Agreement or affect its meaning, construction or effect.

ARTICLE II REPRESENTATIONS

Section 2.1 Representations by Authority. The Authority makes the following representations as the basis for its undertakings under this Agreement:

(a) The Authority is a political subdivision of the Commonwealth of Virginia created in accordance with the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2 of the Code of Virginia of 1950, as amended, and is vested with all the rights and powers conferred by the Act.

(b) The Authority has full power and authority to issue the Bonds and lend the proceeds thereof to the Borrowers in the manner and upon the terms and conditions set forth in the Indenture and in this connection, has taken or will take all action required by the Indenture and the Act.

(c) The Authority has the power to enter into this Agreement, the Bond Purchase Agreement, the Indenture and the Tax Compliance Agreement, and by proper corporate action has duly authorized the execution and delivery of this Agreement and the Indenture and the issuance, sale and delivery of the Bonds and will take all further action necessary or appropriate to carry out the issuance, sale and delivery of the Bonds.

(d) It is specifically understood and agreed that the Authority makes no representation, covenant or agreement as to the financial position or business condition of the Borrowers and does not represent or warrant as to any statements, materials, representations or certifications furnished by the Borrowers in connection with the sale of the Bonds, or as to their correctness, completeness or accuracy.

Section 2.2 Representations by Borrowers. Each Borrower for and on behalf of itself makes the following representations as the basis for its undertakings under this Agreement:

(a) Each Borrower is a non-stock, not-for-profit Virginia corporation duly incorporated and in good standing under the laws of the Commonwealth of Virginia, each has the power to enter into and perform its obligations under this Agreement and the Bond Purchase Agreement and to execute and deliver the Note, and by proper corporate action each has duly authorized the execution and delivery of this Agreement, the Note and the Bond Purchase Agreement.

(b) (i) Each Borrower is an organization described in Section 501(c)(3) of the Code and is not a private foundation within the meaning of Section 509(a) of the Code; (ii) each Borrower has received a letter or other notification from the Internal Revenue Service to the effect that it is an organization described in Section 501(c)(3) of the Code and such letter or other notification has not been modified, limited or revoked; (iii) each Borrower is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (iv) the facts and circumstances of each such letter or other notification as represented to the Internal Revenue Service continue to exist; and (v) each Borrower is exempt from federal income taxes under Section 501(a) of the Code.

(c) Each Borrower is an organization organized and operated: (i) exclusively for educational or charitable purposes, (ii) not for pecuniary profit, and (iii) so that no part of its net earnings inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

(d) Each Borrower's execution and delivery of, and the performance of its obligations under this Agreement, the Tax Compliance Agreement, the Continuing Disclosure Agreement, the Note and the Bond Purchase Agreement do not and will not conflict with, or constitute a breach or result in a violation of, such Borrower's articles of incorporation or bylaws, any agreement or other instrument to which such Borrower is a party or by which it is bound, or any constitutional or statutory provision or order, rule, regulation, decree or ordinance of any court, government or governmental authority having jurisdiction over a Borrower or its property.

(e) Each Borrower has obtained all approvals required for its execution and delivery of this Agreement, the Tax Compliance Agreement, the Continuing Disclosure Agreement, the Note and the Bond Purchase Agreement.

(f) No Borrower is in default in the payment of the principal of or interest on any of its Indebtedness or any instrument under and subject to which any Indebtedness has been incurred, and no event has occurred and is continuing that with notice or lapse of time or both would constitute such a default.

(g) There is no litigation at law or in equity or any proceeding before any governmental agency involving a Borrower pending or, to the knowledge of either Borrower, threatened in which any liability of the Borrower is not adequately covered by insurance or in which any judgment or order would have a material adverse effect on the business or the assets of either Borrower or that would affect its existence or authority to do business, the validity of this Agreement, the Note or the Bond Purchase Agreement, or the performance of the Borrowers' obligations under them.

(h) The information contained in the Tax Compliance Agreement and the certificates of each Borrower delivered at the time of the execution and delivery of this Agreement with respect to compliance with the requirements of Section 149 of the Code, including the information in the Form 8038 filed by the Authority with respect to the Bonds, the 2006 Bonds and the Refinanced Project, is true and correct in all material respects.

(i) All of the property refinanced with the proceeds of the Bonds is owned (using general federal tax concepts of ownership) by (i) an organization qualified under Section 501(c)(3) of the Code determined under Section 145(a)(1) of the Code or (ii) a governmental entity.

(j) No portion of the proceeds of the Bonds will be used directly or indirectly to make or finance loans to any person who is not an organization qualified under Section 501(c)(3) of the Code.

(k) No more than 2% of the proceeds of the Bonds will be used to pay Costs of Issuance within the meaning of Section 147(g) of the Code.

(l) Each component of the Refinanced Project constitutes an "authority facility" within the meaning of the Act and does not and will not include any facility used or to be used primarily for sectarian instruction or as a place of religious worship or primarily in connection with any program of the Borrowers or department of divinity for any religious denomination.

ARTICLE III ISSUANCE OF BONDS AND NOTE; LOAN OF PROCEEDS

Section 3.1 Issuance of Bonds; Loan of Proceeds. The Authority, concurrently with the execution of this Agreement, will issue the Bonds and lend the proceeds thereof to the Borrowers by causing the Trustee to apply the proceeds as set forth in Article III of the Indenture. The Borrowers agree to borrow the proceeds of the Bonds from the Authority and to repay such loan under the terms of this Agreement.

Section 3.2 Delivery of Note. In consideration of the Authority's agreement to issue the Bonds and to lend the proceeds to the Borrowers, the Borrowers will deliver the Note to the Authority before or simultaneously with the issuance of the Bonds.

Section 3.3 Note Assigned. It is understood and agreed that the Note and all payments on it, as well as the Authority's rights under this Agreement other than the right to enforce compliance with Section 3.4, the right to payment of certain fees under Section 3.9, the right to indemnification pursuant to Section 5.6, the rights to fees and expenses under Section 6.4 and the right to notice under Section 7.2, are being assigned to the Trustee as security for the Bonds. The Borrowers consent to this assignment and agree to pay directly to the Trustee for the account of the Authority all amounts required of the Borrowers under the Note. The Borrowers shall deposit with the Trustee in the Bond Fund all payments due under the Note not less than ten days before their due dates. The Borrowers agree that their obligation to make payments under the Note and this Agreement is absolute, constitutes an unconditional obligation of the Borrowers, and will not be subject to any defense or any right of set-off, counterclaim, recoupment, assignment or any breach that the Borrowers may have or assert against the Authority, the Trustee, any holder of the Bonds or any other person. The Note is payable from all legally available funds of the Borrowers.

Section 3.4 Payments of Required Rebate. (a) The Borrowers shall compute and pay to the Trustee the Rebate Amount as described in the Tax Compliance Agreement.

(b) The Authority will not be liable to the Borrowers by way of contribution, indemnification, counterclaim, set-off or otherwise for any payment made or expense incurred by the Borrowers pursuant to this Section.

Section 3.5 Prepayment. (a) The Borrowers have the option to prepay the principal of the Note, in whole or in part (but if in part in multiples of \$5,000), together with premium, if any, at the times permitted in compliance with Section 4.2 of the Indenture, such principal amounts to be used together with the required premium, if any, to redeem a corresponding principal amount of Bonds on the redemption date designated by the Borrowers.

(b) At the time the Authority is required to redeem the Bonds pursuant to Section 4.3 of the Indenture, the Borrowers are required to make a corresponding prepayment of the Note.

Section 3.6 Amount Required for and Manner of Prepayment. To prepay the Note under Section 3.5, the Borrowers shall (i) pay to the Trustee for deposit into the Bond Fund money in an amount which, together with money then held by the Trustee and available for such purpose, will be sufficient to pay the redemption price of the Bonds to be redeemed in connection with the prepayment, (ii) notify the Authority of the payment, and (iii) make arrangements satisfactory to the Authority and the Trustee for whole or partial redemption of the Bonds as soon as permitted or required by the Indenture and for payment of the fees and expenses of the Authority and the Trustee in connection with the redemption. The Trustee will accept the payment for deposit in the Bond Fund for redemption of the Bonds in the manner, at the time and to the extent provided in the Indenture.

Section 3.7 Effect of Prepayment. Prepayment of the Note in full will terminate the obligations of the Borrowers under the Note and this Agreement (except for payments required under Section 3.4), but only if (i) the Indenture has been discharged and (ii) the fees and expenses of the Trustee and the Authority have been paid or satisfactory arrangements for their payment have been made.

Section 3.8 Default in Payments. If the Borrowers fail to make any principal payment required by the Note or this Agreement when due, the Borrowers, to the extent permitted by law, will pay interest on the amount of such payment at the rate of interest on the Bonds from the date due until paid.

Section 3.9 Payment of Authority's Fee. On or before the date the Bonds are issued, the Borrowers will pay to the Authority its closing fee of \$ _____ in the aggregate.

**ARTICLE IV
[RESERVED]**

**ARTICLE V
SPECIAL COVENANTS**

Section 5.1 Maintenance of Corporate Existence, Tax-Exempt Status and Accreditation. Until the entire principal of and interest on the Note are paid in full and the Indenture is discharged, the Borrowers will each maintain its corporate existence, each will maintain its status as a tax-exempt organization under Section 501(c)(3) of the Code, each will continuously operate the Institute's facilities as an institution part of the state-assisted system of higher education whose primary purpose is to provide higher education and not to provide religious training or theological education, each will take all action necessary to maintain the Institute's accreditation by a recognized state or regional accrediting body, and each will not, without the prior consent of the Trustee, dissolve or otherwise dispose of all or substantially all of the Institute's assets.

Section 5.2 Financial Records and Statements. The Borrowers shall each maintain proper books of record and account, in which full and correct entries will be made, in accordance

with generally accepted accounting principles or other industry practices, of all its business and affairs. Each Borrower shall permit the Authority or the Trustee (or both) to examine its books and records pertaining to the Refinanced Project, upon reasonable notice and in accordance with customary business practices.

Section 5.3 Prohibited Activities. The Borrowers will not engage in any activities nor take any action which might reasonably be expected to result in the Borrowers ceasing to be a "501(c)(3) organization" within the meaning of Section 145 of the Code. The Borrowers, as applicable, will promptly notify the Trustee and the Authority of any loss of such status or of any investigation, proceeding or ruling that might result in the loss of such status. Neither the Borrowers nor the Authority will (i) take any action that will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code or (ii) barring unforeseen circumstances, approve the use of proceeds of the Bonds otherwise than in accordance with the Authority's "non-arbitrage" certificate given immediately before the issuance of the Bonds. The Borrowers will at their sole expense take all action required by Section 148(f) of the Code to prevent the Bonds from becoming "arbitrage bonds" under such Section, including but not limited to compliance with Section 3.4.

Section 5.4 Use of Proceeds; Tax Exemption. (a) The Borrowers shall provide written instructions, or oral instructions confirmed in writing, for the investment of all funds held by the Trustee under the Indenture. The Borrowers will not:

(i) Permit the proceeds of the Bonds to be used in any way that would result in less than 95% of the proceeds being considered as having been used solely in the exempt purpose trade or business (not in an "unrelated trade or business") carried on by any person who is a "501(c)(3) organization" or a "governmental unit," each within the meaning of Section 145 of the Code;

(ii) Take any action or approve the Trustee's taking any action or making any investment or use of the proceeds of the Bonds (including failure to spend them with due diligence) that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, including without limitation participating in any issue of obligations that would cause the Bonds to be part of an "issue" of such obligations within the meaning of Treasury Regulations Section 1.103-13(b)(10) or successor regulation;

(iii) Take or permit any action that would result in more than 5% of the proceeds of the Bonds being used directly or indirectly to make or finance loans to any person who is not a 501(c)(3) organization;

(iv) Permit the Refinanced Project to be used or occupied by the United States of America or its agencies or instrumentalities in any manner for compensation, including any entity with statutory authority to borrow from the United States of America (in any case within the meaning of Section 149(b) of the Code), or in any way cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(v) Use or permit the use of the net proceeds of the Bonds in such manner as to cause (1) more than 5% of the net proceeds of the Bonds to be deemed to be used

for any private business use (within the meaning of Section 141(b)(1) of the Code as modified by treating organizations qualified under Section 501(c)(3) of the Code as governmental units with respect to their activities which do not constitute unrelated trades or businesses, determined by applying Section 513(a) of the Code (the "Section 145(a)(2)(A) Modification")) and (2) the payment of the principal of, or the interest on, more than 5% of the net proceeds of the Bonds to be deemed (under their terms or any underlying arrangement) directly or indirectly (x) secured by any interest in property to be used or to be used for a private business use or payments in respect of such property or (y) to be derived from payments (whether or not to the Authority or the Borrowers) in respect of property, or borrowed money, used or to be used for a private business use (within the meaning of Section 141(b)(2) of the Code as modified by the Section 145(a)(2)(A)); and

(vi) Take any other action that would affect adversely the exemption of interest on the Bonds from federal income taxation.

(vii) The Borrowers will use the Refinanced Project only for an institution part of the state-assisted system of higher education in the Commonwealth of Virginia whose primary purpose is to provide higher education and not to provide religious or theological education, such facilities being for use as academic or administration buildings or any other structure, equipment or application usual and customary to a higher education campus other than chapels and their like.

(viii) The Borrowers will not make any change in the Refinanced Project that would, at the time made, cause the "average reasonably expected economic life" of the Refinanced Project, determined pursuant to Section 147(b) of the Code, to be less than the "average reasonably expected economic life" of the Refinanced Project set forth in the certificates or letters of representation of the Borrowers delivered at the time of issuance of the Bonds, unless the Borrowers furnishes the Trustee an opinion of Bond Counsel that such change will not impair the exemption of interest on the Bonds from federal income taxation.

(c) The Borrowers will not take or omit to take any action the taking or omission of which will result in more than 2% of the proceeds of the Bonds, within the meaning of Section 147(g) of the Code, being used to finance the costs of issuance of the Bonds.

(d) The Borrowers will not take any action or allow any action to be taken that will cause the "aggregate authorized face amount" of the Bonds allocated to any "test-period beneficiary" as defined in Section 145(b) of the Code, when increased by such obligations as provided in Section 145(b) of the Code, to exceed \$150,000,000 without providing to the Trustee an opinion of Bond Counsel stating that such action will not impair the exemption of interest on the Bonds from federal income taxation.

(e) The Borrowers will take all action necessary to ensure that interest on the Bonds is not included in gross income for federal income tax purposes, including without limitation all action required to be taken by it under the Tax Compliance Agreement.

Section 5.5 Restricted Pledges. The Borrowers agree to comply with the limitations relating to Restricted Pledges as described in the Tax Compliance Agreement.

Section 5.6 Indemnification. (a) The Borrowers, having had the opportunity for full diligence and consultation with each of the Borrowers' own legal counsel, and, for consideration of unquantifiable value to the Borrowers so as to induce the Authority to take the actions provided for in the Authority's resolution authorizing the issuance of the Bonds, the Authority Documents and the other documents executed and delivered in connection therewith (collectively, the "Bond Documents"), the Borrowers hereby agree and covenant as follows: (i) the Borrowers now and forever waive any claim against the Authority, its directors, officers, members, and agents, and the City, its officials, employees, and agents (each, for the purposes of this Section 5.7(a), "Indemnitees"), with respect to every direct and indirect actual, potential, and contingent liability, claim, charge, award, and judgment (each, for the purposes of this Section 5.7(a), a "Claim") arising out of or related to the subject-matter of the Bond Documents; and (ii) the Borrowers hereby promise, agree, warrant, and covenant to fully and absolutely defend and indemnify the Indemnitees against any Claim arising out of or related to the subject-matter of the Bond Documents. For the purposes of this Section 5.7(a), the Borrowers include and expressly so bind all of the Borrowers' members, owners, creditors, partners, agents, administrators, heirs, successors, assigns, employees, trustees, receivers, escheators, subrogors and subrogees, howsoever they may appear.

(b) The Borrowers will at all times protect, indemnify and save harmless the Authority and the Trustee from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including without limitation counsel fees and expenses) imposed on or incurred by or asserted against the Authority or the Trustee arising out of any actions contemplated by this Agreement or the Indenture, or the non-occurrence of them, or because of any failure of the Borrowers to comply with any terms of this Agreement, including without limitation the provisions of Section 3.4.

(c) Nothing contained in this Section requires the Borrowers to indemnify the Trustee for any claim or liability resulting from its gross negligence or its willful misconduct.

(d) If any action, suit or proceeding is brought against the Authority or the Trustee for any loss or damage for which the Borrowers are required to provide indemnification under this Section, the Borrowers upon request by the Authority or the Trustee, respectively, will at its expense resist and defend the action, suit or proceeding, or cause it to be resisted and defended by counsel designated by the Borrowers and approved by the Authority and the Trustee, which approval will not be unreasonably withheld.

(e) The obligations of the Borrowers under this Section will survive any termination of this Agreement.

(f) All references in this Section to the Authority and the Trustee will include their directors, commissioners, officers, employees and agents.

Section 5.7 Insurance. The Borrowers each agree that it will maintain, or cause to be maintained, the following types of insurance (including one or more self-insurance programs considered to be adequate) in such amounts as, in its judgment, are adequate to protect it and its property and operations, including athletic programs, and which types and amounts of insurance are of the character usually maintained by educational institutions operating properties and

engaged in operations similar to those of the Borrowers, as applicable: (a) comprehensive general public liability insurance, including blanket contractual liability and automobile insurance including owned or hired automobiles (excluding collision and comprehensive coverage thereon), (b) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance, (c) professional liability insurance, (d) workers' compensation insurance, and (e) boiler insurance. The Borrowers may not self-insure for items covered under clauses (b) and (e) of the preceding sentence.

Section 5.8 Compliance with Indenture. Each of the Borrowers approves and agrees to comply with the terms of the Indenture. The Authority will (a) if at any time money held pursuant to the Indenture is sufficient to effect redemption of the Bonds or any of them and if the Bonds are then redeemable under the Indenture, at the request of each of the Borrowers take all steps that may be required of it by the Indenture to effect redemption of the Bonds, and (b) perform and observe its obligations and conditions to be performed and observed pursuant to the Indenture.

ARTICLE VI EVENTS OF DEFAULT AND REMEDIES

Section 6.1 Event of Default Defined. Each of the following events is declared an Event of Default under this Agreement:

- (a) Failure of the Borrowers to make any payments on the Note when due.
- (b) Failure of the Borrowers to observe and perform any of its other covenants, conditions or agreements under this Agreement for a period of thirty days after notice specifying the failure and requesting that it be remedied, given by the Authority or the Trustee to the Borrowers, or in the case of any default which can be cured but cannot with due diligence be cured within such thirty day period, failure of the Borrowers to proceed promptly to cure the default and thereafter prosecute the curing of the default with due diligence;
- (c) (i) Failure of the Borrowers to pay generally its debts as they become due, (ii) commencement by the Borrowers of a voluntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or similar law, (iii) consent by the Borrowers to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the Borrowers or any substantial part of its property, or to the taking possession by any such official of any substantial part of the property of the Borrowers, (iv) making by the Borrowers of any assignment for the benefit of creditors generally, or (v) taking of corporate action by the Borrowers in furtherance of any of the foregoing;
- (d) The (i) entry of any decree or order for relief by a court having jurisdiction over the Borrowers or its property in an involuntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or similar law, (ii) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or

similar official for the Borrowers or any substantial part of its property, or (iii) entry of any order for the termination or liquidation of the Borrowers or its affairs; or

(e) Failure of the Borrowers within sixty days after the commencement of any proceedings against it under the federal bankruptcy laws or other applicable federal or state bankruptcy, insolvency or similar law to have such proceedings dismissed or stayed.

The provisions of subsection (b) of this Section are subject to the limitation that if by reason of force majeure the Borrowers is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under this Agreement, other than its obligations contained in Sections 3.1, 3.4, 5.1, 5.3, 5.4, 5.5, 5.6 and 6.4, the Borrowers will not be deemed in default during the continuance of such inability. The term "force majeure" as used in this Agreement includes without limitation acts of God; strikes, lockouts or other disturbances; acts of public enemies; orders of any kind of the government of the United States of America or the Commonwealth of Virginia or any of its political subdivisions or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrowers. The Borrowers will remedy with all reasonable dispatch the cause or causes preventing the Borrowers from carrying out its covenants, conditions and agreements, provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the Borrowers, and The Borrowers will not be required to settle strikes, lockouts and other industrial disturbances by acceding to the demands of any opposing party when such course is in the judgment of the Borrowers not in its best interests.

Section 6.2 Remedies on Default. Whenever any Event of Default under this Agreement has occurred and is continuing, the Trustee will have the following rights and remedies:

(a) The Trustee may, and if there has been an acceleration of the Bonds under the Indenture will, declare all amounts payable as principal and interest on the Note to be immediately due and payable.

(b) The Trustee may have access to and inspect, examine and copy the financial books, records and accounts of the Borrowers.

(c) The Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and to become due or to enforce observance or performance of any covenant, condition or agreement of the Borrowers under the Note or this Agreement.

Section 6.3 No Remedy Exclusive. No remedy conferred upon or reserved to the Trustee in this Agreement is intended to be exclusive of any other remedy, and every remedy is cumulative and in addition to every other remedy or now or hereafter existing at law, in equity or by statute. No delay or omission to exercise any right or power accruing upon an Event of

Default will impair any right or power or will be construed to be a waiver of it, but any right or power may be exercised from time to time and as often as may be deemed expedient.

Section 6.4 Counsel Fees and Other Expenses. Should an Event of Default occur and the Authority or the Trustee employ counsel or incur other expenses for the collection of payments due on the Note or the enforcement of performance of any other obligation of the Borrowers under this Agreement, the Borrowers will on demand pay to the Authority or the Trustee the reasonable fees and expenses of such counsel and such other reasonable expenses so incurred.

ARTICLE VII MISCELLANEOUS

Section 7.1 Amounts Remaining in Bond Fund. As provided in Section 6.8 of the Indenture, the Trustee will pay to the Borrowers any amounts remaining in the Bond Fund after payment in full of the Bonds and the fees and expenses of the Trustee and the Authority in accordance with the Indenture and the other amounts described in Section 6.8 of the Indenture.

Section 7.2 Notices. All demands, notices, approvals, consents, requests, opinions and other communications under this Agreement will be in writing and will be deemed to have been given as provided in the Indenture. A duplicate copy of each demand, notice, approval, consent, request, opinion or other communication given under this Agreement by either the Authority, the Borrowers to the other will also be given to the Trustee.

Section 7.3 Amendments. Neither the Note nor this Agreement may be amended or supplemented except in accordance with the provisions of Article XII of the Indenture.

Section 7.4 Successors and Assigns. This Agreement will be binding upon, inure to the benefit of and be enforceable by its parties and their respective successors and assigns.

Section 7.5 Severability. If any provision of this Agreement is held invalid by any court of competent jurisdiction, the holding will not invalidate any other provision.

Section 7.6 Applicable Law; Entire Understanding. The Note and this Agreement will be governed by the applicable laws of the Commonwealth. The Note and this Agreement express the entire understanding, and none of the agreements between the parties may be modified except in writing signed by the parties.

Section 7.7 Counterparts. This Agreement may be executed in several counterparts, each of which will be an original and all of which together will constitute one and the same instrument.

Section 7.8 Patriot Act Requirements of the Trustee. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. Accordingly, the Trustee will require documentation from each non-individual person such as a business entity, a charity, a trust, or other legal entity, verifying its formation as a legal

entity. The Trustee may also request identifying information to sufficiently verify the identities of individuals claiming authority to represent the entity.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in their respective corporate names.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON, VIRGINIA**

By: _____
Its: _____

**V.M.I. DEVELOPMENT BOARD,
INCORPORATED**

By: _____
Its: _____

V.M.I. FOUNDATION, INCORPORATED

By: _____
Its: _____

PROMISSORY NOTE

\$ _____

Dated: _____, 2015

V.M.I DEVELOPMENT BOARD, INCORPORATED (the "Development Board") and **V.M.I. FOUNDATION, INCORPORATED** (the "Foundation," and together with the Development Board, the "Borrowers"), each a non-stock, not-for-profit Virginia corporation, for value received, unconditionally promise to pay, as their general obligations, jointly and severally, to the **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA**, a political subdivision of the Commonwealth of Virginia (the "Issuer"), or assigns, in installments on _____ in years and amounts as set forth below, the principal sum of

_____ **DOLLARS**

together with interest as follows:

The unpaid principal balance of this Note will bear interest from the date of this Note until it is paid in full at the respective rates for each principal installment described in Schedule 1 to this Note, payable semiannually on each _____ and _____, commencing _____, 201_. The principal of this Note is payable on _____ of each year, commencing _____, 201_, in the amounts and years set forth in Schedule 1. The Borrowers agree to deposit with the Trustee, hereinafter defined, all payments due under this Note not less ten days before their due dates.

Anything in this Note to the contrary notwithstanding, any amount at any time held by the Trustee, hereinafter defined, in the Bond Fund (as defined in the Indenture, hereinafter defined), and available for such purpose will, at the request of the Borrowers, be credited against the next succeeding payment under this Note and will reduce the payment to be made by the Borrowers.

The Authority, by the execution of the Indenture and the assignment at the foot of this Note, is assigning this Note and the payments under it to U.S. Bank National Association, or its successor in trust (the "Trustee"), acting pursuant to an Indenture of Trust, dated as of _____, 2016 (the "Indenture"), between the Authority and the Trustee as security for the \$_____ Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "Bonds"), issued by the Authority pursuant to the Indenture.

In addition to the payments of principal and interest specified above, the Borrowers also will pay such additional amounts, if any, which, together with amounts on deposit in the Bond Fund, may be necessary to provide for the payment when due of the principal of and premium, if any, and interest on the Bonds. All payments under this Note will be made in lawful money of the United States of America directly to the Trustee for the account of the Authority pursuant to such assignment and will be applied as provided in the Indenture.

No notation is required to be made on this Note of the payment of principal or interest on normal installment payment dates. HENCE, THE FACE AMOUNT OF THIS NOTE MAY EXCEED THE ACTUAL PRINCIPAL SUM REMAINING OUTSTANDING.

This Note is issued pursuant to a Financing Agreement dated as of _____, 2016 (the "Financing Agreement"), between the Borrowers and the Authority, in which the Authority has agreed to issue the Bonds for the benefit of the Borrowers. All the terms, conditions and provisions of the Financing Agreement are, by this reference, incorporated as part of this Note. The Borrowers have the option to prepay this Note, but only on the terms and conditions and in the manner specified in Sections 3.5 and 3.7 of the Financing Agreement.

In case an Event of Default, as defined in the Financing Agreement, occurs and is continuing, the principal of and interest on this Note may be declared immediately due and payable.

IN WITNESS WHEREOF, the Borrowers have caused this Note to be executed in its corporate name by a duly authorized officer.

**V.M.I. DEVELOPMENT BOARD,
INCORPORATED**

By: _____
Name: _____
Title: _____

V.M.I. FOUNDATION, INCORPORATED

By: _____
Name: _____
Title: _____

ASSIGNMENT

Without recourse, the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") hereby irrevocably assigns the foregoing Note (except for the items reserved as described in Section 3.3 of the Financing Agreement dated as of _____, 2016 (the "Financing Agreement") between the Authority, the V.M.I. Development Board, Incorporated and the V.M.I. Foundation, Incorporated) to U.S. Bank National Association, as Trustee under the Indenture of Trust dated as of _____, 2016 (the "Indenture"), between the Authority and the Trustee, and hereby directs the maker of the Note to make all payments under it directly to the Trustee at its designated corporate trust office in Richmond, Virginia, or at such other place as the Trustee may direct in writing. This assignment is made to secure payment of the Authority's \$_____ Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016, issued pursuant to the Indenture.

INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA

By: _____
Chairman

**SCHEDULE 1 TO
V.M.I. DEVELOPMENT BOARD, INCORPORATED AND
V.M.I. FOUNDATION, INCORPORATED
\$ _____ PROMISSORY NOTE**

**Principal
Payment Date
(_____)**

**Principal
Payment
Amount**

Interest Rate

ESCROW AGREEMENT

This **ESCROW AGREEMENT** is dated as of June 1, 2016 (this "Agreement"), and is between **V.M.I. DEVELOPMENT BOARD, INCORPORATED** (the "Development Board"), **V.M.I. FOUNDATION, INCORPORATED** (the "Foundation" and together with the Development Board, the "Borrowers"), the **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA** (the "Authority"), and **U.S. BANK NATIONAL ASSOCIATION**, as escrow agent (the "Escrow Agent") and 2006 Trustee (hereinafter defined).

RECITALS

A. On July 13, 2006, the Authority issued its Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006 (the "2006 Bonds"), pursuant to an Indenture of Trust dated as of July 1, 2006 (the "Original Indenture"), between the Authority and the 2006 Trustee.

B. On July 15, 2010, Original Indenture was amended and restated by an Amended and Restated Indenture of Trust dated as of July 1, 2010 (the "Restated Indenture," and together with the Original Indenture, the "2006 Indenture"), when the 2006 Bonds were remarketed in three series (the "Series 2006A Bonds", the "Series 2006B Bonds" and the "Series 2006C Bond"), to bear interest at long-term rates.

C. On June 2, 2016, the Authority will issue its \$_____ Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "Series 2016 Bonds"), to provide, in part, for the refunding of the outstanding Series 2006B Bonds and the outstanding Series 2006C Bonds.

D. The Authority and the Borrowers will cause the deposit with the Escrow Agent of a portion of the net proceeds of the Series 2016 Bonds and direct the Escrow Agent to use such amounts, along with other available funds, to establish an initial cash balance and to purchase the Initial Government Securities (hereinafter defined), the principal of and interest on which, when due (together with the initial cash balance), will provide sufficient money to enable the Escrow Agent (i) to pay when due the interest on the Refunded Bonds until the redemption date, June 1, 2019 (the "Redemption Date"), and (ii) to pay on the Redemption Date the redemption price of the Refunded Bonds.

E. In reliance on the verification report of Bingham Arbitrage Rebate Services, Inc., mathematically verifying that the Escrow Fund (hereinafter defined) is sufficient to provide for the timely payment of the Refunded Bonds, the Escrow Agent has determined that the Escrow Fund are sufficient for such purposes.

F. The Authority has entered into this Escrow Agreement with the Escrow Agent simultaneously with the delivery of the Series 2016 Bonds in order to ensure that the procedures required for the payment and redemption of the Refunded Bonds will be followed.

NOW, THEREFORE, the parties to this Agreement hereby agree as follows:

ARTICLE I DEFINITIONS

Each of the following capitalized words and terms used in this Agreement has the meaning given it below:

"Authority" has the meaning set forth in the Preamble.

"Borrowers" has the meaning set forth in the Preamble.

"Closing Date" means June 2, 2016.

"Code" means the Internal Revenue Code of 1986, as amended, including all applicable regulations and revenue rulings.

"DTC" means The Depository Trust Company.

"Escrow Agent" means U.S. Bank National Association, as escrow agent under this Agreement and any successor escrow agent appointed as provided herein.

"Escrow Fund" means the segregated and irrevocable trust fund established under Section 2.1.

"Government Certificates" means certificates representing ownership of United States Treasury bond principal at maturity or interest payments for accrued periods, which bonds or coupons are held by a bank or trust company, organized and existing under the laws of the United States of America or any of its states acceptable to the Escrow Agent, in the capacity of custodian independent of the seller of the certificates.

"Government Obligations" mean direct obligations of, or obligations the payment of the principal of and premium, if any, or interest on which is unconditionally guaranteed by, the United States of America.

"Government Securities" means collectively Government Certificates and Government Obligations.

"Initial Cash Balance" has the meaning set forth in Section 2.3.

"Initial Government Securities" means the Government Securities described in Exhibit A.

"Letter of Representations" means the letter from the Authority to DTC, dated March 25, 1999, a copy of which is attached as Exhibit B.

"Redemption Date" has the meaning given to it in the Recitals.

"Refunded Bonds" means the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006, maturing in the principal amounts and bearing interest at the rates set forth below:

<u>Year of Maturity (December 1)</u>	<u>Refunded Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>	<u>Series</u>
2030	\$10,000,000	5.000%	52976T AB3	2006B
2036	22,475,000	5.000	52976T AC1	2006C

"SLGS" means U.S. Treasury Securities -- State and Local Government Series.

"Substitute Government Securities" shall have the meaning set forth in Section 3.2.

"Trust Estate" has the meaning set forth in Section 3.1.

"Verification Report" means the report of Bingham Arbitrage Rebate Services, Inc., attached as Exhibit C, concluding among other things that the Initial Cash Balance and the principal of and interest on the Initial Government Securities, when received, will be sufficient at all times, without reinvestment, to pay all principal and interest on the Refunded Bonds when due.

"2006 Indenture" has the meaning set forth in the Recitals.

"2006 Trustee" means U.S. Bank National Association, Richmond, Virginia, as trustee under the 2006 Indenture.

**ARTICLE II
ESTABLISHMENT OF ESCROW FUND**

Section 2.1 Establishment of Escrow Fund; Issuance of Series 2016 Bonds.

(a) There is hereby established with the Escrow Agent a special, segregated and irrevocable escrow fund, designated the "Industrial Development Authority of the City of Lexington, Virginia – V.M.I. Development Board Escrow Fund" (the "Escrow Fund"). The Escrow Agent shall hold the Escrow Fund (i) in its custody as a trust fund for the benefit of the holders of the Refunded Bonds and (ii) separate and apart from other funds of the Authority, the Borrowers and the Escrow Agent. The Authority and the Borrowers hereby irrevocably pledge the Escrow Fund and all amounts in it to the payment of the Refunded Bonds.

(b) The Authority and the Borrowers have authorized the issuance and delivery of the Series 2016 Bonds, a portion of the proceeds of which are to be used, with other available funds, to refund and defease the Refunded Bonds by depositing into the Escrow Fund,

in amounts sufficient for the Escrow Agent to purchase, the Initial Government Securities and to establish the Initial Cash Balance.

Section 2.2 Refunding and Defeasance of Refunded Bonds; Sufficiency.

(a) All of the Refunded Bonds are hereby refunded and defeased in advance of their stated maturities by the deposit with the Escrow Agent of the moneys sufficient to purchase the Initial Government Securities and to be establish the Initial Cash Balance as described in Section 2.3.

(b) In reliance upon the Verification Report, the Authority and the Borrowers represent that the Initial Cash Balance and the interest on and the successively maturing principal amounts of the Initial Government Securities in accordance with their terms (without consideration of any reinvestment of such maturing principal and interest) are sufficient to assure that moneys will be available to the Escrow Agent in the amounts and on the dates required to (i) pay the principal of the Refunded Bonds on the Redemption Date, and (ii) to pay when due interest accruing on the Refunded Bonds, all as set forth in Exhibit D.

Section 2.3 Deposits; Purchase of Initial Government Securities and Establishment of Initial Cash Balance.

(a) On the Closing Date, the Authority has caused the transfer to the Escrow Agent a portion of the proceeds of the Series 2016 Bonds and other available funds in the aggregate amount of \$_____.

(b) The Escrow Agent shall immediately deposit the amounts described in (a), in the Escrow Fund and apply \$_____ to purchase the Initial Government Securities and use the remainder (\$_____) to establish an initial cash balance (the "Initial Cash Balance").

**ARTICLE III
COVENANTS OF ESCROW AGENT**

Section 3.1 General Covenants. The Escrow Agent shall purchase the Initial Government Securities and establish the Initial Cash Balance as provided in Section 2.3 and shall purchase (subject to Section 3.2) Substitute Government Securities as provided in Section 3.2. The Escrow Agent shall hold any cash in the Escrow Fund uninvested at all times. The Escrow Agent shall hold the Initial Government Securities and all other Government Securities purchased or deposited pursuant to this Agreement and all interest, income, and profit derived therefrom, the Initial Cash Balance and all other uninvested cash in the Escrow Fund (the "Trust Estate") as an irrevocable segregated and separate trust fund for the sole and exclusive benefit of the holders of the Refunded Bonds until final payment of the Refunded Bonds. The Escrow Agent (i) shall keep the Trust Estate wholly segregated from other funds and securities on deposit with it, (ii) shall never commingle the Trust Estate or each fund in the Trust Estate with other funds or securities held by it, and (iii) shall never at any time use, lend, or borrow the same in any way other than as provided in this Agreement. Nothing contained in this Agreement shall be construed as requiring the Escrow Agent to keep the identical money, or any part thereof, in the Escrow Fund if it is impractical, but money of an equal amount, except to the extent

represented by the Initial Government Securities and the other Government Securities purchased or deposited pursuant to this Agreement, must always be maintained on deposit in the Escrow Fund as a trust fund held by the Escrow Agent in its fiduciary capacity under this Agreement.

Section 3.2 Reinvestments; Substitution.

(a) The Escrow Agent shall hold all cash balances on deposit in each Escrow Fund and not invested for the benefit of any person, firm or entity (including the Escrow Agent) on demand and in trust for the purposes of this Agreement and shall secure the same in accordance with applicable Virginia law for the securing of public sinking funds.

(b) At the written request of the Borrowers and the Authority and upon compliance with the conditions stated below, the Escrow Agent shall sell, transfer, otherwise dispose of or request the redemption of any of the Government Securities acquired hereunder and shall either apply the proceeds thereof to the full discharge and satisfaction of Refunded Bonds or substitute other Government Securities (the "Substitute Government Securities") for the Government Securities sold, transferred, otherwise disposed of or redeemed. The Borrowers will not request the Escrow Agent to exercise any of the powers described in the preceding sentence in any manner that would cause either the Refunded Bonds or the Series 2016 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The transactions described in the first sentence of this subsection may be effected only if (i) an independent verification agent shall verify in a written report (the "Substitute Verification Report") that there will be on deposit in the Escrow Fund after the transactions are completed, Substitute Government Securities the maturing principal of and interest on which will be sufficient, without reinvestment, together with any remaining Government Securities and any other cash available in the Escrow Fund, to pay the principal and premium, if any, and interest on the Refunded Bonds as set forth in Exhibit D; and (ii) the Escrow Agent receives an unqualified opinion of nationally-recognized bond counsel or tax counsel nationally recognized as having an expertise in the area of tax-exempt municipal bonds to the effect that the transactions will not cause the interest on either the Refunded Bonds or the Series 2016 Bonds to become includable in gross income for federal income tax purposes.

Section 3.3 Disclaimers. The Escrow Agent shall not be liable or responsible for (i) the accuracy of the Verification Report or the Substitute Verification Report or (ii) the sufficiency of the Escrow Fund and earnings on them to pay the principal of and interest on the Refunded Bonds.

Section 3.4 Tax Covenant. The Escrow Agent will not knowingly or intentionally take any independent action in the investment or securing of the proceeds of the Government Securities acquired hereunder that would cause either the Refunded Bonds or the Series 2016 Bonds to be classified as "arbitrage bonds" under Section 148 of the Code.

Section 3.5 Collection and Application of Income. The Escrow Agent will promptly collect the principal of, interest on, and income and profit from the Government Securities held under this Agreement and promptly apply the same solely and only to the payment of the principal of and interest on the Refunded Bonds as the same become due and to the other purposes expressly stated in this Agreement.

Section 3.6 Payments of Principal of and Premium and Interest on the Refunded Bonds. On the interest payment dates for the Refunded Bonds and on the Redemption Date, the Escrow Agent shall transfer by wire transfer to DTC in accordance with the Letter of Representations, or other appropriate transfer, sufficient moneys from the matured principal of and interest on the Government Securities and any cash balance held in the Escrow Fund for the payment of principal of and premium and interest on the Refunded Bonds becoming due on such interest payment dates and on the Redemption Dates as set forth in Exhibit D.

Section 3.7 No Trustee Fees. The Escrow Agent will make no payment of fees, due or to become due, to itself from the Escrow Fund, and the Borrowers covenants to pay the same as they become due from moneys lawfully available for such purpose.

Section 3.8 Fees and Expenses of Escrow Agent.

(a) During the term of this Agreement, the Borrowers will pay all reasonable expenses incurred by the Escrow Agent (including reasonable attorney's fees) from money of the Borrowers as billed by the Escrow Agent. Any fees and expenses of the Escrow Agent incurred in carrying out any of the duties, terms, or provisions of this Agreement shall be paid solely from the amounts described in this Section and shall not be paid from the Escrow Fund. The Escrow Agent has no right to make any claim or set-off against funds on deposit in the Escrow Fund for the payment of such costs and expenses or for any other claims it may have against the Borrowers, and hereby waives any rights it may have on any such claim.

(b) The Authority will have no obligation whatsoever to the Escrow Agent or any other person for amounts due under this Section.

Section 3.9 Duties Under Escrow agreement.

(a) The Escrow Agent shall have no duties or responsibilities to the Authority or the Borrowers or any other person in connection herewith except those specifically provided herein and shall not be responsible for anything done or omitted to be done by it except for its own negligence in the performance of or failure to perform any obligation imposed on it hereunder. The Escrow Agent, except as herein specifically provided for, is not a party to, nor is it bound by nor need it give consideration to the terms or provisions of any other agreement or undertaking between the Authority or the Borrowers and any other person, and the Escrow Agent assents to and is to give consideration only to the terms and provisions of this Agreement.

(b) Unless specifically provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the Authority or the Borrowers with respect to arrangements or contracts with others, the Escrow Agent's sole duty under this Agreement being to safeguard the Trust Estate and to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent will be obligated, in making such determination, to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent will be liable for its own misconduct or its negligence.

(c) In determining the occurrence of any such event or contingency the Escrow Agent may request from the Authority or the Borrowers or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may inquire of and consult with the Authority or the Borrowers at any time. The Escrow Agent may consult with legal counsel, and the opinion of such counsel will be full and complete authority and protection to the Escrow Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

Section 3.10 Indemnification. The Escrow Agent shall be under no obligation to institute any suit or action or other proceeding under this Agreement or to enter any appearance in any suit, action, or proceeding in which it may be defendant or to take any steps in the enforcement of its, or any, rights and powers hereunder, nor shall it be deemed to have failed to take any such action, unless and until it shall have been indemnified by the Borrowers to its satisfaction against any and all costs and expenses, outlays, counsel fees, and other disbursements, including its own reasonable fees, and if any judgment, decree, or recovery be obtained by the Escrow Agent, payment of all sums due it, as aforesaid, shall be a first charge against the amount of any such judgment, decree, or recovery.

Section 3.11 Liability of Escrow Agent. The Escrow Agent shall have no other responsibilities to the Authority, the Borrowers or any other person in connection with this Agreement except as specifically provided in this Agreement. So long as the Escrow Agent applies any funds, the Government Securities and the earnings therefrom to pay the Refunded Bonds as provided in this Agreement and complies fully with the terms of this Agreement, the Escrow Agent shall not be liable for any deficiencies in the amounts necessary to pay the Refunded Bonds.

Section 3.12 Dealing in Bonds. The Escrow Agent may in good faith buy, sell, or hold and deal in any of the Series 2016 Bonds or the Refunded Bonds.

Section 3.13 Statements. The Escrow Agent shall submit to the Authority and the Borrowers a statement on or before the 15th of each month, commencing with a report for July 2016, itemizing all moneys received by it and all payments made by it under the provisions of this Agreement during the preceding month, and also listing the Government Securities and cash balances on deposit in the Escrow Fund and all moneys held by it received as interest on or profit from the collection of the Government Securities, as of the date of the report.

Section 3.14 Insufficiency.

(a) If at any time it shall appear to the Escrow Agent that the available proceeds of the Government Securities and cash balances in the Escrow Fund will not be sufficient to make any payment due to the holders of any of the Refunded Bonds, the Escrow Agent shall notify the Borrowers not less than 15 days before such payment date.

(b) The Authority will have no obligation whatsoever to the Escrow Agent or any other person for amounts due under this Section.

Section 3.15 **Irrevocable Instructions; Notice of Refunding; Notice of Optional Redemption.** (a) The Authority and the Borrowers hereby irrevocably direct the Escrow Agent, and the Escrow Agent agrees, to cause a notice substantially in the form attached as Exhibit E to be sent within three business days after the date hereof (i) by first class mail, facsimile transmission or electronic mail to DTC and (ii) by electronic transmission in the format prescribed by the Municipal Securities Rulemaking Board ("MSRB") to be posted to the MSRB's EMMA system, all pursuant to, or consistent with, the provisions of the 2006 Indenture.

(b) The Escrow Agent shall, not later than May 2, 2019 and not earlier than April 2, 2019, cause a notice substantially in the form of Exhibit F to be sent (i) to DTC in accordance with the Letter of Representations and (ii) to the MSRB in the format prescribed by the MSRB to be posted on the MSRB's EMMA system.

ARTICLE IV COVENANTS OF THE BORROWERS AND THE AUTHORITY

Section 4.1 **Limitation of Escrow Agent's Liability.** The Escrow Agent shall have no responsibility or liability whatsoever for (i) any recitals of the Borrowers or the Authority in this Agreement, and (ii) any undertaking of the Authority or the Borrowers under this Agreement or the Indenture.

Section 4.2 **No Further Direction.** All payments to be made by, and all acts and things required to be done by, the Escrow Agent under the terms and provisions hereof shall be made and done by the Escrow Agent without any further direction or authority of the Authority or the Borrowers except as provided in Sections 3.2 and 5.1.

Section 4.3 **Tax Covenant.** Neither the Authority nor the Borrowers will take any action regarding the amounts on deposit in the Escrow Fund that would cause the Series 2016 Bonds or the Refunded Bonds to be classified as "arbitrage bonds" under Section 148 of the Code.

ARTICLE V AMENDMENTS, REINVESTMENT OF FUNDS, IRREVOCABILITY OF AGREEMENT

Section 5.1 **Amendments.**

(a) This Agreement may be amended or supplemented for any one or more of the following purposes: (i) to make provision for the curing of any ambiguity, or for curing or correcting any defective provision contained in this Agreement, or for severing any provision of this Agreement that has been determined to be illegal by a court of competent jurisdiction; (ii) solely to protect the rights of the holders of the Refunded Bonds, to add to the covenants and agreements of the Authority, the Borrowers or the Escrow Agent contained in this Agreement other covenants and agreements thereafter to be observed by the Authority, the Borrowers or the Escrow Agent, or to surrender any right or power herein reserved to or conferred upon the Authority, the Borrowers or the Escrow Agent; and (iii) to make provision for the sale, redemption, investment or reinvestment of the Initial Government Securities or any other

Government Securities held by the Escrow Agent hereunder or any portion of the proceeds thereof other than as provided for in Section 3.2 (any such amendment, supplement or direction to sell, redeem, invest or reinvest to be referred to as a "Subsequent Action").

(b) No Subsequent Action shall be effective unless and until the Authority or the Borrowers submits to the Escrow Agent the following items:

(1) A certified copy of the proceedings of the Authority and the Borrowers authorizing the Subsequent Action and copy of the document effecting the Subsequent Action signed by duly authorized officers of the Authority, the Borrowers and the Escrow Agent.

(2) An unqualified opinion of bond counsel or tax counsel nationally recognized as having an expertise in the area of tax-exempt municipal bonds to the effect that (A) the Subsequent Action will not cause the interest on either the Refunded Bonds or the Series 2016 Bonds to become includable in gross income under the laws of the United States of America providing for taxation of income, and (B) the Subsequent Action does not adversely affect the legal rights of the holders of the Refunded Bonds.

(3) An opinion of a firm of nationally recognized verification agents verifying that the amounts (which will consist of cash and Government Securities, all of which shall be held hereunder) available or to be available for payment of the Refunded Bonds will remain sufficient, without reinvestment, to pay when due all principal of and premium and interest on the Refunded Bonds in accordance with Exhibit D after the taking of the Subsequent Action.

Section 5.2 Escrow Agent's Obligations Irrevocable. Except as provided in Section 5.1, all of the rights, powers, duties, and obligations of the Escrow Agent hereunder shall be irrevocable and shall not be subject to amendment by the Escrow Agent and shall be binding on any successor to the Escrow Agent during the term of this Agreement.

Section 5.3 Authority's Obligations Irrevocable. Except as provided in Section 5.1, all of the rights, powers, duties, and obligations of the Authority under this Agreement shall be irrevocable and shall not be subject to amendment by the Authority and shall be binding on any successors to the officials now comprising the governing body of the Authority during the term of this Agreement.

Section 5.4 Borrowers' Obligations Irrevocable. Except as provided in Section 5.1, all of the rights, powers, duties, and obligations of the Borrowers under this Agreement shall be irrevocable and shall not be subject to amendment by the Borrowers during the term of this Agreement.

**ARTICLE VI
NOTICES**

Section 6.1 Notices to the Authority. All notices and communications to the Authority shall be addressed in writing to:

Industrial Development Authority
of the City of Lexington, Virginia
300 East Washington Street
Lexington, Virginia 24450
Attention: Chairman

or at such other address as is furnished from time to time by the Authority.

Section 6.2 Notices to the Borrowers. All notices and communications to the Borrowers shall be addressed in writing to:

V.M.I. Development Board, Incorporated
and
V.M.I. Foundation, Incorporated
304 Letcher Avenue
Lexington, Virginia 24450
Attention: Chief Financial Officer

or at such other address as is furnished from time to time by the Borrowers.

Section 6.3 Notices to Escrow Agent. All notices and communications to the Escrow Agent shall be addressed in writing to:

U.S. Bank National Association
1021 East Cary Street
18th Floor
Richmond, Virginia 23219
(Attention: Corporate Trust Department)

or at such other address as is furnished from time to time by the Escrow Agent.

**ARTICLE VII
MISCELLANEOUS**

Section 7.1 Reliance by Escrow Agent. The Escrow Agent may act upon any notice, request, waiver, consent, certificate, receipt, authorization, power of attorney or other written or oral communication that the Escrow Agent in good faith believes to be genuine and correct and to have been signed or sent or communicated by the proper person or persons.

Section 7.2 Resignation and Discharge of Escrow Agent.

(a) The Escrow Agent may resign and thereby become discharged from the trusts hereby created, by written notice mailed to the Authority and the Borrowers by registered or certified mail. Such resignation shall take effect upon the appointment of a new Escrow Agent hereunder and acceptance of the trusts hereby created. The Escrow Agent shall continue to serve as Escrow Agent until a successor is appointed by the Authority and the Borrowers, and the Escrow Agent may, after 60 days subsequent to its resignation, petition the Circuit Court of the City of Richmond, Virginia, for the appointment of a successor Escrow Agent if one has not yet been appointed.

(b) If the Escrow Agent resigns before this Agreement expires, the Escrow Agent shall rebate to the Borrowers any unearned portion of any fee theretofore paid by the Borrowers to the Escrow Agent for its services under this Agreement.

Section 7.3 Termination. Upon the final disbursement for the payment of the Refunded Bonds as provided for above, the Escrow Agent will transfer any balance remaining in the Escrow Fund to the Borrowers and thereupon this Agreement shall terminate. This Agreement is irrevocable prior to its termination.

Section 7.4 Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which taken together will constitute one and the same instrument. The Bond Insurer shall be a third party beneficiary hereof.

Section 7.5 Severability. If any clause, provision or section of this Agreement shall be held illegal or invalid by any court, the illegality or invalidity of such clause, provision or section shall not affect the remainder of this Agreement which shall be construed and enforced as if such illegal or invalid clause, provision or section had not been contained in this Agreement. If any agreement or obligation contained in this Agreement is held to be in violation of law, then such agreement or obligation shall be deemed to be the agreement or obligation of the applicable party, only to the extent permitted by law.

Section 7.6 Patriot Act Requirements. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. For a non-individual person such as a business entity, a charity, a trust, or other legal entity, the Escrow Agent may ask for documentation to verify such non-individual person's formation and existence as a legal entity. The Escrow Agent may also ask to see financial statements, licenses, identification and authorization documents from individuals claiming authority to represent the entity or other relevant documentation.

[Signature Page Follows]

IN WITNESS WHEREOF, V.M.I. Development Board, Incorporated; V.M.I. Foundation, Incorporated, the Industrial Development Authority of the City of Lexington, Virginia, and U.S. Bank National Association are each signing this Agreement as of the Closing Date.

INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF LEXINGTON, VIRGINIA

By: _____
Its: Chairman

U.S. BANK NATIONAL ASSOCIATION,
Richmond, Virginia, as Escrow Agent and as 2006
Trustee

By: _____
Its: Authorized Agent

V.M.I. DEVELOPMENT BOARD,
INCORPORATED.

By: _____
Its: _____

V.M.I. FOUNDATION, INCORPORATED

By: _____
Its: _____

EXHIBITS:

- A - Description of Initial Government Securities**
- B - Letter of Representations**
- C - Verification Report**
- D - Escrow Requirements for Refunded Bonds**
- E - Notice of Refunding of Refunded Bonds**
- F - Notice of Optional Redemption of Refunded Bonds**

EXHIBIT A

DESCRIPTION OF INITIAL GOVERNMENT SECURITIES

[See Attached]

EXHIBIT B

LETTER OF REPRESENTATIONS

[See Attached]

EXHIBIT C

VERIFICATION REPORT

[See Attached]

EXHIBIT D

ESCROW REQUIREMENTS

[See Attached]

EXHIBIT E

**NOTICE OF ISSUANCE OF REFUNDING BONDS
BY THE INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF LEXINGTON, VIRGINIA
TO REFUND AND DEFEASE ITS
TAX-EXEMPT ADJUSTABLE MODE
EDUCATIONAL FACILITIES REVENUE BONDS
(V.M.I. DEVELOPMENT BOARD, INCORPORATED PROJECT),
SERIES 2006B AND SERIES 2006C**

NOTICE IS HEREBY GIVEN by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") that on June 2, 2016 the Authority issued its Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "2016 Bonds") dated as of June 2, 2016. The Authority will use a portion of the net proceeds of the 2016 Bonds, to refund in advance of their stated maturities the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006 referenced below (the "Refunded Bonds"). A portion of the net proceeds of the 2016 Bonds have been deposited with U.S. Bank National Association, Richmond, Virginia, as escrow agent (the "Escrow Agent"), to be held in trust and have been invested in certain noncallable direct obligations of the United States of America, as provided in an Escrow agreement dated as of June 1, 2016 (the "Escrow Agreement"), among the Authority, the V.M.I. Development Board, Incorporated, the V.M.I. Foundation, Incorporated and the Escrow Agent. The proceeds of the 2016 Bonds deposited with the Escrow Agent under the Escrow Agreement are in such amount and invested in such obligations as will assure sufficient monies (a) to pay the interest on Refunded Bonds as such become due to June 1, 2019, (b) to redeem on June 1, 2019 the Refunded Bonds at a redemption price of 100% plus interest accrued to the date of redemption.

The maturity dates, principal amounts to be refunded, interest rates and CUSIP numbers for the Refunded Bonds specified above are as follows:

<u>Maturity Date (December 1 of year indicated)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Series</u>
2030	\$10,000,000	5.000%	52976T AB3	2006B
2036	22,475,000	5.000	52976T AC1	2006C

This notice and the information contained herein are provided solely for informational purposes and this is not a notice of redemption of any of the Refunded Bonds. There is no need for the holders of the Refunded Bonds to take any action with respect to the Refunded Bonds at the present time. Actual notice of the redemption of the Refunded Bonds will be mailed to the registered owners in accordance with the provisions of the Refunded Bonds by no later than 30 days before the redemption date of the Refunded Bonds.

Dated: _____, 2016

**INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF LEXINGTON, VIRGINIA**

**By: U.S. BANK NATIONAL ASSOCIATION,
as Escrow Agent**

EXHIBIT F

**INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF LEXINGTON, VIRGINIA
TAX-EXEMPT ADJUSTABLE MODE
EDUCATIONAL FACILITIES REVENUE BONDS
(V.M.I. DEVELOPMENT BOARD, INCORPORATED PROJECT),
SERIES 2006B AND SERIES 2006C**

NOTICE OF OPTIONAL REDEMPTION

NOTICE IS HEREBY GIVEN by the Industrial Development Authority of the City of Lexington, Virginia, that all of the outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006 referenced below (the "Called Bonds") have been called for redemption on June 1, 2019, at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest thereon to such redemption date. The Called Bonds are dated July 13, 2006, and issued July 13, 2006, and were remarketed on July 15, 2010. The Called Bonds were reissued in 2010 with certificate number RB-1 and RC-1 and are further identified below:

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number</u>	<u>Series</u>
2030	\$10,000,000	5.000%	52976T AB3	2006B
2036	22,475,000	5.000	52976T AC1	2006C

On June 1, 2019, the Called Bonds will be due and payable by wire transfer to The Depository Trust Company, or its nominee, as registered owner of all of the Called Bonds. From and after June 1, 2019, interest on the Called Bonds will cease to accrue.

The redemption price of such Called Bonds plus the interest accrued thereon from prior to the redemption date set forth above, will be payable upon the presentation and surrender thereof in the following manner:

U. S. Bank
Corporate Trust Services
111 Fillmore Ave E
St. Paul, MN 55107

Registered or certified insured mail is suggested when submitting Bonds for payment.

The CUSIP numbers listed above are given as a convenience to bondholders. However, no representation is made as to the correctness of such numbers either as printed on the Called Bonds or as contained in this Notice.

Important: The provisions of federal tax law require the bondholders to submit their Taxpayer Identification Number, (either their social security or employer identification number, as appropriate) with each bond presented for payment (whether by purchase or redemption).

Failure to comply will subject the payment of the principal portion to the withholding of a portion of such principal portion. To avoid being subject to such withholding, bondholders should submit an IRS Form W-9 at the time the bonds are presented for payment. Form W-9 is available from your local bank or broker.

Dated: _____, _____

U.S. BANK NATIONAL ASSOCIATION,
as Escrow Agent

\$ _____
Industrial Development Authority of the City of Lexington, Virginia
Educational Facilities Revenue Refunding Bonds
(V.M.I. Development Board, Incorporated Project),
Series 2016

BOND PURCHASE AGREEMENT

May ____, 2016

Industrial Development Authority
of the City of Lexington, Virginia
300 East Washington
Lexington, Virginia 24450

V.M.I. Development Board, Incorporated
V.M.I. Foundation, Incorporated
Neikirk Hall
304 Letcher Avenue
Lexington, Virginia 24450

Ladies and Gentlemen:

Wells Fargo Bank, National Association (the “Underwriter”) hereby offers to enter into this Bond Purchase Agreement (this “Agreement”) with the Industrial Development Authority of the City of Lexington, Virginia (the “Issuer”), V.M.I. Development Board, Incorporated (the “Development Board”) and V.M.I. Foundation, Incorporated (the “Foundation” and, together with the Development Board, each a “Borrower” and, collectively, the “Borrowers”) which, upon the acceptance of this offer by the Issuer and by the Borrowers, shall be in full force and effect in accordance with its terms and shall be binding upon the Issuer, the Borrowers and the Underwriter. Such offer is subject to acceptance by the Issuer and the Borrowers, in each case by execution and delivery of this Agreement to the Underwriter not later than 5:00 p.m., New York, New York time, on the date hereof. This offer may be withdrawn by the Underwriter upon notice to the Issuer and the Borrowers at any time prior to its acceptance by the Issuer and the Borrowers.

The Borrowers are entering into this Agreement to induce the Issuer to issue and sell, and the Underwriter to purchase, \$ _____ aggregate principal amount of Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the “Bonds”). The Borrowers will apply the proceeds of the Bonds, [along with other available Borrowers funds,] (a) to refund all or a portion of the Issuer’s outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Fund, Incorporated Project), Series 2006 (the “2006 Bonds”), including redemption premium, if any, and accrued interest thereon, and (b) to finance the costs of issuance of the Bonds and refunding the 2006 Bonds.

1. Purchase and Sale of the Bonds.

(a) Upon the terms and conditions and upon the basis of the representations, warranties and covenants set forth herein, the Underwriter hereby agrees to purchase all (but not less than all) of the Bonds from the Issuer, , and the Issuer hereby agrees to sell all (but not less than all) of the Bonds to the Underwriter, at an aggregate purchase price of \$_____, reflecting the aggregate principal amount of the Bonds (\$_____), [plus][minus] an original issue [premium][discount] of \$_____, and less an underwriting discount of \$_____, in immediately available funds.

(b) At _____ a.m., Eastern Standard time, on June __, 2016, or at such other time or on such other date as shall have been mutually agreed upon by the parties hereto (the "Closing Date"), at the offices of McGuireWoods LLP, Richmond, Virginia, or at such other place as shall have been mutually agreed upon by the parties hereto, the Issuer and the Borrowers will deliver to the Underwriter the closing documents and other items required pursuant to Paragraph 9 hereof. Prior to the Closing Date, the Bonds, duly executed and authenticated, shall have been delivered as indicated herein. The Underwriter will accept such delivery and pay (or shall cause purchasers, who may include the Underwriter to pay) the purchase price for the Bonds, as set forth in Paragraph 1(a) hereof, to the Trustee (as hereinafter defined) for the account of the Issuer by wire transfer of immediately available funds. Such payment and delivery is herein called the "Closing." The Bonds will be delivered in the form of fully-registered bonds in the entire principal amount of the Bonds in accordance with the Indenture (as hereinafter defined), and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, or as otherwise directed by the Underwriter. The Bonds will be made available to the Underwriter in New York, New York, at least 24 hours before the Closing Date, for review at a place to be designated mutually by the Underwriter and the Borrowers. After authentication by the Trustee, and review by the Underwriter, the Bonds shall be transferred to and held in safe custody by the Trustee, as F.A.S.T. Agent to DTC.

2. The Bonds. The Bonds shall mature on the dates, shall be subject to redemption and shall bear interest at the rates as set forth in the Indenture and in Exhibit A attached hereto, and shall otherwise be as described in the Official Statement. The Bonds are being issued pursuant to a resolution adopted by the Issuer on March 30, 2016 (the "Bond Resolution"), and an Indenture of Trust dated as of June 1, 2016 (the "Indenture"), by and between the Issuer and U.S. Bank National Association, as trustee (the "Trustee").

Payment of the principal of and interest on the Bonds are secured as described in the Official Statement. The proceeds of the Bonds will be loaned to the Borrowers pursuant to a Financing Agreement dated as of June 1, 2016 (the "Financing Agreement"), between the Issuer and the Borrowers. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture or the Financing Agreement.

The Indenture, the Financing Agreement, the Tax Compliance Agreement dated as of June 1, 2016, between the Issuer and the Borrowers (the "Tax Compliance Agreement"), the Escrow Agreement dated as of June 1, 2016, between the Issuer, the Borrowers and U.S. Bank National Association, as escrow agent (the "Escrow Agreement"), this Agreement and all other

documents, instruments and agreements contemplated hereby and thereby to which the Issuer is a party are herein sometimes collectively referred to as the "Issuer Documents." The Financing Agreement, the Continuing Disclosure Agreement (as hereinafter defined), the Tax Compliance Agreement, the Escrow Agreement, this Agreement and all other documents, instruments and agreements contemplated hereby and thereby to which either Borrower is a party are herein sometimes collectively referred to as the "Borrower Documents."

3. Bona Fide Offering. The Underwriter hereby agrees to make a bona fide public offering of all of the Bonds at initial offering prices not in excess of those prices set forth on the [inside] cover page of the Official Statement, reserving, however, the right to grant concessions as the Underwriter deem necessary or desirable in connection with the offering and sale of the Bonds and to sell the Bonds to dealers (including dealer banks and dealers depositing Bonds into investment trusts) and others at prices different from the public offering prices. The Underwriter also reserves the right (a) to over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above the level that might otherwise prevail in the open market, and (b) to discontinue such stabilizing, if commenced, at any time.

4. [Intentionally Omitted].

5. Official Statement.

(a) As soon as reasonably practicable, but not more than seven (7) business days after the date of this Agreement and not fewer than three (3) business days prior to the Closing Date (or such earlier date as may be necessary to permit the Underwriter to include copies of the Official Statement with customer confirmations requesting payment), the Issuer and the Borrowers shall provide, or cause to be provided, to the Underwriter printed copies of the final Official Statement with respect to the Bonds, dated the date hereof (together with any amendments, supplements or modifications thereof or thereto delivered in accordance with the terms hereof, the "Official Statement"), complete as of the date of delivery to the Underwriter and in the form of the Preliminary Official Statement dated April __, 2016, relating to the Bonds, including the Appendices thereto (the "Preliminary Official Statement"), with only such changes as have been accepted by the Underwriter, in sufficient quantity as determined by the Underwriter to permit compliance by the Underwriter with Rule 15c2-12 ("Rule 15c2-12") promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), by the Securities and Exchange Commission (the "SEC") and the applicable rules of the Municipal Securities Rulemaking Board (the "MSRB"). The Issuer and the Borrowers shall prepare the Official Statement, including any amendments thereto, in word-searchable PDF format as described in the MSRB's Rule G-32 ("MSRB Rule G-32") and shall provide an electronic copy of the word-searchable PDF format of the Official Statement to the Underwriter no later than one (1) business day prior to the Closing Date to enable the Underwriter to comply with MSRB Rule G-32. At least five copies of the Official Statement shall be manually executed by the Issuer and the Borrowers.

(b) The Issuer and the Borrowers each hereby ratifies and approves (i) the use of the Preliminary Official Statement and the information therein by the Underwriter in connection with the public offering and sale of the Bonds by the Underwriter prior to the date hereof and

until the final Official Statement is provided in compliance with paragraph (a) above; and (ii) the use of the Official Statement in connection with the public offering and sale of the Bonds.

(c) As of the date of the Preliminary Official Statement, the Issuer and the Borrowers each deemed the Preliminary Official Statement “final as of its date” within the meaning of paragraph (b)(1) of Rule 15c2-12, except for the omission of such information as is permitted to be omitted therefrom in accordance with such paragraph (b)(1).

(d) The Issuer, at the expense of the Borrowers, and the Borrowers will: (i) furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order to (A) register and qualify the Bonds for offer and sale under the “Blue Sky” or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate, and (B) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions; and (ii) use their best efforts to continue such registration or qualification in effect so long as required for distribution of the Bonds until the end of the underwriting period; provided, however, that neither the Issuer nor either Borrower shall be responsible for compliance with state securities or “Blue Sky” laws in connection with the distribution of the Bonds by the Underwriter, and neither the Issuer nor either Borrower shall be required to qualify as a foreign corporation or take any action that would subject it to general service of process in any jurisdiction in which it is not now so subject.

(e) If between the date hereof and the date which is 25 days after the end of the underwriting period, the Issuer or either Borrower learns of any fact that is reasonably likely to cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statement therein, in light of the circumstances under which they were made, not misleading, the Issuer or the Borrowers shall promptly notify the Underwriter. If, in the opinion of the Underwriter, the Issuer or the Borrowers, such event or fact requires the preparation and publication of a supplement to or amendment to the Official Statement, the Issuer and the Borrowers will cooperate to cause such a supplement or amendment to be prepared in a form approved by the Underwriter, at the expense of the Borrowers, and delivered to the Underwriter in such quantities as the Underwriter shall reasonably request, for distribution at the expense of the Borrowers. Neither the Issuer nor the Borrowers shall amend or supplement the Official Statement without the prior written consent of the Underwriter. In addition, the Underwriter has the right to request that any supplement or amendment to the Official Statement be accompanied by additional legal certifications, opinions or instruments as the Underwriter may reasonably deem necessary to evidence the truth or accuracy of such amendment or supplement to the Official Statement.

(f) For purposes of this Agreement, the “end of the underwriting period” shall occur when the Underwriter no longer retains an unsold balance of the Bonds. Unless otherwise advised in writing by the Underwriter, the Issuer and the Borrowers may assume that the end of the underwriting period is the Closing Date.

(g) The Issuer and the Borrowers further agree to provide the Underwriter with any “advance refunding documents” (as defined in MSRB Rule G-32) in word-searchable PDF format as described in MSRB Rule G-32 and to provide an electronic copy of such word-

searchable PDF format of the advance refunding documents to the Underwriter no later than four (4) business days after the Closing Date to enable the Underwriter to comply with MSRB Rule G-32.

6. Auditor's Consent Letter. Concurrently with the Borrowers' acceptance hereof, the Borrowers shall deliver or cause to be delivered to the Underwriter letters from Dixon Hughes Goodman LLP (the "Auditor"), in form and substance satisfactory to the Underwriter, to the effect that it agrees to the use of its report in the Preliminary Official Statement and the Official Statement on its audit of the combined financial statements of the VMI Alumni Agencies (as defined in the Preliminary Official Statement and the Official Statement) for the fiscal years ended June 30, 2015 and 2014.

7. Representations and Warranties of the Issuer. The Issuer represents and warrants to the Underwriter that:

(a) The Issuer is a political subdivision created and existing under the laws of the Commonwealth of Virginia pursuant to the provisions of Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the "Act").

(b) The Issuer has full power and authority to enter into and carry out and perform its obligations under this Agreement and the other Issuer Documents as contemplated hereunder and thereunder.

(c) The Bond Resolution has been duly and validly adopted and remains in full force and effect. The Issuer has duly authorized (i) the issuance and delivery of the Bonds on the terms set forth in this Agreement, in the Preliminary Official Statement and in the Official Statement; (ii) the execution and delivery of the Issuer Documents and such other documents, instruments and agreements as may be necessary to carry out, give effect to, and consummate the transactions contemplated by this Agreement, in the Preliminary Official Statement and the Official Statement; and (iii) all other action as may be necessary or appropriate for such purposes.

(d) The execution and delivery of the Issuer Documents do not, and compliance with the provisions thereof will not, conflict with or constitute a breach or result in a violation of the applicable provisions of: (i) the Act; (ii) any agreement or other instrument to which the Issuer is a party; or (iii) any order, rule, regulation, decree, or ordinance of any court or governmental or regulatory authority having jurisdiction over the Issuer or its property.

(e) No consent, approval, authorization or other action of any governmental or regulatory authority not already obtained is required to be obtained by the Issuer as a condition precedent to the issuance of the Bonds or the consummation by the Issuer of the other transactions contemplated by the Issuer Documents (except that no representation or warranty is expressed as to any action required under federal securities or state securities or "Blue Sky" laws in connection with the purchase or distribution of the Bonds by the Underwriter).

(f) Once authenticated and delivered to and paid for by the Underwriter in accordance with the terms of this Agreement, the Bonds will (i) have been duly authorized, executed and issued; (ii) constitute legal, valid and binding special obligations of the Issuer enforceable in accordance with their terms, except as rights under the Bonds may be limited by

bankruptcy, reorganization, insolvency and other similar laws affecting creditor's rights generally and by equitable principles; (iii) be payable solely from the receipts and revenues of the Issuer from the Financing Agreement; and (iv) be secured by the Indenture and entitled to the benefits thereof. At or prior to the Closing, the Bonds shall be duly executed on behalf of the Issuer.

(g) This Agreement has been executed and delivered by the Issuer and is, and when executed and delivered by the Issuer, the Indenture and the other Issuer Documents will be, the valid and binding obligations of the Issuer, enforceable in accordance with their terms, except as such enforceability may be limited by bankruptcy, reorganization, insolvency, and similar laws affecting creditor's rights generally and by equitable principles. At or prior to the Closing, the Issuer Documents shall be duly executed and delivered by the Issuer.

(h) To the Issuer's knowledge, the Issuer has not been and is not now in default under this Agreement, the Issuer Documents or the Bonds, and the execution and delivery of this Agreement, the Issuer Documents and the Bonds will not conflict with or constitute a breach of, any agreement or other instrument to which it is a party or any existing administrative regulation, judgment, order, decree, ruling or other law by which it is bound or subject, which breach or default is material to the transactions contemplated hereby and by the Bond Resolution, the Issuer Documents, the Official Statement and the Bonds; and no event has occurred and is continuing that, with the lapse of time or the giving of notice or both, would constitute, under any such law, such a breach or default material to such transactions.

(i) The information under the sections of the Preliminary Official Statement and the Official Statement captioned "THE AUTHORITY" and, to the extent it relates to the Issuer, "LITIGATION" is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) Each of the representations and warranties of the Issuer that are contained herein or in any of the other Issuer Documents are true and correct in all material respects as of the date hereof and will be true and correct in all material respects as of the Closing Date.

(k) The Issuer deems the Preliminary Official Statement to be final as of its date and has authorized the distribution by the Underwriter of the Preliminary Official Statement and the Official Statement; provided, that the Issuer makes no representation or warranty with respect to, and does not pass upon, or assume any responsibility for, any part of the Preliminary Official Statement or the Official Statement other than the information contained under the sections of the Official Statement captioned "THE AUTHORITY" and, to the extent it relates to the Issuer, "LITIGATION."

(l) There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before or by any court, public board or body, pending or, to the knowledge of the Issuer, threatened against or affecting the Issuer to restrain or enjoin the execution or delivery of any of the Issuer Documents or the proceedings or authority under which the Bonds are to be issued or contesting the legal existence of the Issuer, the title of any of its directors or officers to their respective offices, or wherein an unfavorable decision, ruling or finding would in any way

affect (i) the transactions contemplated hereby and by the Bond Resolution, the Official Statement or the Issuer Documents, (ii) the validity of the Bond Resolution, the Official Statement, the Issuer Documents or any agreement or instrument to which the Issuer is a party and which is used or is contemplated for use in the consummation of the transactions contemplated hereby and by the Bond Resolution, or (iii) the exclusion of interest on the Bonds from gross income for federal income tax purposes or the exemption of interest on the Bonds from all taxation by the Commonwealth of Virginia, as set forth in the approving opinion of McGuireWoods LLP, Bond Counsel to the Issuer (“Bond Counsel”).

(m) Any certificate signed by an officer of the Issuer delivered to the Borrowers or the Underwriter at the Closing shall be deemed a representation and warranty by the Issuer to such parties as to the statements made therein.

8. Representations and Warranties of the Borrowers. Each Borrower represents and warrants to the Underwriter that:

(a) Each Borrower is a not-for-profit nonstock corporation, duly incorporated and validly existing and in good standing under the laws of the Commonwealth of Virginia, and has all necessary licenses and permits to carry on and operate all of its properties and facilities, as described in the Official Statement. Each Borrower has all requisite power and authority to enter into, execute, deliver and perform its obligations under this Agreement and the other Borrower Documents and to execute the Official Statement.

(b) The execution and delivery by each Borrower of this Agreement, the Official Statement and the other Borrower Documents do not, and compliance with the provisions of this Agreement and the other Borrower Documents will not, conflict with or result in the breach of any of the terms, conditions or provisions of, or constitute on the part of either Borrower a breach of or a default under, the Articles of Incorporation or By-Laws of either Borrower, or a material breach or default under any currently effective resolution adopted by the Board of Directors of the Development Board or the Board of Trustees of the Foundation, or any existing law, regulation, judgment, decree, order, agreement, indenture, mortgage, lease or other instrument to which either Borrower is a party or by which either Borrower or any of its property is bound.

(c) The combined financial statements of the VMI Alumni Agencies at June 30, 2015 and 2014, and for the fiscal years then ended included in Appendix B to the Preliminary Official Statement and to the Official Statement, and the summarizing or combining information concerning the Borrowers therein, present fairly the combined financial position of the VMI Alumni Agencies at June 30, 2015 and 2014, and the combined changes in their net assets and their cash flows for the respective fiscal years then ended in conformity with generally accepted accounting principles.

(d) Since June 30, 2015, there has been no material adverse change in the combined financial position or results of operations of the VMI Alumni Agencies or the Borrowers, nor have the VMI Alumni Agencies or the Borrowers incurred any material liabilities, except as disclosed in the Preliminary Official Statement and in the Official Statement.

(e) Each Borrower has duly authorized all necessary action to be taken by it for (i) the issuance and sale of the Bonds by the Issuer upon the terms and conditions set forth herein, in the Preliminary Official Statement and in the Official Statement; and (ii) the execution and delivery of, and the due performance of its obligations under, this Agreement, the other Borrower Documents and the Official Statement. Each Borrower will take any and all appropriate actions necessary to carry out its obligations under the aforesaid documents.

(f) The information contained in the Preliminary Official Statement and in the Official Statement (including in the Appendices thereto) relating to each Borrower, each Borrower's operations, its financial and other affairs and the Bonds (collectively, the "Borrower Information") is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made not misleading.

(g) There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before or by any court, public board or body, pending or, to the knowledge of either Borrower, threatened against or affecting either Borrower, or any meritorious basis therefor, wherein an unfavorable decision, ruling or finding would: (i) materially and adversely affect the financial condition of either Borrower, the operation by either Borrower of its programs or facilities, or the tax-exempt status of either Borrower; (ii) adversely affect the transactions contemplated by, or the ability of either Borrower to perform its obligations under, this Agreement, the Preliminary Official Statement, the Official Statement, the Issuer Documents or the Borrower Documents; (iii) in any way contest the corporate existence or powers of either Borrower; or (iv) adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes or the exemption of interest on the Bonds from all taxation by the Commonwealth of Virginia, as set forth in the approving opinion of Bond Counsel.

(h) This Agreement has been duly executed and delivered by each Borrower and is, and, when executed and delivered by the Borrowers, the other Borrower Documents will be, legal, valid and binding obligations of the Borrowers enforceable in accordance with the terms hereof and thereof, except as such enforceability may be limited by bankruptcy, reorganization, insolvency and similar laws affecting creditors' rights generally and by equitable principles. At or prior to the Closing, the Borrower Documents shall be duly executed and delivered by the Borrowers.

(i) To the best of each Borrower's knowledge, after due inquiry, neither Borrower has been or is now: (i) in default with respect to the payment of principal of or interest on any securities or debt obligations issued or guaranteed by either Borrower; or (ii) in default in any other material respect with respect to such securities or obligations. No event has occurred and is continuing that, with the lapse of time or the giving of notice or both would constitute such default.

(j) Each Borrower has been determined to be and is currently an organization exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), by virtue of its being an organization described in Section 501(c)(3) of the Code, and is not a "private foundation" as defined in Section 509(a) of the Code. The proceeds of the Bonds have not be used by either Borrower with respect to a trade or business

which is an unrelated trade or business. Neither Borrower is aware of any information that would adversely affect the determination that it is exempt from federal income taxation under Section 501(a) of the Code. Each Borrower is a corporation organized and operated exclusively for charitable purposes, not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of subsection 3(a)(4) of the Securities Act of 1933, as amended (the "Securities Act"), and of subsection 12(g)(2)(D) of the Exchange Act. Neither Borrower has done anything to impair its status as a tax-exempt organization and neither Borrower will do anything in the future to impair its status as a tax-exempt organization.

(k) Neither Borrower is in any material respect in breach of or in default under, and neither Borrower has received any notice alleging that it is in breach of or default under, any existing law, court or administration regulation, decree or order, or any agreement, indenture, mortgage, lease, sublease or other instrument to which it is a party or by which it or its property is bound, and to its knowledge no event has occurred or is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default thereunder, which default or event of default would materially and adversely affect its operations or financial condition.

(l) The representations and warranties of each Borrower included in any of the Borrower Documents are true and correct in all material respect as of the date hereof and will be true and correct in all material respect as of the Closing Date.

(m) Each Borrower has duly authorized the distribution by the Underwriter of the Preliminary Official Statement and the Official Statement. To the best of each Borrower's knowledge, neither the SEC nor any state securities commission has issued or, threatened to issue, any order preventing or suspending the use of the Preliminary Official Statement or the Official Statement or the offering or sale of the Bonds.

(n) Each Borrower has made all filings with, and has obtained all approvals and consents from, all state and federal regulatory agencies having jurisdiction to the extent, if any, required by any provision of law or regulation applicable to such Borrower, to be made or to be obtained by such Borrower in connection with the execution and delivery of the Borrower Documents and this Agreement, the performance of such Borrower's obligations thereunder or hereunder and the consummation of the transactions contemplated on such Borrower's part thereby, hereby and by the Official Statement (other than any approvals that may be required under the securities or Blue Sky laws of any jurisdiction).

(o) Any certificate signed by either Borrower delivered to the Issuer or the Underwriter at the Closing shall be deemed a representation and warranty by the applicable Borrower to such parties as to the statements made therein. Each Borrower covenants that between the date hereof and the Closing Date it will not take any action that will cause the representations and warranties made herein to be untrue as of the Closing Date in any material respect.

(p) In order to permit compliance by the Underwriter with Rule 15c2-12, each Borrower shall undertake, pursuant to the Continuing Disclosure Agreement dated the Closing

Date from the Borrowers for the benefit of the Holders and the Beneficial Owners of the Bonds (the “Continuing Disclosure Agreement”), to provide (1) not later than 180 days after the end of each fiscal year, certain financial information and operating data, including audited financial statements for the preceding fiscal year, (2) timely notice of the failure of the Borrowers to provide the required financial information and operating data, and (3) timely notice of the occurrence of certain material events with respect to the Bonds. Such annual financial information and material event notices shall be provided to the MSRB’s Electronic Municipal Market Access system. A more detailed description of such undertaking is set forth in the Preliminary Official Statement and in the Official Statement.

(g) The Borrowers have not failed to comply, in all material respects, with any previous continuing disclosure undertaking pursuant to Rule 15c2-12.

9. Conditions of Closing. The obligations of the Underwriter hereunder with respect to the Bonds shall be subject to the compliance with and performance by the Issuer and the Borrowers of their respective obligations and agreements to be complied with and performed hereunder on or prior to the Closing Date, and to the truth, accuracy and completeness as of the date hereof of the respective representations and warranties of the Issuer and the Borrowers contained herein or contained in any of the other Issuer Documents or in any of the other Borrower Documents, and to the truth, accuracy and completeness of such representations and warranties on the Closing Date as if made on and as of the Closing Date.

The obligations of the Underwriter hereunder with respect to the Bonds are also subject to the following further conditions:

(a) At the time of the Closing: (i) each of the Issuer Documents and the Borrower Documents shall have been duly executed and delivered by each party thereto and shall be in full force and effect and none of the foregoing shall have been amended, modified or supplemented, except as may have been approved by the Underwriter; (ii) the representations and warranties of the Issuer and of the Borrowers in this Agreement and in all other Issuer Documents and Borrower Documents shall be true, complete and correct in all material respects; (iii) the issuance and sale of the Bonds shall have been duly authorized; (iv) the Bonds shall have been delivered in accordance with the provisions of the Indenture and this Agreement; and (v) the rating on the Bonds described in the Official Statement shall have been assigned.

(b) None of the following shall have occurred at or before the Closing:

(i) legislation shall have been enacted by the Congress of the United States or shall have been reported out of committee of such body, or shall have been recommended to the Congress of the United States or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress

of the United States by a committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States (including the United States Tax Court), or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States or the Internal Revenue Service or a state administrative agency, with respect to federal or state taxation upon interest received on the Bonds or obligations of the general character of the Bonds, or other actions or events shall have transpired which, in the reasonable judgment of the Underwriter, have the purpose or effect, directly or indirectly, of changing the federal or state tax consequences of any of the transactions contemplated in connection with this Agreement and which in the reasonable judgment of the Underwriter adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts or orders for the purchase of the Bonds at the contemplated offering prices; or

(ii) any legislation, ordinance, rule or regulation shall have been enacted or proposed by any governmental body, department or agency of the Commonwealth of Virginia or any political subdivision thereof, or any decision by any court of competent jurisdiction within the Commonwealth of Virginia shall have been rendered that in the reasonable judgment of the Underwriter adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts or orders for the purchase of the Bonds at the contemplated offering prices; or

(iii) there shall exist any event which, in the reasonable judgment of the Underwriter, either (A) makes untrue or incorrect in any material respect, as of such time, any statement or information contained in the Official Statement or (B) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading; or

(iv) in the reasonable judgment of the Underwriter, the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts or orders for the purchase of the Bonds at the contemplated offering prices shall have been adversely affected by any one or more of the following: (A) there shall be in force a general suspension of, or material limitation on, trading on the New York Stock Exchange or other national securities exchange, or minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange or other national securities exchange, whether by virtue of a determination by such exchange or by order of the SEC or any other governmental authority having jurisdiction; (B) a general banking moratorium shall have been declared by either federal or state authorities having jurisdiction and be in force, or any devaluation of the dollar shall have been proposed or effected by any federal authority having jurisdiction; (C) a material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred; (D) there shall be established any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of the Underwriter established by the New York Stock Exchange, the SEC,

any other federal or state agency or the Congress of the United States, or by Executive Order; or

(v) a decision by a court of the United States shall be rendered, or a stop order, release, regulation or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made, to the effect that the issuance, offering or sale of the Bonds, including the underlying obligations as contemplated by this Agreement or by the Official Statement, or any document relating to the issuance, marketing, offering or sale of the Bonds, is or would be in violation of any provision of the federal securities laws at the Closing Date, including the Securities Act, the Exchange Act and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"); or

(vi) any rating of the Bonds or any rating of the general unsecured debt of either Borrower, shall have been downgraded or placed on credit watch negative or withdrawn by a national securities rating service which, in the Underwriter's opinion, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts or orders for the purchase of the Bonds at the contemplated offering prices; or

(vii) a war involving the United States shall have been declared, or any conflict or outbreak of hostilities involving the armed forces of the United States shall have commenced or escalated, or any terrorist incident or attack shall have occurred or any attack on the United States shall have occurred, or any other national or international emergency, calamity or crisis relating (without limitation to the foregoing) to the effective operation of government or the financial community shall have occurred or escalated, which, in the Underwriter's opinion, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts or orders for the purchase of the Bonds at the contemplated offering prices; or

(viii) any litigation shall be instituted, pending or threatened to restrain or enjoin the issuance or sale of any of the Issuer's bonds or in any way protesting or affecting the validity of any of its bonds or the existence or powers of the Issuer.

In the event of the occurrence of any of the foregoing, the Underwriter shall have the right to cancel this Bond Purchase Agreement by notification to the Issuer and the Borrowers.

(c) At or before the Closing, the Underwriter shall have received two copies of each of the following documents (in the case of opinions, unless otherwise specified below, either addressed to the Underwriter or accompanied by reliance letters authorizing the Underwriter to rely on such opinions to the same extent as if such opinions were specifically addressed to the Underwriter):

(1) The signed opinion of Bond Counsel, dated the Closing Date, in substantially the form included as Appendix D to the Official Statement.

(2) The signed opinion of Bond Counsel, dated the Closing Date, as required by Section 3.7(e) of the Indenture and, if such opinion is not addressed to such

parties, a letter of Bond Counsel, dated the date of Closing and addressed to the Underwriter, the Bond Trustee and the Borrowers, to the effect that such opinion may be relied upon by such parties to the same extent as if such opinion were addressed to them;

(3) The signed supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, the Borrowers and the Issuer, substantially to the effect that:

(A) The statements contained in the Official Statement under the captions "THE SERIES 2016 BONDS", "SUMMARY OF TRUST INDENTURE", "SUMMARY OF FINANCING AGREEMENT", "SUMMARY OF NOTE", "APPROVAL OF LEGALITY" and "TAX MATTERS" purporting to summarize certain provisions of the Bonds, the Indenture and the Financing Agreement, and describe the exclusion of interest on the Bonds from gross income for federal income tax purposes and the exemption of interest on the Bonds from taxation by the Commonwealth of Virginia, present a fair summary of such provisions.

(B) It will not be necessary under existing law, in connection with the offering and sale of the Bonds to the public, to register the Bonds or any other security under the Securities Act, or to qualify the Indenture under the Trust Indenture Act.

(C) This Agreement and the Official Statement have been duly authorized, executed and delivered by the Issuer.

(4) The signed opinion of Mann, Vita, and Elrod, P.L.L.C., counsel to the Issuer, dated the Closing Date, in form and substance acceptable to the Borrowers and the Underwriter.

(5) A certificate, dated the Closing Date, signed by an appropriate officer or official of the Issuer, in form and substance satisfactory to Bond Counsel and the Underwriter, certifying that (i) the representations and warranties of the Issuer contained in this Agreement and the Issuer Documents are true, correct and complete in all material respects on and as of the Closing Date as if made on and as of the Closing Date and (ii) each of the agreements of the Issuer to be complied with and each of the obligations to be performed by the Issuer hereunder and under the Issuer Documents on or prior to the Closing Date have been complied with and performed.

(6) The signed opinion of McGuireWoods LLP, special counsel to the Borrowers, dated the Closing Date, as required by Section 3.7(d) of the Indenture and otherwise in form and substance acceptable to the Issuer and the Underwriter.

(7) Certificates, each dated the Closing Date and signed by an authorized representative of each Borrower, certifying that: (i) the representations and warranties of such Borrower set forth in this Agreement and the Borrower Documents are true, correct and complete in all material respects on and as of the Closing Date as if made on and as of the Closing Date; (ii) the Borrower Information as contained in the

Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, and no event affecting such Borrower has occurred since the date of the Official Statement that should be disclosed in the Official Statement in order to make the statements and information therein not misleading in any material respect; (iii) since June 30, 2015, there has been no material adverse change in the financial position or results of operations of the VMI Alumni Agencies or such Borrower except as set forth in the Official Statement; and (iv) each of the agreements of such Borrower to be complied with and each of the obligations to be performed by such Borrower hereunder and under the Borrower Documents on or prior to the Closing Date have been complied with and performed.

(8) The signed opinion of Troutman Sanders LLP, counsel to the Underwriter, dated the Closing Date and in form and substance satisfactory to the Underwriter.

(9) Evidence satisfactory to the Underwriter that the requirements of Section 149(e) of the Code will be satisfied by the timely filing on or after the Closing Date of Internal Revenue Service Form 8038 with respect to the Bonds.

(10) Counterparts of each of the Issuer Documents and the Borrower Documents, in each case duly executed by the respective parties thereto.

(11) Copies of the Bond Resolution certified by an appropriate officer of the Issuer.

(12) Copies of the resolutions of the Board of Directors of the Development Board and the Board of Trustees of the Foundation (or any relevant committees thereof) authorizing the execution, delivery and performance of the Borrower Documents and all other action to be taken by each Borrower in connection with the issuance and sale of the Bonds, and copies of the articles of incorporation and bylaws of each Borrower, in each case certified as being true, correct and complete by the Secretary or an Assistant Secretary of the such Borrower.

(13) A certificate of good standing of each Borrower issued by the Virginia State Corporation Commission and dated as of a date not more than ten (10) days before the Closing Date.

(14) Copies of the determination letters from the Internal Revenue Service to the effect that each Borrower is an organization described in Section 501(c)(3) of the Code and is not a "private foundation" as that term is used in Section 509 of the Code.

(15) A certificate of an authorized officer of the Trustee, in form and substance satisfactory to the Underwriter, as to the incumbency of the officers of the Trustee executing the Indenture and as to the due authorization and validity of the Trustee's obligations thereunder.

(16) Evidence that the Bonds have been rated “_____” by Moody’s Investors Service, Inc.

(17) A verification report of Bingham Arbitrage Rebate Services, Inc., independent certified public accountants, addressed to the Issuer, the Borrowers, the Trustee, Bond Counsel and the Underwriter, [verifying (1) the mathematical computations of the adequacy of the maturing principal and interest on the government securities and uninvested cash on hand under the Escrow Agreement to pay, when due, the principal of and interest on the Series 2006 Bonds, and (2) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder].

(18) Such additional certificates or documents (including, but not limited to, appropriate “no litigation” certificates, “arbitrage” certificates, legal opinions or other instruments), as the Underwriter or its counsel or Bond Counsel may reasonably request to evidence the authority of the Trustee to act under the Indenture, the truth, accuracy and completeness, as of the Closing Date, of the representations and warranties of the Issuer and the Borrowers at or prior to such time and of the performance of all agreements then to be performed and all conditions and legal requirements then to be satisfied by each of them in connection with this Agreement and the other Issuer Documents and Borrower Documents.

10. Non-satisfaction of Conditions.

(a) If on the Closing Date any of the conditions to the obligations of the Underwriter contained in Paragraph 9 or elsewhere in this Agreement shall not have been satisfied when and as required herein, all obligations of the Underwriter hereunder with respect to the issuance and purchase of the Bonds as described in the Official Statement and herein may be terminated by the Underwriter upon written notice to such effect given by the Underwriter to the Borrowers and the Issuer.

(b) If the Issuer or the Borrowers shall be unable to satisfy the conditions to the obligations of the Underwriter contained in this Agreement, or if the obligations of the Underwriter shall be subject to termination for any reason permitted by this Agreement, the Underwriter may terminate this Agreement (in addition to any other rights they may have hereunder, at law, equity or otherwise) and, thereafter, will have no further obligations hereunder. The Underwriter may, in its discretion, waive one or more of the conditions imposed by this Agreement for their protection and proceed with the Closing.

11. Indemnification.

(a) The Borrowers jointly and severally agree to indemnify and hold harmless the Underwriter and each of its directors, officers and employees, and each person, if any, who “controls” the Underwriter, within the meanings of the Securities Act or the Exchange Act, from and against any and all losses, claims, damages, liabilities and expenses, joint and several, to which the Underwriter or such other persons may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or

actions in respect thereof): (i) arise out of or are based upon any untrue statement, or alleged untrue statement, of any material fact constituting Borrower Information contained in the Official Statement, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact necessary in order to make the statements contained therein not misleading (including any amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or omission, or alleged untrue statement or omission, if such settlement is effected with the written consent of the Borrowers); (ii) result from any breach (or alleged breach) by either Borrower of any of its representations, warranties or agreements set forth in this Agreement; or (iii) result from the fact that the Bonds are not registered under the Securities Act, or that the Indenture or any other document or instrument required to be qualified under the Trust Indenture Act has not been so qualified. The Borrowers jointly and severally agree (1) to assume the defense of any such action against the Underwriter or such directors, officers, employees and other persons based upon allegations of any such losses, claims, damages, liabilities or expenses, including the retaining of counsel not unsatisfactory to the Underwriter or such directors, officers, employees and other persons, and (2) to reimburse the Underwriter or such directors, officers, employees and other persons for all reasonable expenses (including counsel fees) as they are incurred in connection with investigating, preparing or defending any such action whether or not in connection with pending or threatened litigation.

(b) The Borrowers jointly and severally agree to indemnify and hold harmless the Issuer, and each of its directors, officers and employees, and each person, if any, who “controls” the Issuer, within the meanings of the Securities Act or the Exchange Act, from and against any and all losses, claims, damages, liabilities and expenses, joint and several, to which the Issuer or such directors, officers, employees and other persons may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or actions in respect thereof): (i) arise out of or are based upon any untrue statement, or alleged untrue statement, of any material fact contained in the Official Statement (other than statements included in the portions of the Official Statement described in Paragraph 7(i) of this Agreement), or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact necessary in order to make the statements contained therein not misleading (including any amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or omission, or alleged untrue statement or omission, if such settlement is effected with the written consent of the Borrowers); or (ii) result from any breach (or alleged breach) by the either Borrower of any of its representations, warranties or agreements set forth in this Agreement. The Borrowers jointly and severally agree (1) to assume the defense of any action against the Issuer or such directors, officers, employees and other persons based upon allegations of any such losses, claims, damages, liabilities or expenses, including the retaining of counsel not unsatisfactory to the Issuer or such directors, officers, employees and other persons, and (2) to reimburse the Issuer or such directors, officers, employees and other persons for all reasonable expenses (including counsel fees) as they are incurred in connection with investigating, preparing or defending any such action whether or not in connection with pending or threatened litigation.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action against such indemnified party, such indemnified party will, if a claim in respect thereof is to be made under this Paragraph 11, notify the Borrowers of the

commencement thereof, but the omission to so notify the Borrowers will not relieve the Borrowers from any liability hereunder except if the lack of notification causes actual damage. In case any such action is brought against any indemnified party, and it notifies the Borrowers of the commencement thereof, the Borrowers will assume the defense thereof. After notice from the Borrowers to such indemnified party of their assumption of the defense, the Borrowers will not be liable to such indemnified party under this Paragraph 11 for any additional legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation unless (i) the Borrowers and the indemnified party shall have mutually agreed to the retention of separate counsel by the indemnified party or (ii) the named parties to any such proceeding (including any impleaded parties) include the Borrowers and the indemnified party and representation of both parties by the same counsel would be inappropriate because of actual or potential differing interests between them (in which case the Borrowers shall not assume the defense of such action on behalf of the indemnified party, it being understood, however, that the Borrowers shall not, in connection with any one such action or separate but substantially similar or related actions arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any point in time for the indemnified party, which firm shall be designated in writing by the indemnified party).

(d) The above provisions shall not limit or otherwise affect any indemnification given to the Issuer in connection with the issuance, sale and delivery of the Bonds as set forth in Section 5.6 of the Financing Agreement. In addition, nothing in this Agreement shall be construed so as to preclude the Issuer from exercising those rights and remedies otherwise afforded to it under any other document relating to the Bonds or under Virginia law, including but not limited to those that are uniquely governmental in nature.

(e) If the indemnification provided for in this Paragraph 11 is unavailable to or insufficient to hold harmless an indemnified party under any of the preceding paragraphs in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then the Borrowers shall, in lieu of indemnifying such indemnified party, jointly and severally contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Borrowers and the Underwriter or by the Borrowers and the Issuer, as applicable, from the issuance and sale of the Bonds. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under paragraph (c) above, then the Borrowers shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Borrowers and the Issuer or of the Borrowers and the Underwriter, as applicable, in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Borrowers on the one hand and the Underwriter on the other shall be deemed to be in the same proportion as the total net proceeds from the issuance and sale (before deducting expenses) received by the Borrowers bear to the total underwriting fee received by the Underwriter as described in the Official Statement. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material

fact relates to information supplied by either Borrower, the Issuer or the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Borrowers, the Issuer and the Underwriter agree that it would not be just and equitable if contribution pursuant to this paragraph (e) were determined by *pro rata* allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this paragraph (e). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this paragraph (e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this paragraph (e), the Underwriter shall not be required to contribute any amount in excess of the underwriting fee received by the Underwriter hereunder with respect to the issuance and sale of the Bonds as described in the Official Statement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(f) The indemnity and contribution agreements contained in this Paragraph 11 shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any indemnified party or by or on behalf of either Borrower, their respective employees, officers or directors or any person controlling either Borrower, and (iii) acceptance of and payment for any of the Bonds. A successor of any indemnified party shall be entitled to the benefits of the indemnity and contribution agreements contained in this Paragraph 11; provided that the term "successor" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

12. Expenses. The Borrowers jointly and severally agree to pay or cause to be paid all expenses incident to the performance of their obligations, the Issuer's obligations and the Underwriter's obligations under this Agreement, including, but not limited to (i) costs of the preparation, issuance, delivery and recording or filing (to the extent required) of the Issuer Documents, Borrower Documents, the Preliminary Official Statement, the Official Statement (all in such reasonable quantities as may be requested by the Underwriter) and any documents related thereto; (ii) costs of the preparation and delivery of the Bonds; (iii) costs of printing the Bonds, the Preliminary Official Statement and the Official Statement, including any amendments or supplements thereto, and the mailing and delivery thereof by the printer; (iv) any rating agency fees charged for the rating of the Bonds; (v) fees and expenses of Bond Counsel, counsel to the Issuer, counsel to the Borrowers and counsel to the Trustee; (vi) the fees and expenses of the Auditor; (vii) costs of qualifying the Bonds for sale in various states chosen by the Underwriter, (viii) all advertising expenses in connection with the issuance and sale of the Bonds; and (ix) all other expenses (included in the expense component of the underwriting discount) incurred by the Underwriter in connection with the marketing, issuance and sale of the Bonds, including, but not limited to, the fees and expenses of the Underwriter's counsel, and meals, transportation, lodging and entertainment of the Issuer's or either Borrower's employees and representatives. The Issuer shall not be required to pay or cause to be paid any amount for any expense incident to the performance of obligations under this Agreement by reason of its acceptance hereof.

13. Limitations on Liability.

(a) The Bonds are special limited obligations of the Issuer. The Bonds are without recourse to the Issuer. The Bonds are not general obligations of the Issuer, are not a pledge of and do not involve the faith and credit or the taxing power of the Issuer, and do not constitute a debt of the Issuer.

(b) No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of, nor will the Borrowers or the Underwriter have any recourse against, any present or future director, officer or employee of the Issuer in his or her individual capacity, and no director, officer or employee of the Issuer executing this Agreement shall be subject to any personal liability by reason of his or her execution of this Agreement. No such director, officer or employee shall incur any personal liability with respect to any action taken by him or her pursuant to this Agreement, provided such director, officer or employee is not guilty of fraud or willful misconduct.

(c) Notwithstanding the foregoing, the liability of the Issuer under any representations, warranties and covenants contained in this Agreement for any breach or default by the Issuer hereunder shall be limited solely to and derived from the revenues and receipts derived from the Financing Agreement and security therefor.

14. Marketing of Bonds.

(a) The Underwriter represents and warrants that it will market the Bonds only pursuant to the Official Statement and only in jurisdictions where the offer and sale of the Bonds are legal, either as exempt securities, as exempt transactions or as a result of due registration of the Bonds for offer and sale in any such state.

(b) The Issuer and the Borrowers acknowledge and agree that: (i) the transactions contemplated by this Agreement are arm's length, commercial transactions among the Issuer, the Borrowers and the Underwriter in which the Underwriter is acting solely as a principal and is not acting as a municipal advisor, financial advisor or fiduciary to the Issuer or either Borrower; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the Issuer or either Borrower with respect to the transactions contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter or its affiliates have provided other services or is currently providing other services to the Issuer or either Borrower on other matters); (iii) the only obligations the Underwriter has to the Issuer and/or the Borrowers with respect to the transaction contemplated hereby expressly are set forth in this Agreement; and (iv) the Issuer and the Borrowers have consulted its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent they have deemed appropriate. The primary role of the Underwriter hereunder is to purchase the Bonds for resale to investors in an arm's-length commercial transaction. The Underwriter has financial and other interests that differ from those of the Issuer and/or the Borrowers.

15. Notices. Any notice or other communication to be given to the Issuer or the Borrowers under this Agreement may be given by delivering or mailing (certified mail, return receipt requested, postage prepaid) the same to the addresses set forth above, and any notice or

other communication to be given to the Underwriter under this Agreement may be given by delivering or mailing (certified mail, return receipt requested, postage prepaid) the same to Wells Fargo Bank, National Association, 150 East 42nd Street, 25th Floor, New York, New York 10017 (Attention: Sally Bednar, Managing Director). Any notice sent to any party herein by facsimile transmission shall be promptly confirmed by written notice sent in the manner provided in this paragraph.

16. Parties in Interest; Survival of Representations and Warranties. This Agreement is made solely for the benefit of the Underwriter, the Issuer and the Borrowers, and no other person shall acquire or have any right hereunder or by virtue hereof. All representations, warranties and agreements in this Agreement shall remain operative and survive in full force and effect, regardless of the payment for the Bonds hereunder and any termination of this Agreement. The terms “successors” and “assigns” shall not include any purchaser of the Bonds from or through the Underwriter merely because of such purchase.

17. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original contract, but all of which together shall constitute one and the same instrument.

18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, without giving effect to conflict of law principles.

[Signatures begin on following page]

[Signature page to Bond Purchase Agreement]

Very truly yours,

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By: _____

Name: _____

Title: _____

[Signatures continue on following page]

[Signature page to Bond Purchase Agreement]

Accepted and Agreed:

INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON, VIRGINIA

By: _____

Name: _____

Title: _____

[Signatures continue on following page]

[Signature page to Bond Purchase Agreement]

Accepted and Agreed:

V.M.I. DEVELOPMENT BOARD, INCORPORATED

By: _____

Name: David L. Prasnicki

Title: Chief Financial Officer

V.M.I. FOUNDATION, INCORPORATED

By: _____

Name: David L. Prasnicki

Title: Chief Financial Officer

EXHIBIT A

\$ _____
Industrial Development Authority of the City of Lexington, Virginia
Educational Facilities Revenue Refunding Bonds
(V.M.I. Development Board, Incorporated Project),
Series 2016

DESCRIPTION OF BONDS

\$ _____ Serial Bonds

<u>Due</u> (December 1)	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>
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\$ _____ Term Bonds

\$ _____ % Term Bonds due December 1, 20____, priced at _____% to yield _____%

\$ _____ % Term Bonds due December 1, 20____, priced at _____% to yield _____%

* Priced to the first optional redemption date of June 1, 20____.

Redemption Provisions

Optional Redemption. The Bonds maturing on or after December 1, 20____, are subject to redemption at the direction of the Borrowers, in whole or in part, on any Business Day occurring on or after December 1, 20____, at a price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest thereon to, but not including, the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing on December 1, 20____, are required to be redeemed in part before maturity by the Issuer (but only from funds provided by the Borrowers or otherwise available to the Trustee) on December 1 in the years and in the amounts set forth below, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date:

NEW ISSUE/BOOK-ENTRY ONLY

Ratings: Moody's: ____

In the opinion of Bond Counsel, under existing statutes, regulations and rulings and subject to conditions described herein under "TAX MATTERS" herein, interest on the Series 2016 Bonds (including any original issue discount properly allocable to the owners thereof) is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that such interest on the Series 2016 Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes). Bond Counsel is further of the opinion that under the Act, the Series 2016 Bonds, and the income therefrom, including any profit made on the sale thereof, are exempt from income taxation by the Commonwealth of Virginia and by any political subdivision thereof.

[LOGO]

**Industrial Development Authority of the
City of Lexington, Virginia**

\$ _____ *

**Educational Facilities Revenue Refunding Bonds
(V.M.I. Development Board, Incorporated Project),
Series 2016**

Dated: Date of Issuance

Due: December 1, 2030, and December 1, 2036

The Series 2016 Bonds (the "Series 2016 Bonds") will be limited obligations of the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), will be issued under and secured by the provisions of an Indenture of Trust, and will be payable solely from and secured by pledges of amounts payable under the Financing Agreement described herein and promissory note (the "Note") of V.M.I. Development Board, Incorporated and V.M.I. Foundation, Inc. (the "Borrowers"). The Series 2016 Bonds are being issued to (1) refund all or a portion of the Authority's outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Fund, Incorporated Project), Series 2006 (the "2006 Bonds"), including redemption premium, if any, and accrued interest thereon, and (2) finance the costs of issuance of the Series 2016 Bonds and refunding the 2006 Bonds.

The Series 2016 Bonds do not constitute a debt or a pledge of the faith and credit of the Commonwealth of Virginia, or any political subdivision thereof, including the City of Lexington, Virginia (the "City"). The Series 2016 Bonds are payable solely from the funds provided therefor. Neither the Commonwealth of Virginia, nor any of its political subdivisions, including the Authority and the City, shall be obligated to pay the same or interest on the Series 2016 Bonds or other costs incident thereto except from the revenues and moneys pledged therefor. Neither the faith and credit nor the taxing power of the Commonwealth of Virginia, nor any of its political subdivisions, including the Authority and the City, is pledged to the payment of the principal of, the premium, if any, and interest on the Series 2016 Bonds. The Authority has no taxing power.

The Series 2016 Bonds will be issued as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2016 Bonds is payable semi-annually on June 1 and December 1, beginning on December 1, 2016. The Series 2016 Bonds mature on December 1, 2030, and December 1, 2036. Pricing and redemption information for the Series 2016 bonds is shown on the inside cover.

The Series 2016 Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and as nominee for The Depository Trust Company ("DTC"), which will act as securities depository for the Series 2016 Bonds. Purchases of Series 2016 Bonds may be made only in book-entry form through DTC Direct and Indirect Participants, and no physical delivery of the Series 2016 Bonds will be made to their Beneficial Owners (as defined herein), except as herein described. So long as Cede & Co. is the registered owner of the Series 2016 Bonds, references herein to the registered owners of the Series 2016 Bonds mean Cede & Co. and not their Beneficial Owners. Interest on the Series 2016 Bonds, together with principal thereof and any premium thereon, will be paid by the Bond Trustee, initially U.S. Bank National Association, to Cede & Co. so long as Cede & Co. is their registered owner. DTC is responsible for the disbursement of those payments to DTC Participants, and DTC Participants are responsible for the disbursement of those payments to Beneficial Owners. See APPENDIX E.

This cover contains information for quick reference only. Investors must read this entire Official Statement, including all appendices, to obtain information essential to making an informed investment decision.

The Series 2016 Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriter subject to the approval of McGuireWoods LLP, Richmond, Virginia, Bond Counsel, and to certain other conditions. Certain legal matters will also be passed upon for the Underwriter by Troutman Sanders LLP, Richmond, Virginia, for the Borrowers by McGuireWoods LLP, Richmond, Virginia, and for the Authority by Mann, Vita, and Elrod, P.L.L.C., Lexington, Virginia. It is expected that the Series 2016 Bonds will be available for delivery through the facilities of DTC on or about June 2, 2016.*

Wells Fargo Securities

Dated: _____, 2016

* Preliminary, subject to change.

\$ _____ *

**Educational Facilities Revenue Refunding Bonds
(V.M.I. Development Board, Incorporated Project), Series 2016**

\$ _____ * __% Bonds Due December 1, 2030* Yield __. __% Price _____. __* - CUSIP† 52976T

\$ _____ * __% Bonds Due December 1, 2036* Yield __. __% Price _____. __* - CUSIP† 52976T

OPTIONAL REDEMPTION

The Series 2016 Bonds are subject to optional redemption by the Authority, at the written direction of the Borrowers prior to maturity on or after December 1, 2026,* in whole or in part at any time, at a price equal to the principal amount thereof without premium, plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

* Preliminary, subject to change.

† Copyright 2010, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies Inc. CUSIP numbers in this Official Statement are provided solely for the convenience of Bondholders, and the Authority and the Borrowers make no representation as to such numbers and are not responsible for their accuracy at any time. The CUSIP numbers are provided as of the date of this Official Statement and subject to change after the issuance of the Series 2016 Bonds.

REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2016 Bonds identified on the cover. No person has been authorized by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), or V.M.I. Foundation, Incorporated or V.M.I. Development Board, Incorporated (collectively, the "Borrowers"), or Wells Fargo Bank, National Association (the "Underwriter") to give any information or to make any representation with respect to the Series 2016 Bonds other than as contained in this Official Statement. Any other information or representation should not be relied upon as having been given or authorized by the Authority, the Borrowers, or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2016 Bonds, by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement has been approved, and its use and distribution for the purposes of offering and selling the Series 2016 Bonds have been authorized, by the Borrowers. The information set forth herein has been obtained from the Authority, the Borrowers, The Depository Trust Company ("DTC") and other sources that are believed to be reliable. Except for the information set forth herein under "THE AUTHORITY" and "LITIGATION" (but only as it relates to the Authority), the Authority has not confirmed, and does not assume any responsibility for, the accuracy, sufficiency, completeness or fairness of any statements in this Official Statement. The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change since the date of this Official Statement in the affairs of the Authority, the Borrowers, or DTC.

The Underwriter has provided the following sentence to be included in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In reliance upon an exemption, neither the Series 2016 Bonds nor any other security relating to the Series 2016 Bonds has been registered under the Securities Act of 1933, as amended. In reliance upon an exemption, the Trust Indenture has not been qualified under the Trust Indenture Act of 1939, as amended. Those exemptions from registration and from qualification under applicable provisions of federal or state securities laws should not be regarded as a recommendation thereof. No state or any agency thereof has passed upon the merits of the Series 2016 Bonds or any related security or the accuracy or completeness of this Official Statement.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, among others, certain of the information under the caption "FINANCIAL INFORMATION - Management's Discussion of Financial Position and Operations" in APPENDIX A to this Official Statement and "BONDHOLDERS' RISKS" in the forepart of this Official Statement.

The achievement of certain results or other expectations contained in or implied by such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Borrowers do not plan to issue any updates or revisions to those forward-looking statements if or when its expectations change or events, conditions or circumstances on which such statements are based occur or fail to occur.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of SEC Rule 15c2-12.

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OFFICIAL STATEMENT

Industrial Development Authority of the City of Lexington, Virginia

\$ _____*

Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016

INTRODUCTORY STATEMENT

Purpose of this Official Statement

This Official Statement relates to the primary offering, sale and issuance by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), a public body corporate and a political subdivision of the Commonwealth of Virginia (the "Commonwealth"), of its Educational Facilities Revenue Refunding Bonds (V.M.I. Development Board, Incorporated Project), Series 2016 (the "Series 2016 Bonds"), in the principal amount of \$ _____.*

The Authority will issue the Series 2016 Bonds pursuant to (1) an Indenture of Trust (a "Trust Indenture") dated as of June 1, 2016, between the Authority and U.S. Bank National Association, as trustee (the "Bond Trustee"), (2) a resolution adopted by the Authority on March 30, 2016 and (3) the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the "Act"). The Authority will loan the proceeds of the Series 2016 Bonds to V.M.I. Development Board, Incorporated (the "Development Board") and V.M.I. Foundation, Incorporated (the "Foundation" and together with the Development Board, the "Borrowers") pursuant to a Financing Agreement, dated as of June 1, 2016 (the "Financing Agreement") between the Borrowers and the Authority.

The Borrowers

Each Borrower is a Virginia non-stock, non-profit corporation that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Development Board was created in 1978 to coordinate the development and fundraising efforts conducted on behalf of the Virginia Military Institute (the "Institute"). The Institute is a public institution of higher education in the Commonwealth of Virginia (the "Commonwealth"). The Development Board is the legal depository for a portion of endowment gifts made by donors in support of the Institute. The Foundation was created in 1937 to raise funds, both current and endowment, for the general support of the Institute and the VMI Alumni Association, Incorporated (the "VMI Alumni Association") (other than support for intercollegiate athletics). The Foundation serves as the executive agent for all major fundraising campaigns on behalf of the Institute. See **APPENDIX A – V.M.I. DEVELOPMENT BOARD, INCORPORATED AND V.M.I. FOUNDATION, INCORPORATED** for a description of the Borrowers. The VMI Alumni Association and the VMI Keydet Club, Incorporated, are organizations related to the Borrowers whose missions are to support various aspects of the Institute, and together with the Borrowers, these organizations are referred to as the "VMI Alumni Agencies." **Only the Borrowers are obligated to make payments or perform any other duties related to the Series 2016 Bonds.**

Audited consolidated financial statements of the VMI Alumni Agencies, including supplementary information about the Borrowers for the fiscal year ended June 30, 2015, are set forth in **APPENDIX B**. Dixon Hughes Goodman LLP, independent auditors audited the financial statements. See **APPENDIX B – AUDITED COMBINED FINANCIAL STATEMENTS OF THE VMI ALUMNI AGENCIES AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2015.**

* Preliminary, subject to change.

Use of Proceeds

The Borrowers will use the proceeds of the Series 2016 Bonds to (1) refund all or a portion of the Authority's outstanding Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Fund, Incorporated Project), Series 2006 (the "2006 Bonds"), including redemption premium, if any, and accrued interest thereon, and (2) finance the costs of issuance of the Series 2016 Bonds and refunding the 2006 Bonds (the "Plan of Refunding"). See "**PLAN OF REFUNDING**" herein.

Security for the Series 2016 Bonds

The Series 2016 Bonds are limited obligations of the Authority payable from the payments required to be made by the Borrowers under the Financing Agreement in amounts and at such times as will be sufficient to pay in full, when due, the principal of and interest and any premium on the Series 2016 Bonds and, thereby, to repay the loan made by the Authority to the Borrowers. To evidence and secure those obligations, the Borrowers will execute and deliver to the Authority a promissory note (the "Note") pursuant to the Financing Agreement. The Authority will assign the Note to the Bond Trustee as security for the Bonds.

Bondholders' Risks

There are risks associated with the purchase of the Series 2016 Bonds. See "**BONDHOLDERS' RISKS**" herein for a discussion of certain of these risks.

Ratings

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "___" to the Series 2016 Bonds prior to their original delivery date. Any desired explanation of the meaning or significance of such rating should be obtained from Moody's. See "**RATINGS**" herein.

Underlying Documents

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Copies of the Trust Indenture, the Financing Agreement and the Note are available in reasonable quantities upon request from the Borrowers.

Purpose of Introductory Statement

This Introductory Statement is intended only to serve as a brief description of certain information set forth in this Official Statement and is expressly qualified by reference to the Official Statement as a whole, as well as the documents summarized or described herein. All references to this Official Statement include the cover pages and the appendices. Each capitalized word or term used as a defined term in this Official Statement has the meaning assigned to it in the Trust Indenture or Financing Agreement, as applicable. For more detailed descriptions of the matters summarized below, see the information set forth in the specific sections of this Official Statement to which cross references are made.

This Official Statement speaks only as of the date hereof, and, after such date, the information contained in this Official Statement is subject to change. Bondholders and prospective purchasers of the Series 2016 Bonds after the date hereof should not rely on the information contained in this Official Statement, but should refer to the amendments or supplements to this Official Statement, if any, or any new offering materials for current information pertaining to the Authority, the Borrowers, or the Series 2016 Bonds after such date.

THE AUTHORITY

The Authority is a political subdivision of the Commonwealth, created pursuant to the Act. The Act empowers the Authority to make loans to protect and promote the health and welfare of the inhabitants of the Commonwealth. The Act authorizes the Authority to issue its bonds to carry out any of its powers, to mortgage and pledge any or all of its assets, whether then owned or thereafter acquired, as security for the payment of the principal of and premium, if any, and interest on any such bonds and any agreements made in connection therewith, and to pledge the revenues and receipts from the repayment of the loans made with the proceeds of such bonds, or from any other source, to the payment of such bonds and to refund bonds issued for such purposes.

The Authority has determined that issuing the Series 2016 Bonds to finance the Plan of Refunding will accomplish the purposes, objects and powers of the Authority as described in the Act.

The Series 2016 Bonds are not general obligations of the Authority, the Commonwealth, the Institute or any other public body, and are payable only from the sources of payment described herein.

PLAN OF REFUNDING

The Borrowers will use the proceeds of the Series 2016 Bonds, together with other available funds, to accomplish the Plan of Refunding. Proceeds of the 2006 Bonds were used to finance and refinance various facilities owned and operated by the Institute. The projects financed included construction of and/or improvements to the Institute's football stadium and related buildings, its baseball stadium, the Marshall Hall Center for Leadership and Ethics, its cadet dining facilities, the VMI Museum and related auditoriums, and various athletic and military facilities of the Institute. The Borrowers do not own any portion of the projects financed and there is no lien on any portion of the projects financed to secure the Series 2016 Bonds. **The Institute is not obligated to make payments or perform any other duties related to the Series 2016 Bonds.**

Upon delivery of the Series 2016 Bonds, a portion of the net proceeds thereof will be deposited in an escrow fund (the "Escrow Fund") with U.S. Bank National Association, as escrow agent (in such capacity, the "Escrow Agent"), under an Escrow Agreement, among the Authority, the Borrowers and the Escrow Agent, to redeem a portion of the outstanding principal amount of the Series 2006 Bonds on June 1, 2019 at a redemption price equal to 100% of the principal amount of the Series 2006 Bonds to be redeemed plus accrued interest to the redemption date. The Escrow Agent will hold the moneys deposited in the Escrow Fund in cash or invested, at the direction of the Borrowers, in direct obligations of the United States of America maturing in amounts and bearing interest at rates sufficient, without reinvestment, (i) to pay when due the interest on the Refunded Bonds, as hereinafter defined, through the first day on which they may be redeemed and (ii) to pay the principal of and accrued interest on the Refunded Bonds to their stated redemption dates. The securities purchased with the proceeds of the Series 2016 Bonds will be purchased with interest rates and at prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Code, and applicable regulations thereunder, not to exceed the yield permitted by the Code. The Escrow Fund, including interest earnings on the securities deposited therein, is pledged solely for the benefit of the holders of the Refunded Bonds. See "**ESTIMATED SOURCES AND USES OF FUNDS**" and "**VERIFICATION OF MATHEMATICAL COMPUTATIONS**" herein.

The table below sets forth the Series 2006 Bonds to be refunded with proceeds of the Series 2016 Bonds (the "Refunded Bonds"). The Refunded Bonds are subject to change based on market conditions and whether the refunding goals are met on the sale date.

Industrial Development Authority of the City of Lexington, Virginia Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006

Year of Maturity (December 1)*	Refunded Principal Amount*	Interest Rate	CUSIP†	Series
---	---	----------------------	---------------	---------------

* Preliminary, subject to change.

† See the note on the inside cover regarding the use of CUSIP information in this Official Statement.

2030	\$10,000,000	5.000%	52976T AB3	2006B
2036	22,475,000	5.000	52976T AC1	2006C

ESTIMATED SOURCES AND USES

The proceeds from the sale of the Series 2016 Bonds are currently anticipated to be applied as provided below.

Sources:

Bond Proceeds	\$
Net Original Issue [Premium/Discount]	
[Proceeds from Debt Service Reserve Fund and Bond Fund]	
TOTAL	\$

Uses:

Deposit to Escrow Fund	\$
Costs of Issuance ⁽¹⁾	
TOTAL	\$

⁽¹⁾ Includes fees and expenses of the Bond Trustee, rating agency fees, fees and expenses of the Authority and its counsel, counsel to the Borrowers, Bond Counsel, counsel to the Underwriter, auditors to the Borrowers, and the Underwriter's discount (see "UNDERWRITING").

THE SERIES 2016 BONDS

General

The Series 2016 Bonds will be issued as fully registered bonds without coupons in denominations of \$5,000 and any integral multiple of \$5,000. The Series 2016 Bonds will be dated the date of initial delivery and will mature on the dates and bear interest at the rates shown on the inside cover of this Official Statement.

Interest on the Series 2016 Bonds will be payable semiannually on each June 1 and December 1 (each an "Interest Payment Date"), commencing on December 1, 2016. Interest will be calculated on the basis of a 360-day year comprised of 12 months of 30 days each. The record date for the payment of interest on the Series 2016 Bonds is the fifteenth day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

The Series 2016 Bonds will be subject to the redemption provisions set forth below. The Series 2016 Bonds will be transferable and exchangeable as set forth in the Trust Indenture, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be registered in the Book-Entry Only System maintained by DTC. Payment of the principal of, redemption premium, if any, on, and interest on, the Series 2016 Bonds will be made to the Beneficial Owners of the Series 2016 Bonds by DTC as described in APPENDIX E to this Official Statement.

Redemption of Series 2016 Bonds

Optional Redemption – Series 2016 Bonds.* The Series 2016 Bonds are subject to optional redemption by the Authority, at the written direction of the Borrowers prior to maturity on or after December 1, 2026,* in whole or in part at any time, at a price equal to the principal amount thereof without premium, plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

Selection of Series 2016 Bonds to be Redeemed. Subject to any applicable procedures of DTC, if less than all of the Series 2016 Bonds are called for redemption, the Series 2016 Bonds to be redeemed shall be selected by the Bond Trustee in such manner as the Borrowers in its discretion may direct, each \$5,000 principal amount being counted as one Series 2016 Bond for this purpose.

Redemption Notice. Notice of redemption must be provided not less than 30 nor more than 60 days before the redemption date; provided, that failure to give such notice by mailing, or any defect in it, will not affect the validity of any proceedings for the redemption of any Series 2016 Bonds with respect to which no such failure or defect has occurred. Such notice may be conditioned upon the occurrence of future events, including the availability of funds to effect the redemption on the redemption date.

Effect of Calling for Redemption. On or before the date fixed for redemption, moneys are required to be deposited with the Bond Trustee to pay the principal of and interest and any premium payable on the redemption date on the Series 2016 Bonds called for redemption. Upon the happening of the above conditions, the Series 2016 Bonds called for redemption will cease to bear interest from and after the redemption date, will no longer be entitled to the benefits provided by the Trust Indenture, and will not be deemed to be outstanding under the provisions of the Trust Indenture.

While in book-entry form, transfers of beneficial ownership of Series 2016 Bonds will be effected on the records of DTC and its Participants pursuant to the rules and procedures established by DTC and its Participants. If the Series 2016 Bonds cease to be in book-entry form, they may be transferred or exchanged only on the registration books of the Bond Trustee at the corporate trust office of the Bond Trustee. Series 2016 Bonds may be exchanged for an equal aggregate principal amount of other Series 2016 Bonds of the same series, maturity and authorized denominations and bearing interest at the same rate. No charge shall be made to the owner of any Series 2016 Bond for the privilege of any exchange or registration of transfer thereof except for any tax or other required governmental charge.

Replacement Bonds delivered upon any transfer or exchange will be valid obligations of the Authority evidencing the same debt as the Bonds surrendered and will be secured by the Trust Indenture and entitled to its benefits to the same extent as the Series 2016 Bonds surrendered. Registrations of transfers or exchanges will be made by the Bond Trustee within such time periods as are customary in the municipal securities industry.

Additional Bonds

While the Trust Indenture does not provide for the issuance of additional bonds under it, the Trust Indenture and the Financing Agreement do not prevent the Borrowers from incurring additional indebtedness under other financing documents. See "**BONDHOLDER'S RISKS – Additional Indebtedness.**"

Security for the Series 2016 Bonds

The Series 2016 Bonds are to be issued pursuant to the Trust Indenture. All Series 2016 Bonds issued thereunder shall be limited obligations of the Authority, payable solely from and secured solely from payments by the Borrowers under the Note pursuant to the Financing Agreement and certain funds established under the Trust Indenture. As security for its obligations under the Trust Indenture, the Authority will assign to the Bond Trustee the payments received or receivable by the Authority pursuant to the Note and the Financing Agreement (except for

* Preliminary, subject to change.

payments with respect to the Unassigned Rights, as hereinafter defined), all funds held by the Bond Trustee under the Trust Indenture and all income derived from the investment of such funds.

See "**SUMMARY OF TRUST INDENTURE**" for a description of certain provisions of the Trust Indenture and certain terms defined therein.

Pursuant to the Financing Agreement, the Authority will loan the proceeds of the Series 2016 Bonds to the Borrowers. While any Series 2016 Bonds are outstanding under the Trust Indenture, and until all rebate payments due with respect to the Series 2016 Bonds, if any, and other amounts due under the Note, Financing Agreement and Trust Indenture have been satisfied, the Borrowers will be obligated to make payments in amounts sufficient, together with other available funds held under the Trust Indenture, to provide for the timely payment of the principal of and interest on the Series 2016 Bonds that are outstanding under such Trust Indenture, and to perform certain other obligations set forth therein. The Authority will assign the Financing Agreement and the Note, including its right to receive payments thereunder, to the Bond Trustee for the benefit of the owners of the Series 2016 Bonds. **The Note is not secured by a lien on or security interest in any assets of the Borrowers.**

The Series 2016 Bonds are limited obligations of the Authority. Neither the Commonwealth, the City of Lexington, Virginia (the "City"), the Authority, the Institute nor any other political subdivision thereof shall be obligated to pay the principal of or redemption premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto except from the revenues and other funds pledged to the bond trustee under the trust indenture. Neither the faith and credit nor the taxing power of the Commonwealth, the City or any political subdivision or any agency thereof is pledged to the payment of the principal or interest on the Series 2016 Bonds. The Series 2016 Bonds shall never constitute an indebtedness of the Authority, the City or the Commonwealth within the meaning of any constitutional or statutory provision and do not and shall never constitute or give rise to a pecuniary liability of the Authority, the City or the Commonwealth. The Authority has no taxing power. The Series 2016 Bonds and the interest thereon is payable solely from and secured solely by (i) loan repayments received by the Authority pursuant to the Financing Agreement and Note and (ii) certain funds and accounts created under the Trust Indenture.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each year ending June 30, the estimated annual debt service requirements payable by the Borrowers upon issuance of the Series 2016 Bonds, in respect of the Series 2016 Bonds. See **"OUTSTANDING AND FUTURE DEBT"** in **APPENDIX A** to this Official Statement for a description of all of the long-term debt service of the Borrowers.

<u>Fiscal Year</u>	<u>Series 2016 Principal</u>	<u>Series 2016 Interest</u>	<u>Total Debt Service for Series 2016 Bonds</u>
2017	\$	\$	\$
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
Total			

BONDHOLDERS' RISKS

The discussion herein of risks to the Beneficial Owners of the Series 2016 Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters that could affect payment of principal of and interest and any premium on the Series 2016 Bonds. Reference should be made to other sections of this Official Statement, as cited herein, for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein.

The ability of the Authority to make timely payments of principal of and interest on the Series 2016 Bonds depends solely on the ability of the Borrowers to make timely payments under the Financing Agreement of principal of and interest on the Series 2016 Bonds. The Borrowers expect that revenues derived from its ongoing operations, together with other available resources, will at all times be sufficient to make the required payments on the Series 2016 Bonds, and the Borrowers have covenanted under the Financing Agreement to make all such payments when due. A number of factors including those set forth below may adversely affect the Borrowers' ability to make timely payments on the Series 2016 Bonds. For more information on the Borrowers, see **APPENDIX A** hereto.

Sources of Revenue

The Borrowers depend on revenues derived from two primary sources:

1. contributions derived from fund raising; and
2. income and fees earned on investments in their funds, including its endowment and pledge receipts.

If the Borrowers do not generate sufficient revenue from these sources to make the payments under the Note then there will not be enough funds available to pay the debt service on the Series 2016 Bonds.

Fund Raising

The Borrowers expect to raise funds from a variety of benefactors to finance their operations and capital development programs and to build the size of their investments. There can be no assurance, however, that these ongoing efforts will be successful. Such efforts may be affected adversely by a number of factors, including changes in general economic conditions and tax law changes affecting the deductibility of charitable contributions. See "FUNDRAISING ACTIVITIES" in APPENDIX A to this Official Statement.

Investment Income

A significant portion of the Borrowers' total revenues and support (unrestricted, temporarily restricted and permanently restricted net assets) is derived from income earned on investments of the Borrowers' funds (investment income, net realized and unrealized gains on investments). While the Borrowers believe that their investments are being managed prudently and have adopted policies designed to ensure the prudent management of its investments in the future, there can be no assurance that developments in the securities markets will not have an adverse effect on the market value of those investments and the income generated therefrom. For a discussion of the Borrowers' investment income for the last five fiscal years ended June 30, 2015, see "FINANCIAL INFORMATION" in APPENDIX A to this Official Statement.

Limited Security

Payment of the Series 2016 Bonds is not secured by any mortgage or security interest in any of the Borrowers' real property or fixtures, furnishings or equipment any mortgage or security interest in any of the facilities refinanced with the proceeds of the Series 2016 Bonds or any security interest in any investments held by or on behalf of any Borrower and is thus dependent solely upon the Borrowers' unsecured obligation to pay debt service on the Series 2016 Bonds as evidenced by the Note. The Borrowers' ability to make such payments, in turn, depends upon fund raising and the Borrowers' endowment and similar funds. In addition, the Borrowers have limited facilities, many of which are designed primarily for educational purposes and located on the Institute's campus. Thus, the ability to realize revenues from the sale or leasing of such facilities is limited.

Additional Indebtedness

The Borrowers may issue additional indebtedness, secured or unsecured. The incurrence by the Borrowers of additional indebtedness, secured or unsecured, may adversely affect the Borrowers' ability to make payments required under the Financing Agreement and the Note. Further, if the Borrowers incurs additional indebtedness, the market perception of the Borrowers' ability to pay debt service on the Series 2016 Bonds, regardless of the Borrowers' actual ability to make such payments, may result in a decrease in the market price of the Series 2016 Bonds.

Secondary Market for the Series 2016 Bonds

There can be no assurance that there will be a secondary market for the Series 2016 Bonds. Whether a secondary market exists at any time for the Series 2016 Bonds will depend on prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition and

results of the operations of the Borrowers. The Series 2016 Bonds should therefore be considered to be long-term investments in which funds are committed to maturity.

Enforceability of Remedies; Bankruptcy

Pursuant to the Trust Indenture, the Series 2016 Bonds are secured by the pledge and assignment by the Authority to the Bond Trustee of the Authority's interest in the Financing Agreement and Note (except for certain Unassigned Rights of the Authority) and certain funds held by the Trustee under the Trust Indenture. The practical realization of value upon any default will depend upon the exercise of various remedies specified by such documents, which may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in such documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, and decisions affecting remedies, including judicial discretion in the application of the principles of equity, and by bankruptcy, reorganization, or other laws affecting the enforcement of creditors' rights generally.

Bankruptcy and similar proceedings against the Borrowers and the application of equity principles may affect the enforcement of the Bondholders' remedies against the Borrowers.

Tax-Exempt Status

Each Borrower has received a determination letter from the IRS recognizing it as a tax-exempt organization described in Section 501(c)(3) of the Code, based on representations made to the IRS. In order to maintain such status, each Borrower is required to conduct operations in a manner consistent with representations previously made to the IRS and with current and future IRS regulations and rulings. Future regulations and rulings of the IRS could adversely affect the ability of each Borrower to charge and collect revenues, finance and refinance indebtedness on a tax-exempt basis, or otherwise generate revenues necessary to provide for payment of the Series 2016 Bonds. Loss of tax-exempt status would have a significant adverse effect on each Borrower and its operations, and could result in the includability of interest on the Series 2016 Bonds in gross income for federal income tax purposes for holders of the Series 2016 Bonds retroactively to their date of issue.

Other Factors

Various other factors, such as fluctuations in interest rates, inability of the Borrowers to extend or obtain liquidity facilities supporting its variable rate debt and changes in tax laws affecting the Borrowers' cost of capital, could also affect the future financial strength of the Borrowers and its ability to make the required payments on the Series 2016 Bonds.

SUMMARY OF TRUST INDENTURE

Assignment and Pledge

As security for the payment of the principal of and premium, if any, and interest on the Series 2016 Bonds, the Trust Indenture assigns and pledges to the Trustee the Note, all rights of the Authority under the Financing Agreement and the Note (except for certain rights to payment of fees and expenses, indemnification and notice (the "Unassigned Rights")) and the funds held by the Trustee pursuant to the Trust Indenture, except money in the Rebate Fund.

Provisions for Series 2016 Bonds

The Trust Indenture makes provisions for the issuance of the Series 2016 Bonds and all other terms pertaining to the Series 2016 Bonds as described in the section "**THE SERIES 2016 BONDS.**"

Bond Fund

The Trustee will deposit in the Bond Fund (1) the amount received by the Authority as accrued interest, if any, on the Series 2016 Bonds from their dated date to the date of their delivery, and (2) all payments on, or with respect to, the Note. Money in the Bond Fund will be used solely for the payment when due of the principal of and premium, if any, and interest on the Series 2016 Bonds.

Rebate Fund

The Trustee will hold a separate account to be known as the "Rebate Fund - V.M.I. Development Board, Incorporated Project" (the "Rebate Fund") to facilitate the Borrowers' compliance with the arbitrage rebate requirements of the Code as they apply to the Series 2016 Bonds. Money and securities held by the Trustee in the Rebate Fund shall not be deemed funds of the Authority and are not pledged or otherwise subject to any security interest in favor of the holders of the Series 2016 Bonds to secure the Series 2016 Bonds.

Cost of Issuance Fund

The Cost of Issuance Fund shall be held by the Trustee and used to pay costs of issuance, including, without limitation, costs and expenses of review by consultants, the Trustee's initial fees and expenses, initial fees of any rating agency, fees and expenses of attorneys, printing costs and expenses, and fees and expenses of the Authority. Any money remaining in the Cost of Issuance Fund after all costs of issuance have been paid or remaining after 120 days after the issuance of the Series 2016 Bonds will be deposited in the Interest Account of the Bond Fund.

Investment of Moneys in Funds

Subject to the limitations described below, money held by the Trustee under the Trust Indenture may be invested and reinvested by the Trustee, at the direction of the Borrowers, in any investments that are legal investments under the Investment of Public Funds Act (Chapter 45, Title 2.2 of the Code of Virginia of 1950, as amended).

Certain investments may be held directly or in the form of securities of any open-end investment fund registered under the Securities Act of Virginia or the Investment Company Act of 1940, as amended, provided that the portfolio of such investment company or investment fund is limited to such evidences of indebtedness.

Certain investments described above may be purchased by the Bond Trustee pursuant to a repurchase agreement with any bank, savings institution, trust company or securities firm, having a combined capital, surplus and undivided profits of not less than \$50,000,000 and being noted A-1 or better by Standard & Poor's and P-1 or better by Moody's, provided that the obligation of the bank to repurchase satisfies the requirements specified in the Trust Indenture.

Defaults and Remedies on Default

Each of the following constitutes an "Event of Default" under the Trust Indenture:

- (1) Default in the payment when due of any interest on any Series 2016 Bond;
- (2) Default in the payment when due of the principal of or premium, if any, on any Series 2016 Bond;
- (3) An "Event of Default" under the Financing Agreement; or
- (4) Subject to certain rights to notice and opportunity to cure, default in the observance or performance of any other covenant, condition or agreement on the part of the Authority under the Trust Indenture or in the Series 2016 Bonds.

Upon the occurrence and continuation of any Event of Default, the Trustee may, and if requested by the owners of 25% in aggregate principal amount of Series 2016 Bonds then outstanding will, by notice to the Authority, declare the entire unpaid principal of and premium, if any, and interest on the Series 2016 Bonds to be immediately due and payable and proceed to protect and enforce its rights by any proceeding at law, in equity, by statute or under the Trust Indenture.

Modifications and Amendments

Without the consent of or notice to any of the Bondholders, the Authority and the Trustee may enter into such Trust Indenture or Trust Indentures supplemental to the Trust Indenture for any one or more of the following purposes:

- (1) To cure any ambiguity or formal defect or omission in the Trust Indenture;
- (2) To grant to or confer upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the bondholders or the Trustee or either of them;
- (3) To subject to the Trust Indenture revenues, properties or collateral;
- (4) To modify, amend or supplement the Trust Indenture in such manner as required to permit the qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect; or
- (5) To make any other change that, in the opinion of the Trustee, will not prejudice in any material respect the rights of the holders of Series 2016 Bonds then outstanding.

In addition, the owners of a majority in aggregate principal amount of the Series 2016 Bonds then outstanding may consent to and approve the execution by the Authority and the Trustee of such other supplemental indentures as may be deemed necessary or desirable; provided, however, that in no event will the Trust Indenture be amended without the consent of the owners of all of the Series 2016 Bonds then outstanding which are affected by the amendment to permit (1) an extension of the maturity of the principal of or interest on any Series 2016 Bond, or (2) a reduction in the principal amount of any Series 2016 Bond or the rate of interest on it, or (3) an extension of time or a reduction in amount of any payment required by any mandatory redemption that may be applicable to any Series 2016 Bonds, or (4) a privilege or priority of any Series 2016 Bond or Series 2016 Bonds over any other Series 2016 Bond, or (5) a reduction in the aggregate principal amount of the Series 2016 Bonds required for consent to such supplemental Trust Indenture.

Consents of Bondholders and Underwriter

Any consent, request, direction, approval, objection or other instrument required by the Trust Indenture to be signed and executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be signed or executed by the Bondholders in person or by agent appointed in writing. Proof of the execution of any consent, request, direction, approval, objection or other instrument or of the writing appointing any agent will be sufficient for any of the purposes of the Trust Indenture, and will be conclusive in favor of the Trustee with regard to any action taken under the request or other instrument, if the fact and date of the execution by any person of any writing is proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing the writing acknowledged before him or her its execution, or by affidavit of any witness to such execution.

Any consent, request, direction, approval, objection or other instrument required by the Trust Indenture to be signed and executed by the Bondholders may be provided by any broker, dealer or municipal securities dealer acting as an underwriter for the Series 2016 Bonds during any period that such broker, dealer or municipal securities dealer holds such Series 2016 Bonds. Proof of the execution of any consent, request, direction, approval, objection or other instrument will be sufficient for any of the purposes of the Trust Indenture, and will be conclusive in favor

of the Trustee with regard to any action taken under the request or other instrument, if the fact and date of the execution by any person of any writing is proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing the writing acknowledged before him or her its execution, or by affidavit of any witness to such execution.

Discharge of Trust Indenture

When (1) the Series 2016 Bonds have become due and payable or have been duly called for redemption or irrevocable instructions to call the Series 2016 Bonds or pay them at maturity have been given by the Authority to the Trustee, and (2) the Trustee holds for such payment cash, noncallable Government Obligations or Government Certificates the principal of and the interest on which at maturity will be sufficient (a) if Series 2016 Bonds have been called for redemption, to redeem in accordance with the relevant section of the Trust Indenture all such Series 2016 Bonds on the date set for such redemption, (b) to pay at maturity all Series 2016 Bonds not called for redemption, (c) to pay interest accruing on all Series 2016 Bonds before their redemption or payment at maturity, and (d) to pay to the Trustee its reasonable fees and expenses and any other fees and expenses for which the Borrowers is responsible under the Trust Indenture and the Financing Agreement, then the Trustee will at the expense of the Borrowers cancel and discharge the Trust Indenture and execute and deliver to the Borrowers and the Authority such instruments in writing as may be required to cancel the lien of it, and assign and deliver to the Borrowers any property at the time subject to the Trust Indenture which may then be in its possession, except funds or securities in which such funds are invested which are held by the Trustee for the payment of principal of Series 2016 Bonds.

SUMMARY OF FINANCING AGREEMENT

Agreement to Issue Series 2016 Bonds

The Authority agrees to issue the Series 2016 Bonds and to deposit the proceeds with the Trustee for use as set forth in the Trust Indenture.

Amounts Payable

The Borrowers agree to (1) make all payments required under the Note when due and (2) pay the Trustee's fees and the reasonable expenses of the Trustee and the Authority incurred in connection with the Series 2016 Bonds. The Borrowers' obligation under the Note is joint and several absolute and unconditional and payable from any legally available funds of the Borrowers.

The rights of the Authority under the Financing Agreement and the Note (except for the Unassigned Rights) will be pledged and assigned to the Trustee by the Authority. The Borrowers' obligation to make payments under the Financing Agreement and the Note and to perform and observe its other covenants, conditions and agreements under the Financing Agreement and the Note will be absolute and unconditional. Until the Series 2016 Bonds have been fully paid or provision for their payment is made in accordance with the provisions of the Trust Indenture, the Borrowers will not suspend or discontinue the performance of its obligations under the Financing Agreement or the Note for any cause, including failure by the Authority or the Trustee to perform any of their obligations under the Trust Indenture or the Financing Agreement.

Payment of Note

The Authority, concurrently with the execution of the Financing Agreement, will issue the Series 2016 Bonds and lend the proceeds thereof to the Borrowers by causing the Trustee to apply the proceeds as set forth in the Trust Indenture. The Borrowers agree to borrow the proceeds of the Series 2016 Bonds and to repay the loan from the Authority under the terms of the Financing Agreement.

Under the Financing Agreement and Note, the Borrowers agree jointly and severally, to make payments directly to the Trustee rather than the Authority (except for payments related to an Unassigned Right). The Borrowers agree that the Financing Agreement and the Note and the payments to be made thereunder and thereon

(excluding the Unassigned Rights) will be assigned and pledged to the Trustee to secure the payment of the Series 2016 Bonds, and all of the rights, interests, powers, privileges and benefits accruing to or vested in the Authority thereunder may be protected and enforced in conformity with the Trust Indenture.

Under the terms of the Financing Agreement, the Borrowers covenant to pay the Trustee such amounts at such times as shall provide for payment of interest, premium, if any, and principal, whether upon a regularly scheduled interest payment date, maturity, mandatory redemption or acceleration, on the Series 2016 Bonds outstanding under the Trust Indenture. All payments due on the Note, except for certain enumerated payments described in the Financing Agreement, shall be paid directly to the Trustee and applied as provided in the Trust Indenture.

The obligations of the Borrowers to pay the principal, premium, if any, and interest on the Note and other sums provided for in the Financing Agreement and to perform and observe their other agreements under the Financing Agreement shall be absolute and unconditional. The Borrowers shall not be entitled to any abatement or diminution thereof for any reason whatsoever. The Borrowers are not entitled to terminate the Financing Agreement for any reason whatsoever.

Restricted Pledges

The Borrowers will apply to payments on the Note within 13 months of receipt all payments on pledges and other contributions to the Borrowers that are restricted by their donors or by operation of law to pay any portion of the payment of the Series 2016 Bonds; provided, however, that any such payments in excess of payments due on the Note within 13 months after receipt will be held by the Trustee in the Series 2016 Bond Fund and invested at a yield not to exceed the yield on the Series 2016 Bonds.

Additional Covenants

Each Borrower is required to maintain its corporate existence, to maintain its status as a tax-exempt organization under Section 501(c)(3) of the Code, continuously to operate its facilities as an institution of secondary education whose primary purpose is to provide secondary education and not to provide religious training or theological education, and to take all action necessary to maintain its accreditation by a recognized state or regional accrediting body, and will not, without the prior consent of the Trustee, dissolve or otherwise dispose of all or substantially all of its assets.

Each Borrower has covenanted to maintain proper books of record and account in which full and correct entries will be made, in accordance with generally accepted accounting principles or other industry practices, of all its business and affairs. The Borrowers have agreed to indemnify the Authority and the Trustee from all liabilities caused by failure of the Borrowers to comply with any terms of the Financing Agreement. The Borrowers are required to take all action necessary to ensure that interest on the Series 2016 Bonds is not included in gross income for federal income tax purposes.

Default and Remedies

Each of the following constitutes an "Event of Default" under the Financing Agreement:

- (1) Failure of the Borrowers to make any payment on the Note when due;
- (2) Subject to certain provisions, including a 30-day cure period, failure of the Borrowers to observe and perform any of its other covenants, conditions or agreements under the Financing Agreement;
- (3) Certain events of bankruptcy, insolvency or reorganization of the Borrowers.

Upon the occurrence and continuation of an Event of Default, the Trustee may declare the entire unpaid principal balance on the Note to be immediately due and payable.

Amendments

The Authority and the Trustee may, without the consent of or notice to any of the Bondholders, consent to any amendment, change or modification of the Financing Agreement or the Note as may be required (1) by the provisions of the Financing Agreement, the Note or the Trust Indenture, (2) for the purpose of curing any ambiguity or formal defect or omission in them, (3) to make changes to comply with the rebate requirements of the Code, or (4) in connection with any other changes in the Financing Agreement or the Note which, in the judgment of the Trustee, will not prejudice in any material respect the Bondholders. In all other circumstances the Financing Agreement may be amended only with the written consent of the owners of a majority in aggregate principal amount of Series 2016 Bonds then outstanding, but in no event will the Authority or the Trustee consent to any amendment, change or modification of the Financing Agreement or the Note which would diminish the obligation of the Borrowers to pay amounts sufficient to enable the Trustee to pay the principal of and interest on the Series 2016 Bonds.

SUMMARY OF NOTE

The following is a brief summary of certain provisions of the Note and is qualified by reference to such document.

The principal amount of the Note is equal to the principal amount of the Series 2016 Bonds. The Borrowers promise to pay the principal amount of the Note with interest on the unpaid principal. The Note provides for payments of principal in amounts sufficient to pay principal of the Series 2016 Bonds as they become due. The Note also provides for semi-annual payments of interest in amounts sufficient to pay interest on the Series 2016 Bonds when due. The Borrowers have the option to prepay the Note by complying with the requirements for optional redemption of the Series 2016 Bonds or by paying to the Trustee cash or noncallable direct obligations of the United States of America the principal of and interest on which will be sufficient to redeem the Series 2016 Bonds, all as more fully set forth in the Financing Agreement.

The Note is an unsecured joint and several general obligation of the Borrowers.

The Authority will assign the Note to the Trustee as security for the payment of the Series 2016 Bonds.

LITIGATION

The Authority

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2016 Bonds, or in any way contesting or affecting the validity of the Series 2016 Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any money or security provided for the payment of the Series 2016 Bonds or the existence or powers of the Authority.

The Borrowers

There is no controversy or litigation of any nature now pending or threatened against the Borrowers that, in the judgment of the Borrowers, would materially adversely affect the operations or financial condition of the Borrowers or the ability of the Borrowers to perform their obligations under the Financing Agreement or the Note or to accomplish the transactions contemplated by this Official Statement.

APPROVAL OF LEGALITY

The validity of the Series 2016 Bonds will be passed upon by McGuireWoods LLP, Richmond, Virginia, Bond Counsel. The Underwriter's obligation to purchase the Series 2016 Bonds is subject to, among other things, the issuance of Bond Counsel's approving opinion, which will be substantially in the form set forth in **APPENDIX C** to this Official Statement. Certain legal matters will also be passed upon for the Underwriter by Troutman

Sanders LLP, Richmond, Virginia, for the Borrowers by McGuireWoods LLP, Richmond, Virginia and for the Authority by Mann, Vita, and Elrod, P.L.L.C., Lexington, Virginia, none of whom in such capacities is passing on the validity of the Series 2016 Bonds. Copies of such opinions will be available from the Underwriter at the time of delivery of the Series 2016 Bonds.

TAX MATTERS

Opinion of Bond Counsel - Federal Income Tax Status of Interest

The opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel, will state that, under current law, interest on the Series 2016 Bonds, including any accrued "original issue discount" properly allocable to the holders of the Series 2016 Bonds, is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2016 Bonds is included in computing adjusted current earnings. See **APPENDIX C** to this Official Statement.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2016 Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the Series 2016 Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority or the Borrowers or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The Authority and the Borrowers have covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

In delivering its opinion regarding the Series 2016 Bonds, Bond Counsel is relying upon certifications of representatives of the Authority, the Borrowers and other parties as to facts material to the opinion, which Bond Counsel has not independently verified. In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the Authority and the Borrowers. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2016 Bonds in order for interest on the Series 2016 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that the Borrowers to maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2016 Bonds and the use of the property financed or refinanced by the Series 2016 Bonds, limitations on the source of the payment of and the security for the Series 2016 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2016 Bonds to the Treasury of the United States (the "Treasury"). The Indenture, the Financing Agreement and the Tax Compliance Agreement contain covenants (the "Covenants") under which the Authority and the Borrowers have agreed to comply with such requirements. Failure by the Authority or the Borrowers to comply with their respective Covenants could cause interest on the Series 2016 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2016 Bonds from becoming includable in gross income for federal income tax purposes. Compliance by the Authority with its respective Covenants does not require the Authority to make any financial contribution for which it does not receive funds from the Authority and the Borrowers.

Certain requirements and procedures contained, incorporated or referred to in the Indenture, the Financing Agreement and the Tax Compliance Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth therein. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Series 2016 Bonds from gross

income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Original Issue Discount

The excess, if any, of the amount payable at maturity of any maturity of the Series 2016 Bonds over the initial public offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such maturity is sold constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Series 2016 Bonds for federal income tax purposes. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjustable basis for purposes of determining a holder's gain or loss on disposition of the Series 2016 Bonds with original issue discount (the "OID Bonds") will be increased by such amount. In addition, original issue discount that accrues in each year to an owner of an OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed below. Consequently, owners of any OID Bond should be aware that the accrual of original issue discount in each year may result in additional distribution requirements or other collateral federal income tax consequences although the owner of such OID Bond has not received cash attributable to such original issue discount in such year.

Owners of OID Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such OID Bonds, other tax consequences of owning OID Bonds and other state and local tax consequences of holding such OID Bonds.

Original Issue Premium

The excess, if any, of the tax basis of any maturity of the Series 2016 Bonds to a purchaser (other than a purchaser who holds such Series 2016 Bonds as inventory, stock in trade or for the sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of the Series 2016 Bonds for federal income tax purposes (or in the case of a Series 2016 Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such obligation). Owners of such Series 2016 Bonds are required to decrease their adjusted basis in such Series 2016 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2016 Bonds are held. The amortizable bond premium on such Series 2016 Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Series 2016 Bonds.

Owners of the Series 2016 Bonds with bond premium should consult their personal tax advisors with respect to all matters relating to such premium.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2016 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of the Series 2016 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Series 2016 Bonds.

Prospective purchasers of the Series 2016 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Series 2016 Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made after March 31, 2007 to any owner of a Series 2016 Bond who fails to provide an accurate Form W 9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any owner of a Series 2016 Bond who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of interest on the Series 2016 Bonds from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Effects of Future Enforcement, Regulatory and Legislative Actions

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the IRS does audit the Series 2016 Bonds, the IRS will, under its current procedures, treat the Authority as the taxpayer. As such, the beneficial owners of the Series 2016 Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the Series 2016 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Series 2016 Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and various state legislatures. Such legislation may effect changes in federal or state income tax rates and the application of federal or state income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or state income tax purposes.

The U.S. Department of the Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the federal or state tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the Series 2016 Bonds, regulatory interpretation of the Code or actions by a court involving either the Series 2016 Bonds or other tax-exempt obligations will not have an adverse effect on the Series 2016 Bonds' federal or state tax status, marketability or market price of the Series 2016 Bonds or on the economic value of the tax-exempt status of the interest on the Series 2016 Bonds.

Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Opinion of Bond Counsel - Income Tax Consequences under the laws of the Commonwealth

The opinion of Bond Counsel will also state that, under current law, the income on the Series 2016 Bonds, including any profit made on the sale thereof, is exempt from all taxation by the Commonwealth or any political subdivision thereof. Bond Counsel will express no opinion regarding (i) other tax consequences arising with respect to the Series 2016 Bonds under the laws of the Commonwealth or (ii) any consequences arising with respect to the Series 2016 Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding the tax status of interest and other income on the Series 2016 Bonds in a particular state or local jurisdiction other than the Commonwealth.

UNDERWRITING

Wells Fargo Bank, National Association (the "Underwriter") expects to enter into a Bond Purchase Agreement for the Series 2016 Bonds (the "Bond Purchase Agreement") to purchase the Series 2016 Bonds, subject to certain conditions, at a price equal to the principal amount of the Series 2016 Bonds [plus/less] a net original issue [premium/discount] of \$ _____ and less an Underwriter's discount of \$ _____ (approximately ___% of the principal amount of the Series 2016 Bonds). The obligation of the Underwriter to pay for the Series 2016 Bonds is

subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the delivery of specified opinions of counsel and of a certificate of the Borrowers that there has been no material adverse change in its condition (financial or otherwise) from that set forth in this Official Statement. The Underwriter will purchase all of the Series 2016 Bonds if any are purchased.

The Underwriter may offer and sell the Series 2016 Bonds to certain dealers (including dealer banks and dealers depositing the Series 2016 Bonds into investment trusts) and others at prices different from the public offering prices stated on the inside cover page of this Official Statement. Such initial public offering prices may be changed from time to time by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates may from time to time provide such services to the Authority or the Borrowers, for which they would receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority or the Borrowers.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, the Underwriters for the Series 2016 Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2016 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2016 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2016 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

INDEPENDENT AUDITORS

The combined financial statements as of June 30, 2015, and for the fiscal year then ended, included in **APPENDIX B** to this Official Statement, have been audited by Dixon Hughes Goodman LLP, independent auditors, as stated in their report appearing in **APPENDIX B** to this Official Statement. A summary of the statements of the financial position and statements of activities of the VMI Alumni Agencies as of and for each of the five fiscal years ended June 30, 2011 through 2015 is included in **APPENDIX A** to this Official Statement. Dixon Hughes Goodman LLP, have not been engaged to perform and have not performed, since the date of their report included herein, any procedures on the financial statements addressed in that report. The Underwriter has not required a comfort letter or agreed upon procedures letter from Dixon Hughes Goodman LLP as to any of the selected financial information for the Borrowers included in **APPENDIX A** as a condition to its obligation to purchase the Series 2016 Bonds.

FINANCIAL ADVISOR

The Borrowers have retained Raymond James & Associates, Inc., Richmond, Virginia (the "Financial Advisor") in connection with the issuance of the Series 2016 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

RATINGS

Moody's has assigned a rating of "___" to the Series 2016 Bonds prior to their original delivery date.

The rating assigned by Moody's reflects only the current view of such rating agency, as discussed more fully in the ratings report issued by Moody's. Reference is made to such report for a discussion by Moody's of its analysis and the assumptions upon which its assigned rating is based and any conditions attached to maintenance of such rating.

Explanation of the significance of such ratings may be obtained from time to time from Moody's. A rating is not a recommendation to buy, sell or hold the Series 2016 Bonds. There is no assurance that such rating will not be withdrawn or revised downward. Such action, if taken, could have an adverse effect on the market price of the Series 2016 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the Borrowers relating to (i) computations of forecasted receipts of principal and interest on the investments deposited in the Escrow Fund, and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (ii) computation of the yields on the Series 2016 Bonds and of the Refunded Bonds and the securities deposited into the escrow fund will be examined by _____, _____, _____ (the "Verification Agent"). Such computations will be based solely on assumptions and information supplied by the Financial Advisor on behalf of the Borrowers. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

CONTINUING DISCLOSURE

As provided in Rule 15c2-12 (the "Rule") promulgated by the Securities Exchange Commission, the Borrowers have agreed to a continuing disclosure undertaking (the "Continuing Disclosure Agreement") with respect to the Series 2016 Bonds for the benefit of the registered and Beneficial Owners of the Series 2016 Bonds. Pursuant to the Continuing Disclosure Agreement, the Borrowers have agreed to provide or cause to be provided (1) certain annual financial information and operating data; (2) notice of the events listed in the Rule within 10 business days of the occurrence of any such event; and (3) timely notice of a failure by the Borrowers to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The proposed form of Continuing Disclosure Agreement containing the covenants made by the Borrowers hereunder for the benefit of the registered and Beneficial Owners of the Series 2016 Bonds is attached as **APPENDIX D** to this Official Statement.

Failure by the Borrowers to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Financing Agreement. The Holders of the Series 2016 Bonds are limited to the remedies described in the Continuing Disclosure Agreement.

The Authority is not contractually obligated to supplement or update the information included in the Official Statement after the delivery of the Series 2016 Bonds. The Underwriter has not undertaken either to supplement or update the information included in the Official Statement.

RELATIONSHIPS OF PARTIES

With the consent of all parties, McGuireWoods LLP, Bond Counsel to the Authority, is also serving as counsel to the Borrowers. McGuireWoods LLP also provides legal services from time to time to the Financial Advisor, the Underwriter and the Bond Trustee on matters unrelated to the issuance of the Series 2016 Bonds.

John Adams, a partner at McGuireWoods LLP, Bond Counsel and counsel to the Borrowers, is a member of the Board of Directors and the Executive Committee of V.M.I. Foundation, Inc.

Troutman Sanders LLP, counsel to the Underwriter, also provides legal services to the Bond Trustee and the Financial Advisor on matters unrelated to the issuance of the Series 2016 Bonds.

MISCELLANEOUS

The distribution of this Preliminary Official Statement has been duly authorized by the Authority and approved by the Borrowers. The Authority has deemed this Preliminary Official Statement "final" within the meaning of the Rule except for the information that is permitted to be omitted under the Rule.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
CITY OF LEXINGTON, VIRGINIA**

By: _____
Chairman

Approved:

**V.M.I. DEVELOPMENT BOARD,
INCORPORATED**

By: _____
Executive Director

V.M.I. FOUNDATION, INCORPORATED

By: _____
Chief Executive Officer

APPENDIX A

V.M.I. DEVELOPMENT BOARD, INCORPORATED AND V.M.I. FOUNDATION, INCORPORATED

APPENDIX B

**AUDITED COMBINED FINANCIAL STATEMENTS OF
VMI ALUMNI AGENCIES,
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX D
CONTINUING DISCLOSURE AGREEMENT

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority, the Underwriter, the Bond Trustee, or the Borrowers. Beneficial ownership in the Series 2016 Bonds will be available initially to Beneficial Owners (as defined below) only by or through DTC Participants in the Book-Entry System maintained by DTC.

DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each series of the Series 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," and together with the Direct Participants, the "Participants"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Series 2016 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, tenders, defaults and proposed amendments to the related bond documents. For example, Beneficial Owners of the Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and premium, if any, redemption price payments and interest payments on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Bond Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and premium, if any, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2016 Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) with respect to the Series 2016 Bonds. In that event, Bond certificates are required to be printed and delivered to DTC.

The Authority, the Corporation, the Bond Trustee and the other members of the Obligated Group and the Underwriter has no responsibility or obligation to the Direct Participants, the Indirect Participants or the Beneficial Owners with respect to: (a) the accuracy of any records maintained by DTC, any Direct Participant or any Indirect Participant; (b) the payment by DTC, any Direct Participant or any Indirect Participant of any amount due to any Beneficial Owner in respect to the principal of and interest on the Series 2016 Bonds; (c) the delivery or timeliness of delivery by any Direct Participant or any Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Series 2016 Bonds to be given to owners of the Series 2016 Bonds; (d) the selection of the Beneficial Owners to receive payments in the event of any partial redemption of the Series 2016 Bonds; or (e) any consent given or other action taken by DTC, or its nominee, Cede & Co., as owners of the Series 2016 Bonds.

So long as Cede & Co. is the registered owner of the Series 2016 Bonds, as nominee of DTC, references in this Official Statement to Bondholders shall mean Cede & Co. and shall not mean the Beneficial Owners, and Cede & Co. will be treated as the only Bondholders of the Series 2016 Bonds for all purposes under the Series 2016 Bonds.

The Authority may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Series 2016 Bonds without the consent of Beneficial Owners or Bondholders.

APPENDIX A
INFORMATION CONCERNING THE
V.M.I. DEVELOPMENT BOARD, INCORPORATED AND THE
V.M.I. FOUNDATION, INCORPORATED

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GENERAL

Purpose and Operation

The V.M.I. Development Board, Incorporated (the "Development Board") is a not-for-profit Virginia nonstock corporation, created in 1978 for the purpose of coordinating the development and fundraising efforts conducted on behalf of the Virginia Military Institute (the "Institute"), a public institution of higher education in the Commonwealth of Virginia (the "Commonwealth"). The Development Board is the legal depository for a portion of endowment gifts made by donors in support of the Institute. The Development Board is governed by an ex-officio Board of Directors. See **"GOVERNANCE AND MANAGEMENT OF THE DEVELOPMENT BOARD AND THE FOUNDATION - Board of Directors of the Development Board"** herein.

The V.M.I. Foundation, Incorporated (the "Foundation," together with the Development Board, the "Borrowers") is a not-for-profit Virginia nonstock corporation, created in 1937. The Foundation's principal role is to raise funds, both current and endowment, for the general support of the Institute and the VMI Alumni Association, Incorporated (the "VMI Alumni Association"), but excluding intercollegiate athletics. The Foundation serves as the executive agent for all major fundraising campaigns on behalf of the Institute. The Foundation also serves the VMI Alumni Association, the Development Board, the VMI Keydet Club, Incorporated (the "Keydet Club") and the George C. Marshall Foundation by providing banking, accounting, computer, and investment services as well as personnel benefit management. In addition, the Foundation provides administrative support to the Development Board, which has no employees or staff. The members of the Foundation's Board of Trustees are appointed by the VMI Alumni Association. See **"GOVERNANCE AND MANAGEMENT OF THE FOUNDATION AND THE DEVELOPMENT BOARD - Board of Trustees of the Foundation"** herein.

The Borrowers are each exempt from federal income taxes as a charity under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") by virtue of being organizations described in Section 501(c)(3) of the Code.

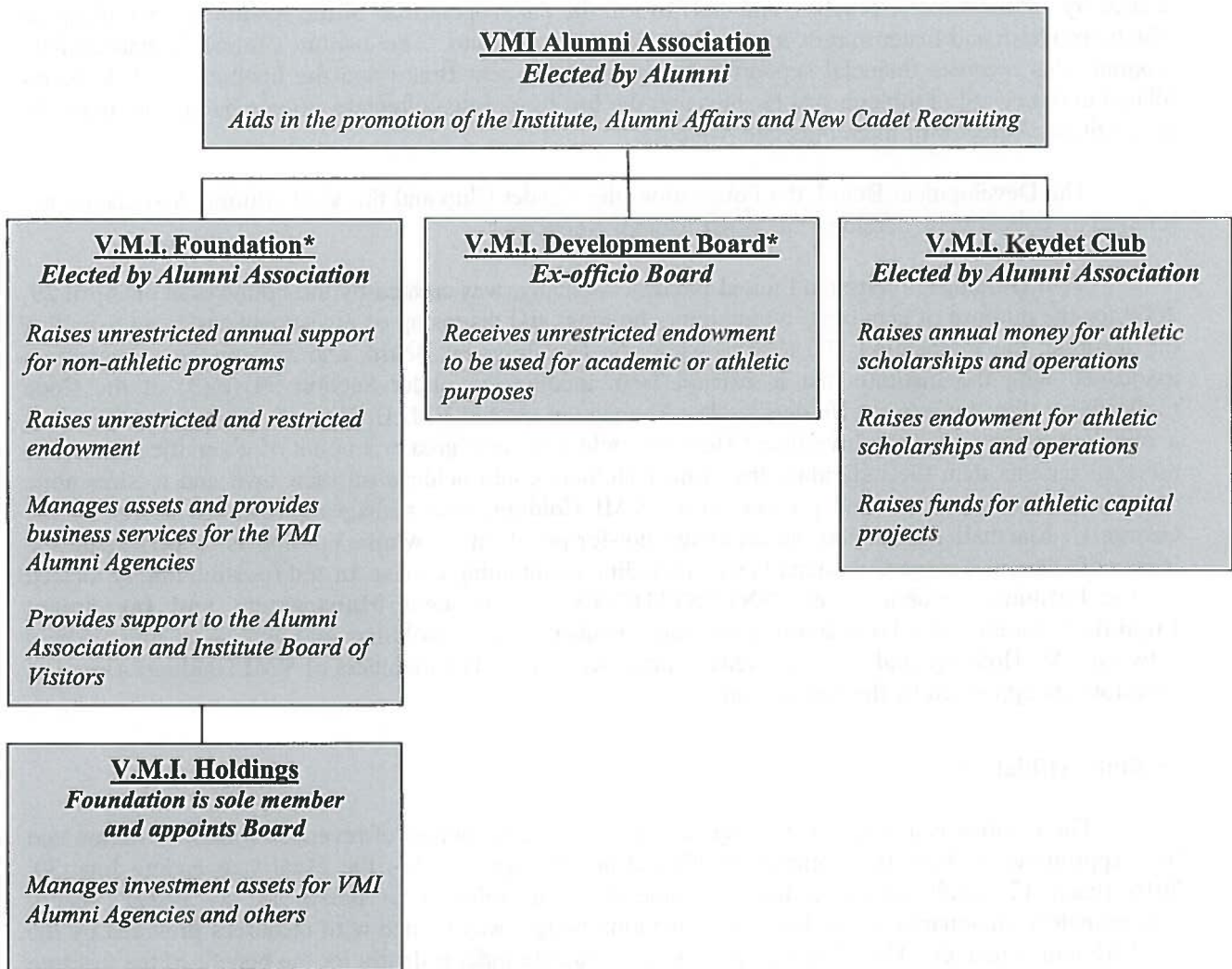
The information in this Appendix A has been obtained from the Development Board and the Foundation and from other sources that they believe to be reliable.

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Related Entities

As shown on the chart below, the Development Board and the Foundation are two of five entities established for the purpose of supporting the Institute: the Development Board, the Foundation, the VMI Alumni Association, the Keydet Club, and V.M.I. Investment Holdings, LLC ("VMI Holdings"). **Only the Development Board and the Foundation are obligated to make payments on the Series 2016 Bonds.**

Organizational Structure of VMI Alumni Agencies



* Obligated to make payment on the Series 2016 Bonds.

The VMI Alumni Association, a not-for-profit Virginia nonstock corporation, was organized in July of 1842 as the "Alumni Military Association," and is the oldest public college alumni association in the United States. The VMI Alumni Association's Board of Directors oversees the Institute's alumni activities, including an alumni facility on campus, reunions, new cadet recruiting, alumni placement, the Institute's alumni magazine, and various other alumni activities. The members of the Board of Directors

of the VMI Alumni Association are elected by alumni at their annual meeting. The members of the VMI Alumni Association's Board of Directors elect the members of the Foundation's Board of Trustees and the Keydet Club's Board of Directors.

The Keydet Club, a not-for-profit Virginia nonstock corporation, was originally created in 1934 as the Alumni Educational Fund by the VMI Alumni Association for the purpose of providing financial aid to deserving and qualified young men. After World War II, it became the Sportsmen's Club and, in 1973, it became the VMI Keydet Club. Today, the Keydet Club's mission is to contribute to the spirit and development of a successful Division I athletic program that benefits the Institute. The Keydet Club continues its role as providing financial support to the Institute's cadet-athletes in the form of grants-in-aid. In addition, since 1999, through the Athletic Operations Fund, the Keydet Club has raised money needed by administrators, coaches, and staff to run the daily operations of the Institute's intercollegiate athletic program and foster improvements throughout the program. The Institute's intercollegiate athletic program also receives financial support from the Development Board and the Institute. All decisions related to the award of athletic scholarships and the Institute's intercollegiate athletic budget are made by the Institute's Director of Intercollegiate Athletics.

The Development Board, the Foundation, the Keydet Club and the VMI Alumni Association are referred to, collectively, herein as the "VMI Alumni Agencies."

VMI Holdings, a Virginia limited liability company, was created by the Foundation on April 29, 2009 for the purpose of acquiring, maintaining, holding, and disposing of investment assets on behalf of the Institute, the Foundation, the Keydet Club, the Development Board, and any similar organization associated with the Institute that is exempt from income tax under Section 501(c)(3) of the Code (collectively, the "Investment Holders"). The Foundation created VMI Holdings for purposes of creating a vehicle through which the Investment Holders could achieve a greater amount of diversification in the asset allocations than the individual Investment Holders could achieve on their own and to streamline their investment processes and presentations. VMI Holdings also manages investment assets for the George C. Marshall Foundation, an unrelated not-for-profit entity whose mission is to perpetuate the legacy of General George C. Marshall ('01), including maintaining a museum and research library located on the Institute's grounds. See "**INVESTMENTS - Investment Management and Investment Liquidity**" herein. The Foundation is the sole member of VMI Holdings and acts as an intermediary between VMI Holdings and the other VMI Alumni Agencies. The members of VMI Holdings' Board of Directors are appointed by the Foundation.

Institute Affiliation

The Institute is a Virginia state agency and its primary sources of revenues consist of tuition and fees, appropriations from the Commonwealth and private support. For the fiscal year ending June 30, 2016 (each 12-month period ending on June 30 being referred to herein as, a "Fiscal Year"), approximately one-quarter of the Institute's operating budget was funded with resources provided by the VMI Alumni Agencies. The VMI Alumni Agencies operate independently for the benefit of the Institute and are not part of the Institute. The Borrowers develop budgets annually to determine the level of contribution they will make each year to or on behalf of the Institute. These annual budgets are approved annually by the Development Board's Board of Directors and the Foundation's Board of Trustees, respectively.

While the Borrowers are not obligated to fund any amounts to the Institute, it is their mission to support the Institute, and they have historically made annual fund transfers. See "**FINANCIAL INFORMATION - Transfers to the Institute**" herein. Beginning in December of each year, the Borrowers and the other VMI Alumni Agencies begin preparing budgets. Generally, by March of the

following year, the Borrowers and the other VMI Alumni Agencies notify the Institute of how much funds each will transfer to the Institute at the end of the Fiscal Year. The funds that the Borrowers transfer to the Institute typically fund operations at the Institute. In determining the amount of each transfer, the Borrowers consider the investment returns on their restricted and unrestricted assets, their spending policies, future earnings projections and future expense needs. In addition, while much of the Institute's capital needs are funded by the Commonwealth or through financing provided by the Commonwealth to the Institute, the Borrowers also assist the Institute in funding a portion of its capital needs. Capital project assistance is structured in a variety of ways, including providing financing (the Series 2016 Bonds for example), providing additional security for financings by the Institute, making gifts for capital improvements and loaning funds to the Institute based upon contributions receivable. In each case, the Borrowers determine the appropriate capital assistance at the request of the Institute.

**GOVERNANCE AND MANAGEMENT OF THE
DEVELOPMENT BOARD AND THE FOUNDATION**

Board of Directors of the Development Board

The Development Board is governed by an ex-officio Board of Directors consisting of (1) President of the Board of Visitors of the Institute, (2) President of the VMI Alumni Association, (3) President of the Foundation, (4) President of the Keydet Club, (5) Superintendent of the Institute and (6) Chief Executive Officer of the Foundation. Board members serve terms whose length runs concurrently with the tenure of their designated office. The Board of Directors exercises all corporate powers of the Development Board and directs all of the Development Board's business and affairs.

The following table sets forth the name and occupation of each member of the Board of Directors of the Development Board.

<u>Name</u>	<u>Occupation</u>
George P. Ramsey III <i>President of the Institute's Board of Visitors</i>	Partner, Counts Realty & Auction Group
Hugh M. Fain III <i>President of the Foundation</i>	Partner, Spotts Fain, P.C.
William A. Paulette <i>President of the Keydet Club</i>	President, KBS, Inc.
J.H. Binford Peay, III <i>Superintendent of the Institute</i>	Superintendent of the Institute
Edgar J.T. Perrow <i>President of the VMI Alumni Association</i>	President, Perrow Consulting Service
Brian S. Crockett <i>Chief Executive Officer of the Foundation</i>	Chief Executive Officer of the Foundation and Executive Director of the Development Board

Board of Trustees of the Foundation

The Foundation is governed by a Board of Trustees, appointed by the Board of Directors of the VMI Alumni Association. The Board of Trustees exercises all corporate powers of the Foundation and directs all of the Foundation's business and affairs. The Board of Trustees consists of no more than 30 voting trustees, including voting ex-officio trustees. Trustees are appointed or elected at the annual meeting of the Board of Directors of the VMI Alumni Association. Five trustees of the Board of Trustees serve on an ex-officio basis, by virtue of holding the position of (1) President of the VMI Alumni Association, (2) President of the Keydet Club, (3) President of the Board of Visitors of the Institute, (4) Superintendent of the Institute, and (5) a faculty member of the Institute appointed by the Superintendent. The Presidents of the VMI Alumni Association and the Keydet Club are the only voting ex-officio trustees. Trustees serve four-year terms, expiring on June 30 of the fourth year of their term. There are four classes of trustees, for purposes of staggering the expiration of the trustees' terms. The four classes of trustees are equal in number as nearly as possible. However, ex-officio trustees serve terms whose length runs concurrently with the tenure of their designated office, except for the faculty member of the Institute. The faculty member serves a one-year term beginning July 1 of the year in which he/she is appointed and is eligible to be re-appointed annually.

The Foundation is managed by an Executive Committee that has full authority to operate and administer the Foundation between meetings of the Board of Trustees. The Executive Committee consists of the President of the Foundation, the Vice President of Fundraising, the Vice President of Administration, and at least two other elected trustees who shall be appointed by the President of the Foundation, subject to the majority approval of the Board of Trustees. The immediate past President of the Foundation serves ex-officio as a member of the Executive Committee for one year following the expiration of his term as President. The Board of Trustees has also created additional committees consisting of a Fund-Raising and Stewardship Committee, an Audit and Finance Committee, a Nominating and Awards Committee and a Property Management and Gifts Committee.

The following table set forth the name and occupation of each member of the Executive Committee of the Board of Trustees of the Foundation.

<u>Name</u>	<u>Occupation</u>	<u>Term Expiration (June 30)</u>
John D. Adams	Partner, McGuire Woods LLP	2023
T. Bryan Barton	Retired	2016
Richard E. Collier	President, R E Collier, Inc.	2017
Hugh M. Fain III	Partner, Spotts Fain, P.C.	2020
S. Read Hamner, Jr.	Retired	2022
Stephen E. Hupp	Corporate Secretary, Estes Express Lines	2016
Walton M. Jeffress, Jr.	Attorney, Walton M. Jeffress, Jr./Exc Legal PLC	2016
William E. Welsch	President, William E. Welsch Associates, Inc.	2018
Thomas W. Williamson, Jr.	Senior Partner, Williamson & Lavecchia, LC	2021

Management of the Borrowers

The officers of the Foundation include a Chairman of the Board (optional), a President, two Vice Presidents, a Chief Executive Officer, a Secretary and a Chief Financial Officer and Treasurer. The Board of Trustees can appoint one or more other officers and assistant officers, or other agents or employees, to carry on the business of the Foundation. The Chairman of the Board presides over all

meetings of the Board of Trustees unless there is no Chairman, in which case the President presides over all meetings. The President shall be an alumnus of the Institute and an elected trustee.

The Development Board's appointed officers include an Executive Director, a Vice President and Chief Financial Officer and an Assistant Secretary/Treasurer. The Board of Directors of the Development Board can appoint or designate such other officers and agents as they consider necessary or useful.

The following are the key officers and administrative staff for the Foundation and the Development Board.

Brian S. Crockett, *Chief Executive Officer of the Foundation and Executive Director of the Development Board*. Mr. Crockett joined the Foundation and Development Board in 2009. Immediately prior to joining the Foundation and the Development Board, he was vice president for development at the West Point Association of Graduates. From 2004 until 2007, Mr. Crockett was the vice president of external programs of the Rutgers University Foundation. In this capacity, he implemented a comprehensive strategic advancement plan for annual giving, alumni relations, reunion campaigns, regional programs, and athletic development as well as coordinated the cultivation, solicitation, and stewardship of Rutgers University's more than 360,000 alumni and other private donors. From 1993 through 2004, Mr. Crockett was the executive director of the Scarlet R. Club and associate athletic director for development at Rutgers University. Prior to 1993, he worked as a sales and marketing executive. Mr. Crockett received his bachelor's degree from Rutgers University in 1982. Mr. Crockett has announced his intention to retire at the end of 2016. The Board of Trustees intends to initiate a national search for a replacement prior to his departure.

Jacqueline B. Berkshire, *Vice President for Operations of the Foundation*. Ms. Berkshire joined the Foundation in 2013. She is responsible for most logistics, stewardship, and special-event functions for the Foundation. She also acts as the Foundation's liaison with the senior staff of the Institute. Ms. Berkshire graduated from James Madison University in 1990 with a bachelor's degree in Early Childhood Education.

Terrie Conrad, *Vice President Constituent and Planned Giving of the Foundation*. Ms. Conrad joined the Foundation in 2004. She is responsible coordinating the Foundation's efforts to raise money through planned giving vehicles, such as bequests and insurance, as well as its efforts to gain the support of corporations and foundations for the Institute's academic and co-curricular programs. She also is responsible for the Society of VMI Family & Friends, a group of non-alumni parents and friends of the Institute who are interested in helping raise private financial support for the Institute. Prior to joining the Foundation, Ms. Conrad owned TerCon Communications, an advertising and public relations firm, and worked ten years as a financial planner and insurance executive. She has more than 15 years of experience in fundraising and nonprofit finance and management, including working as chief operating officer and chief development officer of the Club Foundation, as director of institutional advancement for Central Virginia Community College, and as director of annual giving for Mary Baldwin College. Ms. Conrad graduated from Randolph Macon Woman's College with bachelor's degrees in English and Political Science in 1997. She is currently working towards earning a master of business administration degree in financial management from Virginia Commonwealth University.

David L. Prasnicky, *Vice President and Chief Financial Officer of the Foundation*. Mr. Prasnicky joined the Foundation in February 1986 as its Assistant Secretary-Treasurer. Through the years, he has taken on various positions with increasing responsibilities. In 1996, Mr. Prasnicky became the Chief Financial Officer of the Foundation. In his current position, Mr. Prasnicky supervises a staff that provides accounting, personnel management, financial management, and information technology services for the Foundation, the Keydet Club, the Development Board and the George C. Marshall Foundation.

Mr. Prasnicky has been a member of the investment committee since 1986 and is now responsible for the daily operational management of VMI Holdings. See "**INVESTMENTS - Investment Management and Investment Liquidity**" for a discussion on VMI Holdings. Mr. Prasnicky graduated from Roanoke College in 1985 with a bachelor's degree in Business Administration.

Crissy S. Elliott, *Assistant Secretary-Treasurer of the Foundation*. Ms. Elliott joined the Foundation in December 2000. As Assistant Secretary-Treasurer, she is responsible for financial accounting and reporting for the VMI Alumni Agencies and supervising the accounting staff. She also serves as the Secretary of VMI Holdings. Prior to joining the Foundation, she was the Director of Finance for the public school system of Rockbridge County, Virginia, and she worked for the public accounting firm, Brown, Edwards & Company, LLC. Ms. Elliott graduated from Lynchburg College in 1993 with a bachelor's degree in Accounting.

Dissolution

If either Borrower ceases operations or formally dissolves, the assets of that Borrower cannot be distributed to or divided among any of the officers, directors or trustees of such organization or inure to the benefit of any individual. After all liabilities and obligations of a Borrower have been satisfied, all remaining assets may be distributed to the Institute and the VMI Alumni Association in such proportions as the governing board of the applicable Borrower may determine. If one or both of the Institute and the VMI Alumni Association do not exist or if the VMI Alumni Association is not an organization in Sections 170(c) and 501(c)(3) of the Code when any distributions are to be made to it, or if the applicable governing board determines otherwise, such net assets shall be distributed as the applicable governing board may determine to one or more entities organized and operated exclusively for charitable, scientific, literary or educational purposes or described in Sections 170(c) and 501(c)(3) of the Code.

THE INSTITUTE

General

The Institute is part of the higher education system in the Commonwealth. The Institute was founded in 1839 and is the nation's first state-assisted military college. The Institute is governed by a 17-member Board of Visitors, 16 of whom are appointed by the Governor of the Commonwealth and confirmed by the Commonwealth's General Assembly. The 17th member is the Adjutant General of the Commonwealth who is an ex-officio member.

The Institute is located in the City of Lexington, Virginia, approximately three hours southwest of Washington, D.C. The main post (campus) (the "Main Post") covers approximately 200 acres with more than 69 buildings, of which 12 acres are designated as a National Historic District. The Institute also has approximately 577 acres of ancillary physical plant and military training facilities outside of Main Post, including 261 acres designated as the New Market Battlefield Historical Park in New Market, Virginia.

The Honor Code and the traditions and rules of the Institute regulate the daily lives of its students, known as cadets. Cadets live in barracks, eat together and wear the traditional cadet uniforms. Cadet rights, privileges and responsibilities depend on the class system overseen by the cadet leadership, composed of an elected president, vice president, and historian of each class. Freshmen are recognized as the Fourth Class, sophomores as the Third Class, juniors as the Second Class and seniors as the First Class. The structure of the student body and the governance within the student body parallels that of a regular infantry regiment.

In the fall of 2015, the Institute enrolled a total of 1,700 cadets in four classes, of which approximately 58% were from the Commonwealth and 42% were from out-of-state. Out-of-state cadets came from 45 states and 9 foreign countries.

The Institute offers 14 bachelor's degree programs: biology, chemistry, civil engineering, computer and information science, economics and business, electrical and computer engineering, English rhetoric and humanistic studies, history, international studies, applied mathematics, mechanical engineering, modern languages and cultures, physics, and psychology. The Institute also offers special programs, including honors, undergraduate research, international programs and writing.

All cadets must participate in one of the four Reserve Officers' Training Corps ("ROTC") programs: Air Force, Army, Marines, and Navy, however, cadets are not required to enter military service upon graduation. Approximately 50% of cadets pursue a commission in the armed services after graduation.

The Institute has a total of 18 intercollegiate sports teams: 11 men's and 7 women's. The Institute is a NCAA Division I school and a Football Championship Subdivision school in football. Approximately 30% of the student body participates in intercollegiate sports.

The Institute employs approximately 554 full-time equivalent employees, including 131 full-time faculty and 39 adjunct faculty members. Approximately, 98% of the teaching faculty members at the Institute have a Ph.D. or terminal degree in their field of study. The cadet to faculty ratio is approximately 11:1.

In 2004, the Institute's Board of Visitors approved the Vision 2039 master plan of capital and strategic initiatives for the Institute ("Vision 2039"). The objective of Vision 2039 is to improve academic, military and athletic programs and the infrastructure of the Institute to enhance cadet leadership development and the environment in which it takes place. A component of Vision 2039 is the improvement and renovation of the Institute's various academic, military and athletic facilities. The facilities financed and refinanced with the proceeds of the Series 2016 Bonds were part of Vision 2039 and the Institute's Post Facilities Master Plan, which were both approved by the Board of Visitors.

The fourteen main themes for the strategic initiatives that are part of Vision 2039 are:

- I. A Military Institute and a Military Environment Delivering a unique education.
- II. Academic Reputation – The Premier Undergraduate College in America.
- III. Renowned Honor System - #1 in the Nation.
- IV. Partnerships with the Best USA Graduate Schools.
- V. Balance of Arts, Sciences, and Engineering with greater than 50% in hard science and engineering.
- VI. Corps of 1500 with 150 to 200 Female Cadets.
- VII. Greater than 55% Virginia Cadets.
- VIII. 70% Corps Commissioning (with growth in Guard and Reserve) "Citizen Soldiers".
- IX. Every Cadet an Athlete – Winning Sports Teams – the VMI way.
- X. Leadership Development System – Program unsurpassed.
- XI. Physical Plant – Beautiful, modern, technologically enhanced, and historic.
- XII. Organizationally streamlined, efficient and communicative.
- XIII. Proud, Disciplined, Civil Cadets.....and Graduates.
- XIV. One Cohesive Team – Alumni, Agencies, Board of Visitors, the Institute, Parents and Friends.

Annually, the Superintendent provides the Board of Visitors an update on the progress of Vision 2039. Significant elements of Vision 2039 have been accomplished while other elements require regular attention and commitment. The operational programs of the Institute are assigned objectives and strategies to meet the Vision 2039 objectives.

Neither the Institute nor the Commonwealth is obligated for any payment related to the Series 2016 Bonds or any other obligations of the Borrowers. No part of the revenues or property of the Institute or the Commonwealth is pledged to the payment of the Series 2016 Bonds. Purchasers of the Series 2016 Bonds should look solely to the Borrowers for payment on the Series 2016 Bonds. Accordingly, only limited information is provided herein regarding the Institute and the Commonwealth. See "Appropriations from the Commonwealth of Virginia for Operating Costs" below.

Enrollment, Application, and Tuition Data

Set forth in the following tables is selected information about the Institute, including application and enrollment, tuition and fees and Commonwealth appropriations.

Statistical Abstract by Academic Year

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Enrollment Data:						
Total	1,569	1,605	1,664	1,675	1,700	1,717
Undergraduate Application Data:						
Applications Received	1,791	2,244	2,146	2,012	2,160	1,905
Applications Accepted	983	1,010	968	952	952	998
Acceptance Rate	54.9%	45.0%	45.1%	47.3%	44.1%	52.4%
Students Enrolled	501	509	508	502	500	495
Matriculation Rate	51.0%	50.1%	52.5%	52.7%	52.5%	49.6%
Tuition And Fees¹:	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
In State Tuition	\$6,024	\$6,622	\$6,880	\$7,080	\$7,498	\$8,136
Fees	6,304	6,562	6,955	7,324	8,020	8,400
Room and Board	<u>7,132</u>	<u>7,446</u>	<u>7,733</u>	<u>8,088</u>	<u>8,372</u>	<u>8,666</u>
Total	<u>\$19,460</u>	<u>\$20,630</u>	<u>\$21,568</u>	<u>\$22,492</u>	<u>\$23,890</u>	<u>\$25,202</u>

¹ Amounts represent tuition and fees for Undergraduate residents of the Commonwealth of Virginia

Cadet Tuition and Fees – Net (Fiscal Year Ended June 30)

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$34,504,000	\$37,701,000	\$40,873,000	\$42,107,000	\$44,517,000

Appropriations from the Commonwealth of Virginia for Operating Costs
(Fiscal Year Ended June 30)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Appropriations for Operating Costs	\$ 11,458,000	\$ 12,340,000	\$ 13,480,000	\$ 14,436,000	\$ 14,130,000
Percentage of the Institute's Total Operating Budget	17%	17%	17%	18%	17%

Appropriations from the Commonwealth of Virginia for Capital Costs
(Fiscal Year Ended June 30)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Maintenance Reserve	\$864,780	\$ 790,123	\$790,123	\$ 1,146,150	\$1,219,083
Science Building Renovation	-	18,227,473	-	-	-
Post Hospital Renovation	-	5,145,177	-	-	-
Corps Physical Training Facilities	-	-	-	118,611,000	-
Total Capital Funding	<u>\$ 864,780</u>	<u>\$24,162,773</u>	<u>\$ 790,123</u>	<u>\$119,757,150</u>	<u>\$1,219,083</u>

Institute Debt

As of June 30, 2015, the Institute had approximately \$21.2 million in principal of long-term debt outstanding. The Institute is legally responsible for the repayment of the outstanding principal and interest expense on such debt. Neither Borrower is obligated on any of the Institute's debt.

FUNDRAISING ACTIVITIES

One of the primary goals of the Borrowers and the other VMI Alumni Agencies is to raise funds, both current and endowment, for the general support of the Institute. These fundraising efforts are primarily handled by the Keydet Club (for athletics), the Development Board (for athletics and endowment gifts) and the Foundation (for all purposes excluding intercollegiate athletics).

Shown below is the amount of fundraising for the Borrowers as reported in the audited financial statements of the VMI Alumni Agencies:

Fundraising Results (Borrowers)
(Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Foundation	\$12,406,034	\$10,249,568	\$18,794,280	\$14,207,294	\$22,412,639
Development Board	<u>1,994,225</u>	<u>2,572,831</u>	<u>272,615</u>	<u>90,871</u>	<u>17,428</u>
Total	<u>\$14,400,259</u>	<u>\$12,822,399</u>	<u>\$19,066,895</u>	<u>\$14,298,165</u>	<u>\$22,430,067</u>

The breakdown of the annual fundraising amounts for the Borrowers are shown below.

Fundraising Results by Restriction (Borrowers)
(Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Unrestricted	\$3,552,004	\$7,754,381	\$5,893,102	\$5,941,123	\$ 7,776,393
Temporarily Restricted	5,702,902	2,641,869	6,007,498	1,861,419	4,188,059
Permanently Restricted	<u>5,145,353</u>	<u>2,426,149</u>	<u>7,166,295</u>	<u>6,495,623</u>	<u>10,165,615</u>
Total	<u>\$14,400,259</u>	<u>\$12,822,399</u>	<u>\$19,066,895</u>	<u>\$14,298,165</u>	<u>\$22,430,067</u>

Annual Giving

Shown below is the percentage of alumni participation and the break-down of donors for total giving to the VMI Alumni Agencies.

Alumni Giving Participation and Annual Giving (VMI Alumni Agencies)
(Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Percentage of Alumni Participation	32.3%	33.3%	32.2%	31.9%	31.2%
Amount of Annual Giving	\$5,405,099	\$5,871,281	\$5,687,299	\$5,767,365	\$6,520,443

Percentage of Total Giving (VMI Alumni Agencies)
(Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Alumni	68.55%	70.30%	66.61%	66.95%	73.30%
Corporations	1.70	1.40	1.51	1.74	2.50
Foundations	1.40	1.10	1.33	1.29	1.20
Individuals Non-Alumnus	<u>28.35</u>	<u>27.20</u>	<u>30.55</u>	<u>30.02</u>	<u>23.00</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Contributions Receivable

Below are the contributions receivable for the VMI Alumni Agencies.

Contributions Receivable (VMI Alumni Agencies) (Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Unconditional promises to give	\$15,832,375	\$16,286,027	\$20,122,309	\$20,189,018	\$25,759,764
Charitable trust held by others	<u>181,035</u>	<u>160,020</u>	<u>173,928</u>	<u>211,935</u>	<u>204,422</u>
	\$16,013,410	\$16,446,047	\$20,296,237	\$20,400,953	\$25,964,186
less current portion	<u>(6,436,960)</u>	<u>(7,953,966)</u>	<u>(7,605,235)</u>	<u>(8,160,700)</u>	<u>(8,486,372)</u>
	<u>\$9,576,450</u>	<u>\$8,492,081</u>	<u>\$12,691,002</u>	<u>\$12,240,253</u>	<u>\$17,477,814</u>
Gross amounts to be collected in:					
less than one year	\$7,759,166	\$9,091,896	\$8,598,789	\$9,307,001	\$9,625,898
one to five years	10,232,963	9,249,081	11,846,306	12,037,470	19,078,255
more than five years	<u>1,850,788</u>	<u>1,270,030</u>	<u>3,430,831</u>	<u>2,578,118</u>	<u>1,433,982</u>
	<u>\$19,442,917</u>	<u>\$19,611,007</u>	<u>\$23,975,926</u>	<u>\$23,922,589</u>	<u>\$30,138,135</u>
less:					
Discounts	\$(1,503,319)	\$(1,220,311)	\$(1,299,489)	\$(1,150,571)	\$(1,180,578)
Allowances for uncollectible Contributions	<u>(1,926,188)</u>	<u>(1,944,649)</u>	<u>(2,380,200)</u>	<u>(2,271,065)</u>	<u>(2,993,371)</u>
Total	<u>\$16,013,410</u>	<u>\$16,446,047</u>	<u>\$20,296,237</u>	<u>\$20,400,953</u>	<u>\$25,964,186</u>

Contributions Receivable (Borrowers) (Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Current portion	\$5,305,900	\$6,341,184	\$5,490,720	\$5,879,540	\$6,155,459
Non current portion	<u>8,620,719</u>	<u>7,218,612</u>	<u>9,549,123</u>	<u>9,417,506</u>	<u>12,857,366</u>
Total	<u>\$13,926,619</u>	<u>\$13,559,796</u>	<u>\$15,039,843</u>	<u>\$15,297,046</u>	<u>\$19,012,825</u>

The distribution of contributions receivable for the Borrowers is shown below.

Distribution of Contributions Receivable (Borrowers) (Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Temporarily Restricted	\$10,460,941	\$10,501,839	\$10,060,815	\$ 9,280,897	\$10,501,391
Permanently Restricted	<u>3,465,678</u>	<u>3,057,957</u>	<u>4,974,028</u>	<u>6,016,149</u>	<u>8,511,434</u>
Total	<u>\$13,926,619</u>	<u>\$13,559,796</u>	<u>\$15,039,843</u>	<u>\$15,297,046</u>	<u>\$19,012,825</u>

The Development Board and the Foundation are currently engaged in a capital campaign, "The Campaign for VMI". As of January 31, 2016, approximately \$250 million in cash and commitments had been reached. The last announced capital campaign, "Reveille: A Call to Excel Campaign," was a four-year campaign that commenced in the fall of 2000. The campaign's goal was to raise \$175 million in cash and commitments for the Institute. When the campaign concluded in 2004, it succeeded in raising approximately \$207 million in cash and commitments.

INVESTMENTS

General

The VMI Alumni Agencies' investments are primarily held in an investment pool held and managed by VMI Holdings but some other of their investments are held in irrevocable trusts or by third parties. Shown below are the investments held and managed by VMI Holdings or its predecessors on behalf of the Foundation, the Development Board and the Keydet Club at market value.

Market Value of Primary Investments (Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Equities	\$149,302,412	\$141,681,816	\$138,129,716	\$156,929,698	\$142,172,301
Absolute return funds	74,132,687	73,545,346	85,966,629	86,559,135	91,529,688
Fixed Income	38,534,324	42,930,305	31,819,540	35,823,569	52,982,741
Commodities	8,818,101	7,809,761	5,490,160	5,935,956	-
Cash and cash equivalents	19,697,308	2,183,015	4,856,892	3,180,655	3,508,407
Private bonds	-	-	-	-	-
Master Limited Partnerships	-	-	12,731,916	16,381,041	13,653,353
Private equities	<u>6,409,607</u>	<u>14,982,664</u>	<u>32,156,430</u>	<u>47,610,903</u>	<u>58,319,044</u>
	<u>\$296,894,439</u>	<u>\$283,132,907</u>	<u>\$311,151,283</u>	<u>\$352,420,957</u>	<u>\$362,165,534</u>
Held on behalf of the Borrowers	<u>\$281,389,532</u>	<u>\$269,556,619</u>	<u>\$295,731,720</u>	<u>\$335,339,288</u>	<u>\$333,547,253</u>

As of December 31, 2015, the market value of such investments was \$342,724,361, of which \$315,882,293 was held on behalf of the Borrowers.

Shown below is the rate of return earned by the investments held and managed by VMI Holdings or its predecessors on behalf of the Foundation, the Development Board and the Keydet Club.

<u>Fiscal Year</u>	<u>Rate of Return</u>
2011	19.50%
2012	(2.45)
2013	11.54
2014	15.24
2015	1.16

For the six month period ended December 31, 2015, the rate of return on such investments was approximately 4%.

Shown below is the remainder of the investments held by various parties on behalf of the Foundation, the Development Board and the Keydet Club at fair market value.

Custodians of Investments⁽¹⁾
(Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Held in Irrevocable Trust	\$13,053,636	\$10,515,157	\$10,419,640	\$12,491,170	\$14,437,262
Held by Foundation	1,775,478	1,775,487	1,725,487	1,725,478	1,725,478
Held by Agent ⁽²⁾	<u>1,741,005</u>	<u>1,423,085</u>	<u>1,729,760</u>	<u>2,082,543</u>	<u>1,061,062</u>
Total	<u>\$16,570,119</u>	<u>\$13,713,729</u>	<u>\$13,874,887</u>	<u>\$16,299,191</u>	<u>\$17,223,802</u>
Investments Held on behalf of the Borrowers	<u>\$15,689,506</u>	<u>\$12,914,646</u>	<u>\$13,857,299</u>	<u>\$16,254,443</u>	<u>\$17,177,935</u>

(1) Investments held by a third party agent and managed by various asset managers.

(2) All investments are temporarily restricted.

Investment Management and Investment Liquidity

Since its founding in 1937, the Foundation has had the principal responsibility for managing the endowment assets of the Institute, the Foundation, the Keydet Club and the Development Board. In 1979, the Foundation, along with the Institute and the other VMI Alumni Agencies, determined that a more professional approach was needed and formed an investment committee (the "Investment Committee"), composed of experienced businessmen and investors appointed by the VMI Alumni Agencies and the Institute. The Investment Committee was charged with the oversight and management of the endowment assets. The model of the Investment Committee is commonly used at colleges of similar size to the Institute; however, over time the VMI Alumni Agencies and the Institute determined that the Investment Committee was limited in its level of sophistication and its ability to execute certain strategies.

During 2008-2009, the Foundation studied the available investment management options to determine if a different investment model might be more suitable for managing the investment assets. As a result of the study, the Foundation formed VMI Holdings to manage the investments held by the independent trustees. See "**GENERAL – Related Entities**" herein. On June 1, 2009 all investments held by trustees and for which The Bank of New York Mellon Trust Company, N.A. served as custodian were transferred to VMI Holdings. VMI Holdings operates a combined investment fund (the "Investment Pool") for the VMI Alumni Agencies, the Institute and the George C. Marshall Foundation (each a "Depositor"). The Investment Pool is "unitized" and VMI Holdings issues a number of units in the Investment Pool to each Depositor based on the amount of its deposit divided by the then unit value. Each Depositor is entitled to its pro rata share of the value, taking into account aggregate investment returns. Deposits to and withdrawals from the Investment Pool by the Institute or the other VMI Alumni Agencies are made through the Foundation. VMI Holdings has entered into a Deposit and Management Agreement (collectively, the "Management Agreements") with each of the Depositors which set forth certain restrictions with respect to the deposit and withdrawal of funds from the Investment Pool, including the following constraints: (1) Depositors are required to provide VMI Holdings 30 days written notice for withdrawals in excess of \$5,000,000, (2) Depositors may withdraw an amount up to 2% of the value of such Depositor's interest in the Investment Pool in any given month, and (3) in any given Fiscal

Year a Depositor's withdrawals are limited to 8% of the value of such Depositor's interest in the Investment Pool as of the end of the immediately preceding Fiscal Year plus 8% of such Depositor's cash deposits accepted by VMI Holdings during such Depositor's current Fiscal Year. The Management Agreements may be amended by VMI Holdings and the Depositors at any time.

Decisions on how to manage the Investment Pool are made by the VMI Holdings' Board of Directors. The current chairman of VMI Holdings is George H. Roberts, Jr., who is charged with insuring that the policies adopted by VMI Holdings' Board of Directors are implemented and administered according to the standards of VMI Holdings and the expectations of the Depositors. In addition, VMI Holdings employs David L. Prasnicky as Chief Investment Officer. He implements and administers the Board policies and coordinates and communicates with the various Depositors.

VMI Holdings' Board of Directors approved an Endowment Investment Fund Policy (the "Investment Policy"), which establishes the overall management, investment strategies and discipline of the Investment Pool. Pursuant to the Investment Policy, VMI Holdings' Board of Directors may select and retain a total fund manager, one or more investment consultants, a custodian and investment managers. VMI Holdings currently retains Cliffwater LLC ("Cliffwater") as the total fund manager. Cliffwater recommends to VMI Holdings the asset allocation policy for the Investment Pool, implements an asset allocation policy, and oversees the selection and retention of investment managers. Cliffwater has experience in endowment management and currently manages approximately \$77 billion in assets.

Currently, VMI Holdings retains 65 investment managers. As of December 31, 2015, one investment manager (SSgA Russell 3000) held investments in which the market value of such investments exceeded 10% of the total market value of the Investment Pool. The investments held are considered to be liquid within three days after notice, subject to the withdrawal constraints described above. As of June 30, 2015, approximately 38% of the overall Investment Pool could be liquidated within a 30-day period. In addition, approximately 80% could be liquidated within 6 months and approximately 85% within 17 months.

The Investment Pool maintains nine asset classes. The current Investment Policy includes a long-term asset allocation target, which is to be achieved over the three-year period ending December 31, 2015. Asset class allocations as of June 30, 2015 were as follows:

Asset Class Allocation of Investment Pool
(as of June 30, 2015)

<u>Asset Class</u>	<u>Allowable Range</u>	<u>Interim Target Allocation</u>	<u>Long-Term Target Allocation</u>	<u>Actual Allocation</u>
US Equity	10-30%	13.0%	11.0%	13.3%
Non-US Equity Developed	10-30	13.0	10.0	13.1
Non-US Equity Emerging	3-9	10.0	10.0	9.5
Fixed Income	5-25	15.0	15.0	14.6
Cash	1-10	1.0	1.0	1.0
Master Limited Partnership	0-5	4.0	4.0	3.8
Real Estate – Public	0-7	4.0	4.0	3.4
Absolute Returns	15-35	25.0	25.0	25.3
Private Equity	0-25	15.0	20.0	16.1

The actual allocation as of December 31, 2015 is substantially the same as the allocation as of June 30, 2015.

Spending Policy

The Borrowers employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This spending policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the Borrowers' respective endowments in order to enhance the long-term value of the endowments.

The respective boards of the Development Board and the Foundation annually review their spending policies. In order for the Borrowers to set their spending policies each Fiscal Year, VMI Holdings provides to each Borrower the expected return and inflation assumptions used to set the asset allocations so that the annual spending rate may be set consistent with the Investment Policy. Adjustments to endowment spending take effect July 1 of each Fiscal Year. The spending percentages are measured on a three-year rolling average of endowment values.

The historical endowment spending rate for the endowment program in each Fiscal Year since Fiscal Year 2010 has been 4.8%.

FINANCIAL INFORMATION

Budget Process

The Borrowers view their budgeting process as a means to project the next year's fiscal operations and determine their aid to the Institute. The budgeting process begins in January of each year, and a final budget for each Borrower is approved by its respective governing board around March/April of each year. In the budget process, the Borrowers review investment returns on their restricted and unrestricted assets, their spending policies, future return projections, annual giving estimates, revenues from administrative fees, future expense needs and the Institute's operational and capital needs. After the Borrowers determine the anticipated revenues for the next Fiscal Year, each subtracts its operational expenses from such amount, and the Foundation subtracts amounts to be transferred to the VMI Alumni Association, and they then determine the amounts available for transfer to the Institute, either on an unrestricted or a restricted basis. Annually in March, the Borrowers inform the Institute of the estimated amounts available to the Institute. The Institute informs the Borrowers of how such amounts are expected to be spent. At this time, the Foundation and the Development Board may object to any of the Institute's proposed uses of the funds. After the Institute's presentation, the respective governing bodies of the Borrowers approve their budgets for the following Fiscal Year.

In November of each year, the Institute presents a report to the governing boards of the Borrowers comparing the years' revenues and expenses to the adopted budgets.

Transfers to the Institute

The Borrowers transfer funds annually to the Institute to assist the Institute in funding its ongoing operating and capital needs and transfer funds that are designated as to their use by the terms of the original gift. Shown below is a summary of the Borrowers' total transfers to the Institute.

Transfers to Institute <i>(Fiscal Year Ended June 30)</i>					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Undesignated					
Athletic Scholarships	\$ -	\$ 400,000	\$ 650,000	\$ 550,000	\$1,100,000
Debt service	2,228,562	1,991,344	1,977,072	1,963,588	1,963,588
Undesignated aid	<u>3,321,367</u>	<u>2,591,625</u>	<u>2,724,199</u>	<u>1,932,891</u>	<u>1,845,111</u>
	<u>\$5,549,929</u>	<u>\$4,982,969</u>	<u>\$5,351,271</u>	<u>\$4,446,479</u>	<u>\$4,908,699</u>
Designated					
Scholarships	\$4,473,616	\$4,244,772	\$3,986,691	\$4,561,950	\$4,699,552
Professional chairs	643,100	610,076	631,125	648,687	562,060
Instruction	513,483	1,027,103	652,692	1,668,505	684,781
Intercollegiate athletics	1,352,632	943,453	8,000	138,810	135,941
Physical plant	283,663	346,467	324,130	311,305	311,497
Jackson Hope	1,029,386	1,040,630	1,296,059	1,125,570	2,728,667
Other	<u>1,991,383</u>	<u>2,685,779</u>	<u>2,001,210</u>	<u>2,707,207</u>	<u>2,425,241</u>
	<u>\$10,287,263</u>	<u>\$10,898,280</u>	<u>\$8,899,907</u>	<u>\$11,162,034</u>	<u>\$11,547,739</u>
Total Funds remitted to the Institute	<u>\$15,837,192</u>	<u>\$15,881,249</u>	<u>\$14,251,178</u>	<u>\$15,608,513</u>	<u>\$16,456,438</u>

For Fiscal Year 2016, the Borrowers anticipate transferring a total of approximately \$4.5 million of undesignated funds and approximately \$12.5 million of designated fund to the Institute.

Other Revenues

The primary sources of revenues for the Development Board and the Foundation are endowment gifts and fundraising efforts, and the investment earnings on such amounts. Additional revenues are derived from administrative fees associated with administrative services provided to the Keydet Club and George C. Marshall Foundation.

Summary of Net Assets

Shown below is a summary of the net assets of the VMI Alumni Agencies.

Summary of Net Assets of the VMI Alumni Agencies (Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Unrestricted					
Quasi endowment funds	\$55,521,178	\$48,559,023	\$51,548,584	\$62,115,611	\$57,789,690
Charitable gift annuity agreements	<u>383,275</u>	<u>253,435</u>	<u>430,236</u>	<u>613,350</u>	<u>661,671</u>
	<u>\$55,904,453</u>	<u>\$48,812,458</u>	<u>\$51,978,820</u>	<u>\$62,728,961</u>	<u>\$58,451,361</u>
Temporarily Restricted					
Accumulated endowment returns in excess of amounts spent	\$104,409,526	\$93,947,077	\$114,263,630	\$137,940,019	\$135,174,676
Charitable gift annuity and trusts agreements	6,903,202	5,251,719	5,746,151	6,823,359	7,669,770
Contributions receivable	<u>11,927,864</u>	<u>11,908,836</u>	<u>13,397,373</u>	<u>12,519,342</u>	<u>14,922,371</u>
	<u>\$123,240,592</u>	<u>\$111,107,632</u>	<u>\$133,407,154</u>	<u>\$157,282,720</u>	<u>\$157,766,817</u>
Permanently Restricted					
Endowment	\$103,860,737	\$107,169,736	\$115,012,533	\$122,788,233	\$140,413,251
Charitable gift annuity and trusts agreements	768,735	671,216	80,927	112,069	103,056
Contributions receivable	<u>4,085,546</u>	<u>4,537,211</u>	<u>6,898,865</u>	<u>7,881,610</u>	<u>11,041,815</u>
	<u>\$108,715,018</u>	<u>\$112,378,163</u>	<u>\$121,992,325</u>	<u>\$130,781,912</u>	<u>\$151,558,122</u>
Total Net Assets – VMI Alumni Agencies	<u>\$287,860,063</u>	<u>\$272,298,253</u>	<u>\$307,378,299</u>	<u>\$350,793,593</u>	<u>\$367,776,300</u>
Total Net Assets – Borrowers	<u>\$270,717,030</u>	<u>\$254,220,818</u>	<u>\$285,149,122</u>	<u>\$325,177,429</u>	<u>\$330,187,501</u>

Unrestricted Assets

A substantial portion of the Foundation's assets is subject to donor-directed restrictions, while a smaller portion of Foundation's assets and substantially all of the Development Board's assets are unrestricted. Under Virginia's Uniform Prudent Management of Institutional Funds Act, the Development Board's Board of Directors and the Foundation's Board of Trustees may appropriate for expenditure the net appreciation of endowment gifts as permitted under the law, the terms of the applicable gift instrument, or the character of the institution. This net appreciation is classified as part of "temporarily restricted assets" on the audited financial statements.

Summary Financial Information

The following selected financial data relates only to the Borrowers. The Borrowers derived this information from the audited consolidated financial statements of the VMI Alumni Agencies. The consolidated financial statements of the VMI Alumni Agencies for Fiscal Years 2011 through 2015 were audited by Dixon Hughes Goodman LLP, independent auditors. **Although the audited consolidated financial statements in Appendix B include information about all of the VMI Alumni Agencies, only**

the Development Board and the Foundation are obligated to make any payments related to the Series 2016 Bonds.

**Combined Statement of Financial Position of the
Development Board and the Foundation
(Fiscal Year Ended June 30)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
ASSETS:					
Current Assets					
Cash and cash equivalents	\$9,097,130	\$7,855,932	\$5,357,084	\$3,250,836	\$4,413,202
Current portion of contributions receivable	5,305,900	6,341,184	5,490,720	5,879,540	6,155,459
Current portion of note receivable	-	-	114,472	114,838	115,205
Due from (to) other entities	(2,395,178)	(2,914,927)	(2,256,539)	(2,205,644)	23,471
Other assets	<u>712,927</u>	<u>96,732</u>	<u>35,528</u>	<u>(15,024)</u>	<u>47,936</u>
Total Current Assets	<u>\$12,720,779</u>	<u>\$11,378,921</u>	<u>\$8,741,265</u>	<u>\$9,230,190</u>	<u>\$10,755,273</u>
Noncurrent Assets					
Contributions receivable - - less current portion	\$8,620,719	\$7,218,612	\$9,549,123	\$9,417,506	\$12,857,366
Note receivable-less current portion	-	-	694,563	577,136	459,708
Investments held by trustees	281,389,532	269,556,619	295,731,720	335,339,288	333,547,253
Investments - other	15,689,506	12,914,646	13,857,299	16,254,443	17,177,935
Cash surrender value of life insurance	4,899,726	5,084,795	5,149,342	5,477,901	5,224,135
Property and equipment - net	<u>156,914</u>	<u>141,301</u>	<u>136,986</u>	<u>122,667</u>	<u>106,924</u>
Total Assets	<u>\$323,477,176</u>	<u>\$306,295,794</u>	<u>\$333,860,298</u>	<u>\$376,419,131</u>	<u>\$380,128,594</u>
LIABILITIES AND NET ASSETS:					
Current Liabilities					
Accounts payable and accrued expenses	\$443,793	\$546,814	\$(158,802)	\$(496,652)	\$(499,564)
Current portion of trust and annuity obligations	748,420	626,226	594,264	674,124	775,004
Total Current Liabilities	<u>\$1,192,213</u>	<u>\$1,173,040</u>	<u>\$435,462</u>	<u>\$177,472</u>	<u>\$275,440</u>
Noncurrent Liabilities					
Trust and annuity obligations - less current portion	\$4,070,395	\$3,549,944	\$3,568,061	\$4,268,257	\$5,227,752
Other liabilities	120,200	97,045	75,538	80,976	51,210
Notes payable	2,500,000	2,500,000	-	-	-
Bonds payable	<u>44,877,338</u>	<u>44,754,677</u>	<u>44,632,015</u>	<u>44,509,353</u>	<u>44,386,691</u>
Total Liabilities	<u>\$52,760,146</u>	<u>\$52,074,706</u>	<u>\$48,711,076</u>	<u>\$49,036,058</u>	<u>\$49,941,093</u>
Net Assets	\$270,717,030	\$254,220,818	\$285,149,222	\$325,177,429	\$330,187,501
Total Liabilities and Net Assets	<u>\$323,477,176</u>	<u>\$306,295,524</u>	<u>\$333,860,298</u>	<u>\$376,419,131</u>	<u>\$380,128,594</u>

**Combined Statement of
Unrestricted, Temporarily Restricted and Permanently Restricted Activities of the Development Board and the Foundation
(Fiscal Year Ended June 30)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues					
Amounts raised on behalf of the Institute	\$14,400,259	\$12,822,399	\$19,066,895	\$14,298,165	\$22,430,067
Investment income and other revenue	2,515,035	1,375,395	(27,385)	(1,541,276)	(135,053)
Actuarial gain (loss) on trust and annuity	(371,545)	205,301	(529,638)	(377,785)	222,035
Unrealized loss on swap contract	(183,538)	-	-	-	-
Other Income	3,702,402	-	-	-	-
Administrative fees	105,000	(922,711)	(714,496)	130,862	106,813
Total Revenues	<u>\$20,167,613</u>	<u>\$13,462,384</u>	<u>\$17,795,376</u>	<u>\$12,509,966</u>	<u>\$22,623,862</u>
Expenses					
Amounts remitted directly to and on behalf of the Institute, undesignated:					
Undesignated aid	\$3,321,367	\$2,591,625	\$2,724,199	\$1,932,891	1,845,111
Athletic scholarships	-	400,000	650,000	550,000	1,100,000
Debt service	2,228,562	1,991,344	1,977,072	1,963,588	1,963,588
Total amounts remitted directly to the Institute and to others on behalf of the Institute, undesignated	<u>\$5,549,929</u>	<u>\$4,982,969</u>	<u>\$5,351,271</u>	<u>\$4,446,479</u>	<u>\$4,908,699</u>
Amounts remitted directly to and on behalf of the Institute, designated:					
Scholarships	\$4,473,616	\$4,244,772	\$3,986,691	\$4,561,712	\$4,699,552
Faculty awards	105,000	91,760	87,320	93,480	91,360
Professional chairs	643,100	610,076	631,125	648,687	562,060
Instruction	513,483	1,027,103	652,692	1,668,505	684,781
Student services	13,100	7,520	7,330	8,150	13,370
Insurance premiums	149,993	135,028	500,362	129,325	110,553
Cadet awards	39,081	35,957	28,389	34,564	38,311
Academic support	577,769	463,787	443,011	364,341	609,657
Public support	142,674	106,295	95,060	75,035	95,304
Library	97,500	84,414	64,730	107,915	71,920
Leadership	-	1,000,000	-	1,000,000	-

**Combined Statement of
Unrestricted, Temporarily Restricted and Permanently Restricted Activities of the Development Board and the Foundation
(Fiscal Year Ended June 30)
(continued)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Intercollegiate athletics	1,352,632	943,453	8,000	138,810	135,941
Trust distributions	74,823	71,200	66,133	65,980	91,353
Physical plant	283,663	346,467	324,130	311,305	311,497
Jackson Hope	1,029,386	1,040,630	1,296,059	1,125,570	2,728,667
Other	791,443	689,818	708,875	828,417	1,303,413
Total amounts remitted directly to and on behalf of the Institute, designated	<u>\$10,287,263</u>	<u>\$10,898,280</u>	<u>\$8,899,907</u>	<u>\$11,162,034</u>	<u>\$11,547,739</u>
Total amounts remitted directly to and on behalf of the Institute	<u>\$15,837,192</u>	<u>\$15,881,249</u>	<u>14,251,178</u>	<u>\$15,608,513</u>	<u>\$16,456,438</u>
Cost of operations					
Personnel	\$2,399,636	\$2,433,790	\$2,558,743	\$2,641,886	\$2,922,891
Office	815,897	763,281	781,572	810,080	920,275
Special functions	72,827	54,729	63,996	43,477	11,358
Travel and entertainment	82,366	96,699	89,967	74,056	103,767
Alumni association	1,645,100	1,671,200	1,611,700	1,700,000	1,698,600
Campaign expenses	73,977	148,926	164,232	158,532	227,141
Other	15,508	-	506	675	23,799
Total cost of operations	<u>\$5,105,311</u>	<u>\$5,168,625</u>	<u>\$5,270,716</u>	<u>\$5,248,706</u>	<u>\$5,907,831</u>
Total expenses	<u>\$20,942,503</u>	<u>\$21,049,874</u>	<u>\$19,521,894</u>	<u>\$21,037,219</u>	<u>22,364,269</u>
Change in net assets before net realized and unrealized losses on investments	(\$774,890)	(\$7,587,490)	(\$1,726,518)	(\$8,527,253)	259,593
Net realized and unrealized losses on investments	46,766,782	(8,908,722)	32,654,922	48,555,460	4,750,479
Change in net assets	45,991,892	(16,496,212)	30,928,404	40,028,207	5,010,072
Net assets (deficit) – beginning of year	24,725,138	270,717,030	254,220,818	285,149,222	325,177,429
Net assets - end of year	<u>\$270,717,030</u>	<u>\$254,220,818</u>	<u>\$285,149,222</u>	<u>\$325,177,429</u>	<u>\$330,187,501</u>

Net Assets Released from Restrictions

Shown below is a summary of the net assets released from restriction.

Summary of Net Assets Released from Restrictions (Fiscal Year Ended June 30)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Scholarships	\$3,886,358	\$3,792,001	\$3,626,176	\$4,005,482	\$4,122,965
Instruction and academic support	2,579,907	4,191,369	2,758,177	4,829,967	3,654,705
Intercollegiate Athletics	690,736	744,442	8,000	127,090	123,720
Physical plant	50,700	42,700	29,000	41,860	42,740
Other	562,147	443,745	492,390	560,451	1,204,017
Total:	<u>\$7,769,848</u>	<u>\$9,214,257</u>	<u>\$6,913,843</u>	<u>\$9,564,850</u>	<u>\$9,148,147</u>

Management's Discussion of Financial Position and Operations

Fiscal Year 2011. In Fiscal Year 2011, the Borrowers' total revenues were approximately \$20.1 million, as compared to \$14.9 million in the previous Fiscal Year. This increase of approximately \$5.2 million was primarily attributable to a one-time transaction related to investments in the amount of \$3.7 million. Contributions receivable increased approximately \$1.8 million from the previous Fiscal Year. The Borrowers also reported net realized and unrealized gains on investments of \$46.7 million, which was an increase of \$18.6 million from the previous Fiscal Year. Net assets of the Borrowers increased approximately \$46 million from the previous Fiscal Year and totaled approximately \$270.7 million. Of this amount, \$57.8 was unrestricted, \$116.9 was temporarily restricted, and \$95.9 was permanently restricted.

Fiscal Year 2012. In Fiscal Year 2012, the Borrowers' total revenues were approximately \$13.4 million, as compared to \$20.1 million in the previous Fiscal Year. Amounts raised on behalf of the Institute were lower than in Fiscal Year 2011 by approximately \$1.5 million. Contributions receivable decreased approximately \$367,000 from the previous Fiscal Year. Total amounts remitted directly to and on behalf of the Institute remained relatively unchanged from the previous Fiscal Year. Specific amounts received for leadership purposes in the amount of \$1,000,000 are reflected in designated amounts remitted directly to and on behalf of the Institute. Net realized and unrealized losses on investments were \$8.9 million as compared to gains of \$46.7 million in the previous Fiscal Year. Net assets of the Borrowers decreased \$16.5 million from the previous Fiscal Year and totaled approximately \$254.2 million. Of this amount, \$51.6 was unrestricted, \$104.1 was temporarily restricted, and \$98.4 was permanently restricted.

Fiscal Year 2013. In Fiscal Year 2013, the Borrowers' total revenues were approximately \$17.8 million, as compared to \$13.5 million in the previous Fiscal Year. Amounts raised on behalf of the Institute were approximately \$19 million, an increase of approximately \$6.2 million from the previous Fiscal Year. Contributions receivable increased approximately \$1.5 million from the previous Fiscal Year. Total amounts remitted directly to and on behalf of the Institute decreased approximately \$1.6 million, primarily due to \$1,000,000 leadership expense in the previous Fiscal Year. Borrowers' also reported net realized and unrealized gains on investments of \$32.7 million, which was an increase of \$41.6 million from the previous Fiscal Year. Net assets of the Borrowers increased \$30.9 million from the previous Fiscal Year and totaled approximately \$285.1 million. Of this amount, \$56.2 was unrestricted, \$123.3 was temporarily restricted, and \$105.6 was permanently restricted.

Fiscal Year 2014. In Fiscal Year 2014, the Borrowers' total revenues were approximately \$12.5 million, as compared to \$17.8 million in the previous Fiscal Year. Amounts raised on behalf of the Institute were approximately \$14.3 million, a decrease of approximately \$4.7 million from the previous Fiscal Year. Contributions receivable increased approximately \$257,000 from the previous Fiscal Year. Total amounts remitted directly to and on behalf of the Institute increased approximately \$1.4 million, primarily due to \$1,000,000 leadership expense similar to Fiscal Year 2013. The Borrowers also reported net realized and unrealized gains on investments of \$48.6 million, which was an increase of \$15.9 million from the previous Fiscal Year. Net assets of the Borrowers increased \$40 million from the previous Fiscal Year and totaled approximately \$325.2 million. Of this amount, \$67.1 was unrestricted, \$146 was temporarily restricted, and \$112 was permanently restricted.

Fiscal Year 2015. In Fiscal Year 2015, the Borrowers' total revenues were approximately \$22.6 million, as compared to \$12.5 million in the previous Fiscal Year. Amounts raised on behalf of the Institute approximately \$22.3 million, an increase of \$8.1 million from the previous Fiscal Year. Contributions receivable increased approximately \$3.7 million from the previous Fiscal Year. Total amounts remitted directly to and on behalf of the Institute increased approximately \$848,000 primarily due to receipt of restricted gifts for a designated purpose. Net realized and unrealized gains on investments were \$4.8 million as compared to gains of \$48.6 million in the previous Fiscal Year. Net assets of the Borrowers increased \$5 million from the previous Fiscal Year and totaled approximately \$330.2 million. Of this amount, \$63.4 was unrestricted, \$144.3 was temporarily restricted, and \$122.5 was permanently restricted.

Outstanding and Future Debt

Upon the issuance of the Series 2016 Bonds, the Borrowers will have no outstanding long-term debt other than the Series 2016 Bonds and the unrefunded portion of the Series 2006 Bonds. At this time neither the Development Board nor the Foundation expects to incur any additional debt. However, there can be no assurance that neither the Development Board nor the Foundation will determine a need to issue additional debt. The bond documents do not impose any restrictions on the Development Board or the Foundation for the issuance of additional debt. See "**BONDHOLDER'S RISKS – Additional Indebtedness.**"

The Borrowers have traditionally included in their annual distributions to the Institute funds to pay debt service on certain of the Institute's debt. In Fiscal Year 2015, the Borrowers transferred approximately \$189,000 to the Institute to pay debt service on Institute debt.

Outstanding Debt Service
(Fiscal Year Ended June 30)

<u>Fiscal Year</u>	<u>Outstanding Debt Service</u>	<u>Less:</u> <u>Debt Service for Refunded Bonds</u>	<u>Plus:</u> <u>Total Debt Service for Series 2016 Bonds</u>	<u>Total Debt Service</u>
2017	\$2,086,250	\$	\$	\$
2018	2,086,250			
2019	2,086,250			
2020	2,086,250			
2021	11,855,000			
2022	1,623,750			
2023	1,623,750			
2024	1,623,750			
2025	1,623,750			
2026	1,623,750			
2027	1,623,750			
2028	1,623,750			
2029	1,623,750			
2030	1,623,750			
2031	11,373,750			
2032	1,123,750			
2033	1,123,750			
2034	1,123,750			
2035	1,123,750			
2036	1,123,750			
2037	<u>23,036,875</u>			
Total	<u>\$74,843,125</u>	\$	\$	\$

_____, 2016

City Council of the
City of Lexington, Virginia
150 South Main Street
Lexington, Virginia 24450

**Industrial Development Authority of the City of Lexington, Virginia
Approval of Proposed Revenue Bond Financing
for V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated**

V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated (collectively, the "Borrower"), each a Virginia non-stock, not-for-profit corporation, whose principal place of business is 304 Letcher Avenue, Lexington, Virginia 24450, has requested that the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") issue up to \$39,000,000 of its revenue bonds, in one or more series at one time or from time to time (the "Bonds"), the proceeds of which will be loaned to the Borrower to:

(i) refund all or a portion of the outstanding principal amount of the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006B and Series 2006C (collectively, the "2006 Bonds"), which were issued to (a) finance and/or refinance all or a portion of the costs of the acquisition, renovation, construction and equipping by the Virginia Military Institute (the "Institute") of the following facilities all located on the Institute's post in the City of Lexington, Virginia (the "Post") or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity: (1) improvements to the Institute's football stadium, including improvements to related facilities, fields, and infrastructure, located on North Main Street, (2) improvements to the Institute's baseball stadium, including related facilities, fields, and infrastructure, located on Anderson Drive, (3) an approximately 42,500 square foot Leadership and Ethics Center, including without limitation a 500 seat auditorium, an 800 seat assembly space, meeting rooms and administrative space, to be located on or near Maiden Lane, (4) an approximately 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building located on Letcher Avenue, (5) renovations to the approximately 31,000 square foot Jackson Memorial Hall located on Letcher Avenue, including renovations to the Institute's museum and renovations to two auditorium levels, (6) improvements to athletic and military facilities in the Institute's north Post area consisting of approximately 15 acres located on or near Woods Creek, including, without limitation, athletic fields, military and leadership training facilities, obstacle courses, parking

facilities, infrastructure, roads and landscaping, (7) additional parking lots or parking facilities on or near Maiden Lane, Letcher Avenue or North Main Street, and (8) other capital expenditures on the Post or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity, and working capital (collectively, the "Projects"); and (b) refund all or a portion of the outstanding amount of the Authority's Variable Rate Tax-Exempt Bonds (V.M.I. Development Board), Series 2004 issued to finance or refinance costs associated with the foregoing Projects; and

(ii) finance costs of issuance incurred in connection with the refunding of all or a portion of the 2006 Bonds and the issuance of the Bonds (collectively, the "Plan of Refunding"). (collectively, the "Plan of Refunding").

As set forth in the approving resolution of the Authority attached hereto (the "Resolution"), the Authority has authorized the issuance of the Bonds to accomplish the Plan of Refunding. The Authority has conducted a public hearing on the Plan of Refunding and has recommended that you approve the Plan of Refunding and the issuance of the Bonds by the Authority as required by Section 147(f) of the Internal Revenue Code of 1986, as amended, and Section 15.2-4906 of the Code of Virginia of 1950, as amended (the "Virginia Code").

Attached hereto is (1) a certificate evidencing (A) the conduct of the public hearing and (B) the resolutions adopted by the Authority regarding the Plan of Refunding, (2) the Fiscal Impact Statement required pursuant to Section 15.2-4907 of the Virginia Code and (3) the form of resolution suggested by counsel to evidence your approval.

Secretary
Industrial Development Authority of the City of
Lexington, Virginia

CERTIFICATE

The undersigned Secretary of the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") certifies as follows:

1. A meeting of the Authority was duly called and held at 5:00 p.m. on Wednesday, March 30, 2016, before the Authority in the Community Meeting Room on the first floor of City Hall at 300 East Washington Street, Lexington, Virginia 24450, pursuant to proper notice given to each Director of the Authority before such meeting. The meeting was open to the public. The time of the meeting and the place at which the meeting was held provided a reasonable opportunity for persons of differing views to appear and be heard.

2. The Chair announced the commencement of a public hearing on the application of V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated, each a Virginia non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia, and that a notice of the hearing was published once a week for two successive weeks in a newspaper having general circulation in the City of Lexington (the "Notice"), with the second publication appearing not less than six days nor more than twenty-one days prior to the hearing date. A copy of the Notice is attached and has been filed with the minutes of the Authority and is attached as Exhibit A.

3. A summary of the statements made at the public hearing is attached as Exhibit B.

4. Attached as Exhibit C are true, correct and complete copies of the approving resolution (the "Resolution") adopted at such meeting of the Authority by a majority of the Directors present at such meeting. The Resolution constitutes all formal action taken by the Authority at such meeting relating to matters referred to in the Resolution. The Resolution has not been repealed, revoked, rescinded or amended and are in full force and effect on this date.

WITNESS my hand and the seal of the Authority, on _____, 2016.

Secretary, Industrial Development Authority of the
City of Lexington, Virginia

[SEAL]

Exhibits:

- A - Copy of Certified Notice
- B - Summary of Statements
- C - Approving Resolutions

EXHIBIT A

**NOTICE OF PUBLIC HEARING TO BE HELD BY THE
INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON, VIRGINIA
ON THE ISSUANCE OF UP TO \$39,000,000 OF ITS REVENUE BONDS
FOR THE BENEFIT OF V.M.I. DEVELOPMENT BOARD, INCORPORATED AND
V.M.I. FOUNDATION, INCORPORATED**

Notice is hereby given that the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") whose address is 300 East Washington Street, Lexington, Virginia 24450, will hold a public hearing on the application and plan of financing of V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated (collectively, the "Borrower"), whose principal place of business is 304 Letcher Avenue, Lexington, Virginia 24450, requesting the Authority issue up to \$39,000,000 of its revenue bonds (the "Bonds"), in one or more series at one time or from time to time, the proceeds of which will be loaned to the Borrower to:

(i) refund all or a portion of the outstanding principal amount of the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006B and Series 2006C (collectively, the "2006 Bonds"), which were issued to (a) finance and/or refinance all or a portion of the costs of the acquisition, renovation, construction and equipping by the Virginia Military Institute (the "Institute") of the following facilities all located on the Institute's post in the City of Lexington, Virginia (the "Post") or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity: (1) improvements to the Institute's football stadium, including improvements to related facilities, fields, and infrastructure, located on North Main Street, (2) improvements to the Institute's baseball stadium, including related facilities, fields, and infrastructure, located on Anderson Drive, (3) an approximately 42,500 square foot Leadership and Ethics Center, including without limitation a 500 seat auditorium, an 800 seat assembly space, meeting rooms and administrative space, to be located on or near Maiden Lane, (4) an approximately 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building located on Letcher Avenue, (5) renovations to the approximately 31,000 square foot Jackson Memorial Hall located on Letcher Avenue, including renovations to the Institute's museum and renovations to two auditorium levels, (6) improvements to athletic and military facilities in the Institute's north Post area consisting of approximately 15 acres located on or near Woods Creek, including, without limitation, athletic fields, military and leadership training facilities, obstacle courses, parking facilities, infrastructure, roads and landscaping, (7) additional parking lots or parking facilities on or near Maiden Lane, Letcher Avenue or North Main Street, and (8) other capital expenditures on the Post or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity, and working capital (collectively, the "Projects"); and (b) refund all or a portion of the outstanding amount of the Authority's Variable Rate Tax-Exempt Bonds (V.M.I. Development Board), Series 2004 issued to finance or refinance costs associated with the foregoing Projects; and

(ii) finance costs of issuance incurred in connection with the refunding of all or a portion of the 2006 Bonds and the issuance of the Bonds (collectively, the "Plan of Refunding").

The issuance of the Bonds as requested by the Borrower will not constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia, the Authority or the City of Lexington, Virginia, but will be payable solely from revenues derived from the Borrower and pledged therefor and neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any political subdivisions, including the Authority or the City of Lexington, Virginia, is pledged to the payment of the Bonds. The Authority has no taxing power.

The public hearing, which may be continued or adjourned, will be held at 5:00 p.m. on Wednesday, March 30, 2016, before the Authority in the Community Meeting Room on the first floor of City Hall at 300 East Washington Street, Lexington, Virginia 24450. Any person interested in the issuance of the Bonds or the Plan of Refunding may appear at the hearing and present his or her views.

Industrial Development Authority of the City of
Lexington, Virginia

EXHIBIT B

Summary of Statements

Representatives of V.M.I. Development Board, Incorporated, V.M.I. Foundation, Incorporated and McGuireWoods LLP appeared before the Authority to describe the project and the proposed bond issue. No one appeared in opposition to the proposed bond issue.

EXHIBIT C

Approving Resolutions

(See Attached)

**FISCAL IMPACT STATEMENT
FOR PROPOSED BOND FINANCING**

Date: March 30, 2016

To the City Council of the City of Lexington, Virginia
Lexington, Virginia

Applicant: V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated
(collectively, the "Borrower")

**Facility/
Plan of** The refunding certain existing debt of the Borrower that financed the projects
described below.

Refunding

1. Maximum amount of financing sought	\$39,000,000
2. Estimated taxable value of the facility's real property to be constructed in the locality.	N/A
3. Estimated real property tax per year using present tax rates.	N/A
4. Estimated personal property tax per year using present tax rates.	N/A
5. Estimated merchants' capital tax per year using present tax rates.	N/A
6. (a) Estimated dollar value per year of goods that will be purchased from Virginia companies within the locality	\$100,000*
(b) Estimated dollar value per year of goods that will be purchased from non-Virginia companies within the locality	\$1,000*
(c) Estimated dollar value per year of services that will be purchased from Virginia companies within the locality	\$1,600,000*
(d) Estimated dollar value per year of services that will be purchased from non-Virginia companies within the locality	\$4,300,000*
7. Estimated number of regular employees on year round basis.	580*
8. Average annual salary per employee.	\$56,000*

* Amounts shown are based on totals related to the Virginia Military Institute. Each Borrower is organized solely to support the Institute. The specific projects financed with the initial bond financing include renovations and improvements to Foster Football Stadium and Clarkson-McKenna Hall, the Gray-Minor Baseball Stadium, the Marshall Hall – Center for Leadership and Ethics, Crozet Hall (dining hall), Jackson Memorial Hall (home of the Institute's VMI Museum) and parking lots and facilities.

Chair
Industrial Development Authority of the City of
Lexington, Virginia

[Proposed Form of City Council Resolution]

**RESOLUTION
OF THE CITY COUNCIL OF THE CITY OF LEXINGTON, VIRGINIA,
ON THE ISSUANCE OF UP TO \$39,000,000 OF REVENUE BONDS
BY THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF
LEXINGTON, VIRGINIA FOR THE BENEFIT OF
V.M.I. DEVELOPMENT BOARD, INCORPORATED AND V.M.I. FOUNDATION,
INCORPORATED**

WHEREAS, the Industrial Development Authority of the City of Lexington, Virginia (the "Authority") has approved the application of V.M.I. Development Board, Incorporated and V.M.I. Foundation, Incorporated (collectively, the "Borrower"), each a Virginia non-stock, not-for-profit corporation, requesting that the Authority issue up to \$39,000,000 of its revenue bonds in one or more series at one time or from time to time (the "Bonds"), which will be loaned to the Borrower to:

(i) refund all or a portion of the outstanding principal amount of the Authority's Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds (V.M.I. Development Board, Incorporated Project), Series 2006B and Series 2006C (collectively, the "2006 Bonds"), which were issued to (a) finance and/or refinance all or a portion of the costs of the acquisition, renovation, construction and equipping by the Virginia Military Institute (the "Institute") of the following facilities all located on the Institute's post in the City of Lexington, Virginia (the "Post") or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity: (1) improvements to the Institute's football stadium, including improvements to related facilities, fields, and infrastructure, located on North Main Street, (2) improvements to the Institute's baseball stadium, including related facilities, fields, and infrastructure, located on Anderson Drive, (3) an approximately 42,500 square foot Leadership and Ethics Center, including without limitation a 500 seat auditorium, an 800 seat assembly space, meeting rooms and administrative space, to be located on or near Maiden Lane, (4) an approximately 15,000 square foot expansion of Crozet Hall, including renovations to the existing 43,000 square foot building located on Letcher Avenue, (5) renovations to the approximately 31,000 square foot Jackson Memorial Hall located on Letcher Avenue, including renovations to the Institute's museum and renovations to two auditorium levels, (6) improvements to athletic and military facilities in the Institute's north Post area consisting of approximately 15 acres located on or near Woods Creek, including, without limitation, athletic fields, military and leadership training facilities, obstacle courses, parking facilities, infrastructure, roads and landscaping, (7) additional parking lots or parking facilities on or near Maiden Lane, Letcher Avenue or North Main Street, and (8) other capital expenditures on the Post or on any other land adjacent to the Post owned by the Institute, a Borrower or any other affiliated entity, and working capital (collectively, the "Projects"); and (b) refund all or a portion of the outstanding amount of the Authority's Variable Rate Tax-Exempt Bonds (V.M.I. Development Board), Series 2004 issued to finance or refinance costs associated with the foregoing Projects; and

(ii) finance costs of issuance incurred in connection with the refunding of all or a portion of the 2006 Bonds and the issuance of the Bonds (collectively, the "Plan of Refunding").

WHEREAS, the Authority held a public hearing on March 30, 2016;

WHEREAS, Section 147(f) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that the governmental unit having jurisdiction over the issuer of private activity bonds and over the area in which any facility financed with the proceeds of private activity bonds is located must approve the issuance of the bonds and Section 15.2-4906 of the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended ("Act") sets forth the procedure for such approval;

WHEREAS, the Authority issues its bonds on behalf of the City of Lexington, Virginia (the "City"), the facilities to be refinanced with the proceeds of the Bonds are located in the City and the City Council of the City of Lexington, Virginia (the "Council"), constitutes the highest elected governmental unit of the City;

WHEREAS, the Authority has recommended that the Council approve the Plan of Refunding and the issuance of the Bonds; and

WHEREAS, a copy of the Authority's resolution approving the issuance of the Bonds, subject to the terms to be agreed upon, a certificate of the public hearing and a Fiscal Impact Statement have been filed with the Council.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LEXINGTON, VIRGINIA:

1. The Council approves the issuance of the Bonds, in an aggregate principal amount up to \$39,000,000, by the Authority for the benefit of the Borrower, solely to the extent required by Section 147(f) of the Code and Section 15.2-4906 of the Act, to permit the Authority to assist in accomplishing the Plan of Refunding.

2. The approval of the issuance of the Bonds does not constitute an endorsement to a prospective purchaser of the Bonds of the creditworthiness of the Plan of Refunding or the Borrower. In accordance with Section 15.2-4909 of the Act, the Bonds shall not be deemed to constitute a debt or a pledge of the faith and credit or taxing power of the Commonwealth or any political subdivision thereof, including the Authority and the City.

3. This resolution shall take effect immediately upon its adoption.

Adopted by the City Council of the City of Lexington, Virginia, on April 7, 2016.

Clerk
City Council of the City of Lexington, Virginia

[SEAL]