

**Industrial Development Authority (IDA)
Of the City of Lexington**

Wednesday, August 16, 2016, 5:00 p.m.

City Hall, 1st Floor Meeting Room, 300 East Washington Street, Lexington, VA

Members: **John DeVogt**, Chair; **Nick Charles**, **Buddy Derrick**, Anna-Lisa Fitzgerald, Dick Halseth, **James Joyner**, Vice Chair; and Dan Vance

1. Call to Order – John DeVogt, Chair
2. Approval of IDA Minutes
 - a. February 24, 2016*
 - b. March 30, 2016*
3. IDA Resolution # RES2016-02 – Bond Reissue for Lexington Retirement Communities, Inc. d/b/a Kendal at Lexington – Attorney Sam Darby, Glenn Feldmann Darby & Goodlatte
 - a. IDA Resolution 2016-02 (mark-up* and final*)
 - b. Preliminary Official Statement*
 - c. Bond Purchase Agreement*
 - d. Form of Promissory Note*
 - e. Bond Indenture*
 - f. Loan Agreement*
 - g. Appendix A*
4. Information Items
 - a. IDA Bylaws* (approved 1-29-15 but not distributed) (mark-up* also attached)
 - b. IDA Financial 6-30-16*
5. Adjourn – John DeVogt, Chair

**Minutes
Industrial Development Authority (IDA)
Of the City of Lexington, VA and
Virginia Horse Center Foundation (VHCF)**

Wednesday, February 24, 2016, 5:00 p.m.

Present:

IDA: James Joyner, Vice-Chair
Buddy Derrick
Anna-Lisa Fitzgerald
Dick Halseth
Dan Vance

Excused: John DeVogt, Nick Charles

Also present:

VHCF: John Nicholson
Sandra Thomas
Leigh Anne Claywell

Staff: Gary Swink, Treasurer
Larry Mann, City Attorney

The Industrial Development Authority (IDA) met on February 24, 2016 in the second floor meeting room of City Hall. Vice-Chair James Joyner called the meeting to order at 5:00 p.m.

Approval of Minutes

By motion, second, and unanimous vote, the minutes of the November 9, 2015 IDA meeting were approved.

Virginia Horse Center Foundation (VHCF) Financial Review

- Representatives of the VHCF reviewed their December 31, 2015 financial reports and updated the IDA on significant activities regarding the Horse Center:
- The Horse Center closed on a \$450,000 loan from Cornerstone Bank in December. The proceeds of the loan are to be used to address deferred maintenance issues. Mr. Nicholson discussed the attached budget for planned uses of the funds.
- The Horse Center staff met with representatives of the United States Department of Agriculture (USDA) regarding terms of the outstanding USDA debt. As a result of that discussion, the requirement to fund \$5,000 monthly to a debt service reserve has been waived. The requirement to meet certain financial ratios has also been waived as a result of the local governments using lodging taxes to service the debt. A request has been made to the USDA to lower the interest rate on the loan
- A number of new shows/events scheduled at the Horse Center were highlighted.

R. E. Lee Hotel

Mr. Mann noted that the IDA may receive another request for an update to the Subordination Agreement.

Adjournment

Vice-Chair Joyner adjourned the meeting at 5:40 p.m.

James Joyner, Vice-Chair

Gary Swink, Acting Secretary

Minutes
Industrial Development Authority (IDA)
Of the City of Lexington, VA
Wednesday, March 30, 2016, 5:00 p.m.

Present:

IDA: John DeVogt, Chair
James Joyner, Vice-Chair
Nick Charles
Buddy Derrick
Anna-Lisa Fitzgerald
Dick Halseth
Dan Vance

Also present:

VMI: Attorney T.W. Bruno
David Prasnicki

Staff: Noah A. Simon, Secretary
Gary Swink, Treasurer
Larry Mann, City Attorney

The Industrial Development Authority (IDA) met on March 30, 2016 in the Community Meeting Room of City Hall. Chair John DeVogt called the meeting to order at 5:00 p.m.

Attorneys T.W. Bruno and Larry Mann provided information on the refinancing of a 2006 Bond issuance for the Virginia Military Institute (VMI) in the amount of \$39,000,000 for the VMI Development Board, Incorporated and the VMI Foundation, Incorporated. The IDA served as the conduit for the Series 2006 Bond, and VMI requests that IDA again serve as the conduit for the refinanced Series 2016 Bond. VMI representative David Prasnicki and Attorneys Bruno and Mann answered questions for the Authority members.

Approval of Concept

IDA member Dan Vance moved to approve the issuance of the Series 2016 VMI Bond. Jim Joyner seconded. The motion carried unanimously.

Approval of Resolution

Buddy Derrick moved to approve IDA Resolution #IDA2016-01. Jim Joyner seconded. Motion carried unanimously.

Adjournment

Chair DeVogt adjourned the meeting at 5:23 p.m.

John DeVogt, IDA Chair

Noah A. Simon, Secretary

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

**REFUNDING BONDS FOR LEXINGTON RETIREMENT COMMUNITY, INC.
IN AN AMOUNT NOT TO EXCEED \$32,000,000**

RECITALS

A. The Industrial Development Authority of the City of Lexington, Virginia (the “Authority”), is a political subdivision of the Commonwealth of Virginia (the “Commonwealth”) created and existing pursuant to the Virginia Industrial Development and Revenue Bond Act, being Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the “Act”);

B. The Act authorizes the Authority to, among other things, refund bonds previously issued by it and to finance healthcare facilities and facilities for the residence or care of the aged.

C. The Authority has previously issued its \$34,155,000 Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A, currently outstanding in the principal amount of \$30,135,000 (the “Refunded Bonds”), for the benefit of Lexington Retirement Community, Inc., d/b/a Kendal at Lexington (the “Borrower”), and the Borrower has requested that the Authority issue its revenue bonds, in one or more series (the “Series 2016 Bonds”), to refund the Refunded Bonds.

D. The Borrower, a not-for-profit Virginia non-stock corporation, owns and operates a residential and health care facility for the aged (the “Facility”) located at 160 Kendal Drive, Lexington, Virginia. A portion of such facilities are in the City of Lexington and a portion are in Rockbridge County. The Refunded Bonds were issued to finance and refinance renovations, additions and improvements to the Facility.

E. The Series 2016 Bonds are expected to be issued in one or more series and sold to the public through an underwriting by underwriters including B.C. Ziegler and Company and Davenport & Company, LLC (collectively, the “Underwriter”).

F. There have been presented to this meeting drafts of the following instruments (collectively, the “Documents”) that the Authority proposes to execute or approve to carry out the issuance and sale of the Series 2016 Bonds, copies of which instruments shall be filed with the records of the Authority:

(1) Official Statement for the Series 2016 Bonds in preliminary form (the “Preliminary Official Statement”);

(2) Bond Purchase Agreement (the “Bond Purchase Agreement”) between the Authority, the Borrower and the Underwriter, providing for the purchase of the Series 2016 Bonds;

(3) ~~Trust Agreement~~Bond Indenture (the “~~Trust Agreement~~Bond Indenture”) between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), including the form of the Series 2016 Bonds;

(4) Loan Agreement (the “Loan Agreement”) between the Authority and the Borrower; and

(5) Form of the Borrower's promissory note to be issued in the aggregate principal amount of the Series 2016 Bonds (the "Note"), including the form of assignment of the Note for the Series 2016 Bonds from the Authority to the Trustee.

G. The Series 2016 Bonds will be issued for the benefit of the Borrower, under and pursuant to the Documents, and will be limited obligations of the Authority, and the principal of, premium, if any, and interest on such bonds will be payable solely from the receipts and revenues of the Authority received under the Documents.

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

1. It is hereby found and determined that the refunding of the Refunded Bonds will be in the public interest of the Commonwealth of Virginia and the City of Lexington and its environs, is consistent with the purposes of the Act and will benefit the City of Lexington and its inhabitants by providing for facilities for the residence and care of the aged and lowering the cost of operating such facilities. The Authority hereby agrees to assist the Borrower by issuing the Series 2016 Bonds, in one or more series, upon terms and conditions to be mutually agreed upon between the Authority and the Borrower as provided below, and subject to the requirements of the Act.

2. The Authority hereby authorizes (a) the issuance of the Series 2016 Bonds pursuant to the ~~Trust Agreement~~ Bond Indenture, (b) the sale of the Series 2016 Bonds pursuant to the Bond Purchase Agreement and (c) the loan of the proceeds of the Series 2016 Bonds to the Borrower pursuant to the Loan Agreement.

3. Subject to the limitations set forth below, the Series 2016 Bonds shall have such principal amounts and maturities, bear such date or dates, bear interest at such rate or rates, be payable at such time or times and be sold in such manner and on such terms as specified by the Borrower and approved by the Chairman or the Vice Chairman of the Authority, either of whom may act (the "Authorized Officers") after consultation with counsel to the Authority, such approval being evidenced by the Authorized Officer's execution of the Documents to which the Authority is a party.

4. The Authorized Officers are each hereby authorized and directed after consultation with counsel to the Authority to approve the final principal amount, maturities, interest rates and redemption prices, dates and amounts of the Series 2016 Bonds; provided, however, that (a) the aggregate maximum principal amount of the Series 2016 Bonds shall not exceed \$32,000,000, (b) no Series 2016 Bond shall mature later than January 1, 2037, (c) the true interest cost of any fixed rate Series 2016 Bond (including any original issue premium or discount) shall not exceed 5.0%, and (d) no redemption price shall exceed 103% of the principal amount of the Series 2016 Bonds to be redeemed.

5. The Authorized Officers after consultation with counsel to the Authority are each hereby authorized to execute and deliver the Documents. The Documents and the Series 2016 Bonds shall be substantially in the forms submitted to this meeting, which are hereby approved, with such completions, omissions, insertions and changes that do not materially adversely affect the Authority's interests, as the executing officer of the Authority, after consultation with

counsel to the Authority, may approve, with execution of any Document to which the Authority is a party constituting conclusive evidence of approval of any such completions, omissions, insertions and changes.

6. The Authorized Officers after consultation with counsel to the Authority are each hereby authorized to consent to the distribution by the Underwriter of the Preliminary Official Statement in a form deemed “final” as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (“Rule 15c2-12”), to prospective purchasers of the Series 2016 Bonds. The Preliminary Official Statement shall be in substantially the form submitted to this meeting, which is hereby approved, with such completions, omissions, insertions and changes as may be approved by an Authorized Officer after consultation with counsel to the Authority. The distribution of the Preliminary Official Statement shall constitute conclusive evidence of the approval of any such completions, omissions, insertions and changes and that the Authority has deemed such Preliminary Official Statement to be “final” as of its date, except for the omission of items therein permitted by Rule 15c2-12. The Authorized Officers are each authorized and directed after consultation with counsel to the Authority to approve such completions, omissions, insertions and other changes to the Preliminary Official Statement necessary to reflect the terms of the sale of the Series 2016 Bonds, determined as set forth in paragraph 4, and appropriate to complete it as an official statement in final form (an “Official Statement”) and to execute and deliver such Official Statement to the Underwriter. Execution of the Official Statement by an Authorized Officer shall constitute conclusive evidence of such officer’s approval of any such completions, omissions, insertions and changes and that the Official Statement has been deemed final by the Authority as of its date within the meaning of Rule 15c2-12.

7. The Authorized Officers are each hereby authorized and directed to accept from the Borrower the Note to evidence the Borrower's repayment obligation for the loan provided for in the Loan Agreement and to assign by endorsement and deliver the Note to the Trustee as security for the Series 2016 Bonds.

8. The Authorized Officers are each hereby authorized and directed to execute the Series 2016 Bonds by manual or facsimile signature, and the Secretary of the Authority and the Assistant Secretary, either of whom may act, are authorized and directed to have the seal of the Authority affixed or printed thereon and to attest such seal by manual or facsimile signature. The officers of the Authority are authorized and directed to deliver the Series 2016 Bonds to the Trustee for authentication and to cause the Series 2016 Bonds so executed and authenticated to be delivered to or for the account of the Underwriter upon terms provided in the Bond Purchase Agreement.

9. The Authorized Officers and such other officers of the Authority as requested are hereby authorized and directed, after consultation with counsel to the Authority, to execute, deliver and file all documents, certificates and instruments, including a non-arbitrage certificate, an Internal Revenue Service Form 8038 and an escrow deposit agreement with respect to the Refunded Bonds, on behalf of the Authority and to take all such further action as may be necessary or desirable in connection with the issuance and sale of the Series 2016 Bonds and the refunding of the Refunded Bonds.

10. Any authorization herein to execute a document shall include authorization to record such document where appropriate and to deliver it to the other parties thereto.

11. At the request of the Borrower, the Authority hereby approves the selection of Hunton & Williams LLP as bond counsel to supervise the proceedings and approve the issuance of the Series 2016 Bonds, and hereby approves B.C. Ziegler and Company and Davenport & Company, LLC as Underwriter of the Series 2016 Bonds.

12. All costs and expenses in connection with the issuance of the Series 2016 Bonds and the refunding of the Refunded Bonds, including the fees and expenses of bond counsel, shall be paid from the proceeds of the Series 2016 Bonds to the extent allowed by law. If for any reason the Series 2016 Bonds are not issued or if the proceeds thereof cannot be used to pay all such expenses, it is understood that all such costs and expenses shall be paid by the Borrower and that the Authority shall not have responsibility therefor.

13. The Borrower shall pay any and all costs and expenses incurred by the Authority in connection with the proposed bond issue. If for any reason the Series 2016 Bonds are not issued, it is understood that the Borrower will reimburse the Authority for all of its out-of-pocket expenses relating to the proposed bond financing.

14. The Borrower shall indemnify and save harmless the Authority, its officers, directors, employees and agents, from and against all liabilities, obligations, claims, damages, penalties, fines, losses, costs and expenses in any way connected with the Borrower or the issuance of the Series 2016 Bonds.

15. All other acts of the officers of the Authority that are in conformity with the purposes and intent of this resolution and in furtherance of the refunding of the Refunded Bonds and the issuance and sale of the Series 2016 Bonds are authorized, ratified and approved.

16. This resolution shall become effective immediately and shall expire one year from the date of its adoption unless the Series 2016 Bonds are issued within such time.

CERTIFICATE

The undersigned Secretary of the Industrial Development Authority of the City of Lexington, Virginia (the "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 _____, 2016, in accordance with law, and that such resolution has not been repealed, revoked, rescinded or amended, and is in full force and effect on the date hereof.

WITNESS the following signature this ___ day of _____, 2016.

(SEAL)

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

Summary report:	
Litéra® Change-Pro TDC 7.5.0.166 Document comparison done on 08/11/2016 2:22:56 PM	
Style name: H&W Standard	
Intelligent Table Comparison: Active	
Original DMS: iw://EMF_US/HW_US/61115895/3	
Modified DMS: iw://EMF_US/HW_US/61115895/4	
Changes:	
<u>Add</u>	3
Delete	3
Move From	0
<u>Move To</u>	0
<u>Table Insert</u>	0
Table Delete	0
Table moves to	0
Table moves from	0
Embedded Graphics (Visio, ChemDraw, Images etc.)	0
Embedded Excel	0
Format changes	0
Total Changes:	6

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4. The Authorized Officers are each hereby authorized and directed after consultation with counsel to the Authority to approve the final principal amount, maturities, interest rates and redemption prices, dates and amounts of the Series 2016 Bonds; provided, however, that (a) the aggregate maximum principal amount of the Series 2016 Bonds shall not exceed \$32,000,000, (b) no Series 2016 Bond shall mature later than January 1, 2037, (c) the true interest cost of any fixed rate Series 2016 Bond (including any original issue premium or discount) shall not exceed 5.0%, and (d) no redemption price shall exceed 103% of the principal amount of the Series 2016 Bonds to be redeemed.

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counsel to the Authority, may approve, with execution of any Document to which the Authority is a party constituting conclusive evidence of approval of any such completions, omissions, insertions and changes.

6. The Authorized Officers after consultation with counsel to the Authority are each hereby authorized to consent to the distribution by the Underwriter of the Preliminary Official Statement in a form deemed “final” as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (“Rule 15c2-12”), to prospective purchasers of the Series 2016 Bonds. The Preliminary Official Statement shall be in substantially the form submitted to this meeting, which is hereby approved, with such completions, omissions, insertions and changes as may be approved by an Authorized Officer after consultation with counsel to the Authority. The distribution of the Preliminary Official Statement shall constitute conclusive evidence of the approval of any such completions, omissions, insertions and changes and that the Authority has deemed such Preliminary Official Statement to be “final” as of its date, except for the omission of items therein permitted by Rule 15c2-12. The Authorized Officers are each authorized and directed after consultation with counsel to the Authority to approve such completions, omissions, insertions and other changes to the Preliminary Official Statement necessary to reflect the terms of the sale of the Series 2016 Bonds, determined as set forth in paragraph 4, and appropriate to complete it as an official statement in final form (an “Official Statement”) and to execute and deliver such Official Statement to the Underwriter. Execution of the Official Statement by an Authorized Officer shall constitute conclusive evidence of such officer’s approval of any such completions, omissions, insertions and changes and that the Official Statement has been deemed final by the Authority as of its date within the meaning of Rule 15c2-12.

7. The Authorized Officers are each hereby authorized and directed to accept from the Borrower the Note to evidence the Borrower's repayment obligation for the loan provided for in the Loan Agreement and to assign by endorsement and deliver the Note to the Trustee as security for the Series 2016 Bonds.

8. The Authorized Officers are each hereby authorized and directed to execute the Series 2016 Bonds by manual or facsimile signature, and the Secretary of the Authority and the Assistant Secretary, either of whom may act, are authorized and directed to have the seal of the Authority affixed or printed thereon and to attest such seal by manual or facsimile signature. The officers of the Authority are authorized and directed to deliver the Series 2016 Bonds to the Trustee for authentication and to cause the Series 2016 Bonds so executed and authenticated to be delivered to or for the account of the Underwriter upon terms provided in the Bond Purchase Agreement.

9. The Authorized Officers and such other officers of the Authority as requested are hereby authorized and directed, after consultation with counsel to the Authority, to execute, deliver and file all documents, certificates and instruments, including a non-arbitrage certificate, an Internal Revenue Service Form 8038 and an escrow deposit agreement with respect to the Refunded Bonds, on behalf of the Authority and to take all such further action as may be necessary or desirable in connection with the issuance and sale of the Series 2016 Bonds and the refunding of the Refunded Bonds.

10. Any authorization herein to execute a document shall include authorization to record such document where appropriate and to deliver it to the other parties thereto.

11. At the request of the Borrower, the Authority hereby approves the selection of Hunton & Williams LLP as bond counsel to supervise the proceedings and approve the issuance of the Series 2016 Bonds, and hereby approves B.C. Ziegler and Company and Davenport & Company, LLC as Underwriter of the Series 2016 Bonds.

12. All costs and expenses in connection with the issuance of the Series 2016 Bonds and the refunding of the Refunded Bonds, including the fees and expenses of bond counsel, shall be paid from the proceeds of the Series 2016 Bonds to the extent allowed by law. If for any reason the Series 2016 Bonds are not issued or if the proceeds thereof cannot be used to pay all such expenses, it is understood that all such costs and expenses shall be paid by the Borrower and that the Authority shall not have responsibility therefor.

13. The Borrower shall pay any and all costs and expenses incurred by the Authority in connection with the proposed bond issue. If for any reason the Series 2016 Bonds are not issued, it is understood that the Borrower will reimburse the Authority for all of its out-of-pocket expenses relating to the proposed bond financing.

14. The Borrower shall indemnify and save harmless the Authority, its officers, directors, employees and agents, from and against all liabilities, obligations, claims, damages, penalties, fines, losses, costs and expenses in any way connected with the Borrower or the issuance of the Series 2016 Bonds.

15. All other acts of the officers of the Authority that are in conformity with the purposes and intent of this resolution and in furtherance of the refunding of the Refunded Bonds and the issuance and sale of the Series 2016 Bonds are authorized, ratified and approved.

16. This resolution shall become effective immediately and shall expire one year from the date of its adoption unless the Series 2016 Bonds are issued within such time.

CERTIFICATE

The undersigned Secretary of the Industrial Development Authority of the City of Lexington, Virginia (the "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 _____, 2016, in accordance with law, and that such resolution has not been repealed, revoked, rescinded or amended, and is in full force and effect on the date hereof.

WITNESS the following signature this ___ day of _____, 2016.

(SEAL)

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

BOOK ENTRY ONLY

[RATINGS / NOT RATED]

In the opinion of Bond Counsel, under current law and subject to conditions described in "TAX EXEMPTION" herein interest on the Series 2016 Bonds (1) will not be included in gross income of the owners thereof for Federal income tax purposes, (2) will not be an item of tax preference for purposes of the Federal alternative minimum income tax, and (3) will be exempt from income taxation by the Commonwealth of Virginia. Such interest may be included in the calculation of a corporation's alternative minimum income tax, and a holder may be subject to other Federal tax consequences as described in "TAX EXEMPTION" herein.

\$ _____ *

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON, VIRGINIA
RESIDENTIAL CARE FACILITY
REFUNDING REVENUE BONDS
(KENDAL AT LEXINGTON)
SERIES 2016**



Dated: Date of Delivery

Due: As shown on the inside cover

This cover page contains certain information for quick reference only. It is not a summary of this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Industrial Development Authority of the City of Lexington, Virginia (the "Authority") is issuing the above-referenced bonds (the "Series 2016 Bonds") under a Bond Trust Indenture dated as of October 1, 2016 (the "Bond Indenture"), between the Authority and [U.S. Bank, National Association], as Bond Trustee (the "Bond Trustee"). The Series 2016 Bonds are limited obligations of the Authority. Debt service on the Series 2016 Bonds will be payable solely from the revenues received by the Authority under a promissory note (the "Series 2016 Obligation") issued by Lexington Retirement Community, Inc., d/b/a Kendal at Lexington (the "Corporation"). The Corporation is issuing the Series 2016 Obligation under a Master Trust Indenture dated as of October 1, 2016 (the "Original Master Indenture"), as supplemented by a Supplemental Indenture for Series 2016 Obligation dated as of October 1, 2016 (the "Supplement"), both between the [U.S. Bank, National Association], as master trustee (the "Master Trustee"), and the Corporation.

The Authority is loaning the proceeds of the Series 2016 Bonds to the Corporation pursuant to a Loan Agreement dated as of October 1, 2016 (the "Loan Agreement"), between the Authority and the Corporation. The Corporation is using the proceeds of the Series 2016 Bonds, together with other available funds (1) to refund Authority's Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A (which were issued for the benefit of the Corporation), (2) to fund a debt service reserve fund for the Series 2016 Bonds, and (3) to finance costs of issuance incurred in connection with the issuance of the Series 2016 Bonds. The Corporation's obligation to repay the loan will be evidenced by the Series 2016 Obligation.

The Authority is issuing the Series 2016 Bonds in fully registered form, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), which will act as securities depository for the Series 2016 Bonds. Individual purchases of beneficial ownership interest in the Series 2016 Bonds will be made in book-entry form only, and individual purchasers will not receive physical delivery of bond certificates. The Series 2016 Bonds will be issued in authorized denominations of \$5,000 and multiples thereof.

Interest on the Series 2016 Bonds will be payable on _____, 2017 and thereafter semi-annually on each _____ and _____. Payments of principal of and interest on the Series 2016 Bonds will be made by the Bond Trustee to Cede & Co., as nominee for DTC, for disbursement to DTC participants, to be disbursed subsequently to the beneficial owners of the Series 2016 Bonds. The Series 2016 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described in "**THE SERIES 2016 BONDS**" herein.

The Series 2016 Bonds and the premium, if any, and the interest thereon shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth of Virginia, or any political subdivision thereof, including the Authority and the City of Lexington, Virginia, shall be obligated to pay principal of or premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto except from the revenues and receipts pledged therefor. Neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any political subdivision thereof, including the Authority and the City of Lexington, Virginia is pledged to the payment of the principal, premium, if any, or interest on the Series 2016 Bonds, or other costs incident thereto.

[An investment in the Series 2016 Bonds involves risk and is not appropriate for unsophisticated investors. The Series 2016 Bonds are not rated. Prospective investors are advised to read this entire Official Statement, including the appendices hereto. Special reference is made to sections titled "SECURITY OF THE SERIES 2016 BONDS" and "RISKS" for a discussion of certain risk factors that should be considered in connection with an investment in the Series 2016 Bonds.]

The Series 2016 Bonds are offered when, as, and if issued by the Authority and received by B.C. Ziegler and Company, on behalf of itself and Davenport & Company LLC (the "Underwriter"), subject to the approval of their validity by Hunton & Williams LLP, Richmond, Virginia, Bond Counsel, as described herein. Certain legal matters will be passed upon for the Authority by Mann, Vita & Elrod, P.L.L.C., Lexington, Virginia; for the Obligated Group by Glenn, Feldmann, Darby & Goodlatte, Roanoke, Virginia; and for the Underwriters by McGuireWoods LLP, Richmond, Virginia. Delivery of the Series 2016 Bonds is expected on or about _____, 2016* through the facilities of DTC against payment therefor.

[ZIEGLER LOGO]

DAVENPORT & COMPANY LLC

Dated: _____, 2016

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITIES, INTEREST RATES, PRICES, YIELDS AND CUSIPS[®]

SERIES 2016 BONDS

Serial Bonds

Due ()*	Principal Amount*	Coupon	Price	Yield	CUSIP^{®1} Number
	\$	%	%	%	

\$ _____* - _____% Term Bonds, Due _____, 20____, * Priced at _____% to Yield: _____%, CUSIP^{®1}: _____
\$ _____* - _____% Term Bonds, Due _____, 20____, * Priced at _____% to Yield: _____%, CUSIP^{®1}: _____

* Preliminary, subject to change.

¹ None of the Authority, the Corporation or the Underwriters take responsibility for the accuracy of the CUSIP[®] numbers, which are included solely for the convenience of the purchasers of the Series 2016 Bonds. CUSIP numbers on the inside cover of this Official Statement are copyright 2009 by the American Bankers Association. CUSIP data herein is provided by Standard & Poor's. CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau.

PRELIMINARY NOTICES

No dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), Lexington Retirement Community, Inc., d/b/a Kendal at Lexington (the "Corporation") or B.C. Ziegler and Company, on behalf of itself and Davenport & Company LLC (the "Underwriters"). This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any state to any person to whom it is unlawful to make such offer in such state. Except where otherwise indicated, this Official Statement speaks as of the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder will under any circumstances create any implication that there has been no change in the affairs of the Corporation since the date hereof.

In making an investment decision, investors must rely on their own examination of the Series 2016 Bonds, the Corporation, the Community and the terms of the offering, including the merits and risks involved. The Series 2016 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, no such commission or regulatory authority has confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information contained in this Official Statement has been furnished by the Corporation, the Authority, DTC and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriter. The Authority assumes no responsibility as to the accuracy or completeness of any information herein other than set forth in "**THE AUTHORITY**" and "**LITIGATION - The Authority**" herein, and, except for the provision of that information, has not otherwise participated in the preparation of this Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

THE SERIES 2016 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2016 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH SERIES 2016 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2016 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2016 BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Preliminary Official Statement has been deemed final by the Authority and the Corporation for purposes of Securities Exchange Act of 1934, Rule 15c2-12, except for the permitted omissions described in paragraph (b)(1) of Rule 15c2-12.

Cautionary Statements Regarding Forward-Looking Statements

This Official Statement contains statements that should be considered "forward-looking statements," within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended, meaning they refer to possible future events or conditions. Such statements are generally identifiable by the words such as "anticipate," "believe," "budget," "estimate," "expect," "intend," "plan," "forecast," or similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE 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. CERTAIN OF THE RISKS AFFECTING FUTURE RESULTS ARE DESCRIBED IN "**RISKS**" HEREIN. THE CORPORATION DOES NOT EXPECT OR INTEND TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

SHORT STATEMENT

The information set forth in this short statement is subject in all respects to more complete information set forth elsewhere in this Official Statement. The offering of the Series 2016 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this short statement from this Official Statement or otherwise to use it without this entire Official Statement.

All capitalized terms used in this Official Statement that are not otherwise defined herein have the meanings ascribed to them in the financing documents, proposed forms of which are attached in Appendix C hereto, unless the context or use clearly indicates otherwise.

THE AUTHORITY. The Industrial Development Authority of the City of Lexington, Virginia (the "Authority") is a political subdivision of the Commonwealth of Virginia (the "Commonwealth") and was created by an ordinance adopted by the City Council of the City of Lexington, Virginia, to promote and further the purposes of the Virginia Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the "Act"). The Series 2016 Bonds will be limited obligations of the Authority. **The Authority has no taxing power.**

The Series 2016 Bonds and the premium, if any, and the interest thereon shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth, or any political subdivision thereof, including the authority and the City of Lexington, Virginia (the "City of Lexington"). Neither the Commonwealth, nor any political subdivision thereof, including the authority and the City of Lexington shall be obligated to pay principal of or premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof, including the Authority and the City of Lexington is pledged to the payment of principal of the Series 2016 Bonds or interest thereon or other costs incident thereto.

THE CORPORATION AND THE COMMUNITY. Lexington Retirement Community, Inc., d/b/a Kendal at Lexington (the "Corporation"), a nonstock Virginia not-for-profit corporation, owns and operates a residential and health care facility for the aged (the "Community") located in the City of Lexington. The Corporation is a charitable organization under Section 501(c)(3) of the Code, is exempt from federal income taxation under Section 501(a) of the Code, and is not a private foundation within the meaning of Section 509(a) of the Code. The Community currently consists of a continuing care retirement community, with _____ independent living units, _____ assisted living units and _____ nursing care beds.

PLAN OF REFUNDING. The Corporation will use the proceeds of the Authority's Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the "Series 2016 Bonds"), together with other available funds, to (1) refund the outstanding principal amount of the Authority's Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A (the "Prior Bonds"), originally issued to finance and refinance the costs of certain improvements at its Community, finance funded interest, fund a debt service reserve fund and finance costs of issuance; (2) fund a debt service reserve fund for the Series 2016 Bonds; and (3) finance costs of issuance incurred in connection with the issuance of the Series 2016 Bonds. See "**PLAN OF REFUNDING**" and "**ESTIMATED SOURCES AND USES OF FUNDS**" herein.

CERTAIN BONDHOLDERS' RISKS. [THE SERIES 2016 BONDS ARE NOT RATED]. AN INVESTMENT IN THE SERIES 2016 BONDS INVOLVES A DEGREE OF RISK. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, BEFORE MAKING AN INVESTMENT DECISION TO PURCHASE SERIES 2016 BONDS. SPECIAL REFERENCE IS MADE TO "**SECURITY FOR THE SERIES 2016 BONDS**" AND "**RISKS**" HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2016 BONDS. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. Among other things, because the Series 2016 Bonds are payable solely from the revenues and assets of the Obligated Group and other money pledged to such payment, careful evaluation should be made of certain factors (including, but not limited to, the ability of the Obligated Group to attract residents and enter into Residency Agreements and manage the Community in a manner

that maintains high occupancy levels), that may adversely affect the ability of the Obligated Group to generate sufficient revenues to pay its expenses of operation, including the principal or redemption price of and interest on the Series 2016 Obligation and the Series 2016 Bonds.

SECURITY. Pursuant to a Loan Agreement dated as of October 1, 2016 (the "Loan Agreement"), between the Authority and the Corporation, the Authority will loan the proceeds of the Series 2016 Bonds to the Corporation, and the Corporation has agreed to make loan payments at times and in amounts sufficient to pay the principal of, premium (if any) and interest on the Series 2016 Bonds.

The obligation of the Corporation to pay the Series 2016 Bonds will be evidenced by a promissory note constituting the Series 2016 Obligation (the "Obligation"). The Series 2016 Obligation will be issued pursuant to, and secured by, a Master Trust Indenture dated as of October 1, 2016 (the "Original Master Indenture"), as supplemented by a Supplemental Indenture for Series 2016 Obligation dated as of October 1, 2016 (the "Supplemental Indenture" and, together with the Original Master Indenture, the "Master Indenture"), each between [U.S. Bank, National Association], as master trustee (the "Master Trustee") and the Corporation. Scheduled payments on the Series 2016 Obligation will be sufficient to pay the principal, premium, if any, and interest on the Series 2016 Bonds as they become due and payable. The Series 2016 Obligation will be the joint and several general obligation of each Member of the Obligated Group. As of the date of issuance of the Series 2016 Bonds, the Corporation is the only Member of the Obligated Group.

The Series 2016 Obligation and certain Obligations issued in the future under the Master Indenture will be secured by a security interest in certain real and personal property of the Obligated Group pursuant to [an Amended and Restated Credit Line Deed of Trust] dated as of October 1, 2016 (the "Deed of Trust"), made by the Corporation for the benefit of the Master Trustee. In addition, under the Master Indenture, the Obligated Group has pledged and assigned all Pledged Assets (as defined in the Master Indenture) to the Master Trustee as security for all Obligations issued thereunder, including the Series 2016 Obligation and has granted a security interest in all of the foregoing, subject to Permitted Liens and subject to the right of the Obligated Group to transfer certain Pledged Assets free of the security interest created in the Pledged Assets under certain circumstances.

The Bond Indenture establishes a Debt Service Reserve Fund, in an amount equal to maximum aggregate annual amount of principal and interest payable on the Series 2016 Bonds (excluding the final year of debt service payments related to the Series 2016 Bonds). Funds on deposit in the Debt Service Reserve Fund will be used to make up any deficiencies in the bond fund for the Series 2016 Bonds.

Payment of the Series 2016 Bonds is primarily dependent on revenues to be generated by the Community.

FINANCING COVENANTS. The Master Indenture and Loan Agreement, proposed forms of which are attached in Appendix C hereto, contain financial and operating covenants for the Corporation. As outlined in "**FINANCING DOCUMENTS AND SELECTED FINANCIAL COVENANTS**" herein, the Corporation has agreed to comply with those covenants.

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OFFICIAL STATEMENT

\$ _____ *

INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA
Residential Care Facility Refunding Revenue Bonds
(Kendal at Lexington)
Series 2016

INTRODUCTION

This Official Statement, including the cover page and appendices, is provided to furnish information regarding the \$ _____ * Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the "Series 2016 Bonds"). The Series 2016 Bonds are being issued by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), a political subdivision of the Commonwealth of Virginia (the "Commonwealth"), pursuant to the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia, as amended (the "Act"), and a Bond Trust Indenture dated as of October 1, 2016 (the "Bond Indenture"), between the Authority and [U.S. Bank, National Association], as Bond Trustee (the "Bond Trustee").

Concurrently with the issuance of the Series 2016 Bonds, as defined below, the Authority will enter into a Loan Agreement dated as of October 1, 2016 (the "Loan Agreement") with Lexington Retirement Community, Inc., d/b/a Kendal at Lexington, a not-for-profit Virginia nonstock corporation ("Kendal at Lexington" or the "Corporation"). Pursuant to the Loan Agreement, the Authority will loan the proceeds of the Series 2016 Bonds to the Corporation to be used, together with other available funds, to (1) refund the outstanding principal amount of the Authority's Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A (the "Prior Bonds"), originally issued to finance and refinance the costs of certain improvements at its residential and health care facility for the aged (the "Community"), finance funded interest, fund a debt service reserve fund and finance costs of issuance; (2) fund a debt service reserve fund for the Series 2016 Bonds; and (3) finance costs of issuance incurred in connection with the issuance of the Series 2016 Bonds. A more detailed description of the use of proceeds of the Series 2016 Bonds is set forth in "**THE PLAN OF REFUNDING**" and "**ESTIMATED SOURCES AND USES OF FUNDS**" herein. Certain terms used herein are defined in the financing documents, proposed forms of which are attached in Appendix C hereto.

The Series 2016 Bonds are limited obligations of the Authority payable solely from payments made by Kendal at Lexington under the Loan Agreement and a promissory note (the "Series 2016 Obligation"), executed and delivered by Kendal at Lexington. The Series 2016 Obligation is being issued pursuant to a Master Trust Indenture dated as of October 1, 2016 (the "Original Master Indenture"), as supplemented by a Supplemental Indenture for Series 2016 Obligation dated as of October 1, 2016 (the "Supplement" and, together with the Original Master Indenture, the "Master Indenture"), each between [U.S. Bank, National Association], as master trustee (the "Master Trustee") and the Corporation. Stated aggregate payments on the Series 2016 Obligation will be sufficient to pay the principal, premium, if any, and interest on the Series 2016 Bonds as they become due and payable. The Series 2016 Obligation will be the joint and several general obligation of each Member of the Obligated Group. The Corporation will be the sole member of the obligated group under the Master Indenture upon the issuance of the Series 2016 Obligation and the Series 2016 Bonds. References in this Official Statement to the "Member" and the "Obligated Group" mean the Corporation and any other entities that subsequently become members of the obligated group under the Master Indenture.

Depending on market conditions after the issuance of the Preliminary Official Statement, Kendal at Lexington may decide to change the structure of the Series 2016 Bonds, including, without limitation, deleting specific series of Series 2016 Bonds and/or modifying provisions related thereto such as redemption, payment and interest rate terms. Investors should review the final Official Statement with respect to such possible revisions to the Series 2016 Bonds and the plan of refunding.

* Preliminary, subject to change.

As security for the Series 2016 Obligation and any other Obligations entered into under the Master Indenture, the Corporation will enter into [an Amended and Restated Credit Line Deed of Trust] dated as of October 1, 2016 (the "Deed of Trust"), pursuant to which the Corporation will (1) convey a first mortgage lien on the real estate portion of the Community, together with all buildings, improvements and fixtures thereon, subject to Permitted Encumbrances, and (2) grant a security interest in the equipment located at the Community (the "Equipment"), subject to the right of the Obligated Group to transfer certain Equipment free of the security interest created in the Equipment under certain circumstances. The Community and all facilities subsequently subjected to such lien are referred to herein as the "Mortgaged Premises." In addition, under the Master Indenture, each Member of the Obligated Group will pledge and assign all Pledged Assets to the Master Trustee as security for all Obligations issued hereunder, including the Series 2016 Obligation, and will grant a security interest in all of the foregoing, subject to Permitted Encumbrances and subject to the right of the Members to transfer certain Pledged Assets free of the security interest created in the Pledged Assets under certain circumstances.

The Master Indenture permits each Member of the Obligated Group to incur Additional Indebtedness evidenced by Obligations issued under the Master Indenture that will be secured pari passu by the lien on the Mortgaged Premises and the security interests in the Pledged Assets and Equipment. The Members of the Obligated Group will also be subject to certain covenants under the Master Indenture restricting, among other things, incurrence of Indebtedness, existence of Permitted Encumbrances, consolidation or merger and disposition of assets.

The Master Indenture permits Persons that are not Members of the Obligated Group and other corporations that are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Indenture to become Members of the Obligated Group upon compliance with certain financial and other requirements. Upon compliance with certain requirements, future Members of the Obligated Group may withdraw from the Obligated Group, except for the Corporation, which has covenanted to remain a Member of the Obligated Group so long as any Series 2016 Bonds are outstanding.

Certain information concerning Kendal at Lexington and the Community is contained in Appendix A hereto. Certain financial statements of the Corporation audited by CliftonLarsonAllen LLP, independent certified public accountants, are contained in Appendix B hereto. See "**FINANCIAL STATEMENTS**" herein.

Payment of the Series 2016 Bonds is primarily dependent on revenues to be generated by the Corporation. A description of certain risks affecting the Corporation's ability to generate revenues is set forth in "**RISKS**" herein. The Corporation has undertaken to provide certain limited continuing disclosure as described further in "**CONTINUING DISCLOSURE**" herein and in Appendix E hereto.

All capitalized terms used in this Official Statement that are not otherwise defined herein have the meanings ascribed to them in the financing documents, proposed forms of which are attached in Appendix C hereto, unless the context or use clearly indicates otherwise.

THE AUTHORITY

The Authority was created under the Act by an ordinance of the City Council of the City of Lexington, Virginia, and is governed by seven directors appointed by the City Council of the City of Lexington, Virginia. The Authority is empowered, among other things, to finance and refinance facilities, including facilities for the residence and care of the aged, by the issuance of its revenue bonds. The Series 2016 Bonds will be limited obligations of the Authority. The Authority has no taxing power.

The Series 2016 Bonds and the premium, if any, and the interest thereon shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth, or any political subdivision thereof, including the Authority and the City of Lexington. Neither the Commonwealth, nor any political subdivision thereof, including the Authority and the City of Lexington, Virginia (the "City of Lexington"), shall be obligated to pay principal of or premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof, including the Authority and the City of Lexington is pledged to the payment of principal of the Series 2016 Bonds or interest thereon or other costs incident thereto.

THE SERIES 2016 BONDS

General Description

The Series 2016 Bonds (1) will be issued in one series designated "Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016," (2) will be dated the date of their delivery, and (3) will bear interest from their date at rates set forth on the inside cover of this Official Statement payable on _____, 2017, and on each _____, and _____ thereafter (each, an "Interest Payment Date"). The Series 2016 Bonds will mature on _____ in the years and amounts as set forth on the inside cover of this Official Statement. See "ANNUAL DEBT SERVICE REQUIREMENTS" herein. The Series 2016 Bonds will be limited obligations of the Authority. See "THE AUTHORITY" herein.

The Series 2016 Bonds will be registered as to principal and interest in the name of Cede & Co., as nominee for DTC (as hereinafter defined), or otherwise as hereinafter described. Purchases of beneficial ownership interests in the Series 2016 Bonds will be made only in book-entry form and purchasers will not receive certificates representing their interests in the Series 2016 Bonds so purchased. If the book-entry system is discontinued, bond certificates will be delivered as described in the Bond Indenture, and Beneficial Owners (as hereinafter defined) will become the registered owners. See Appendix F hereto for a description of the DTC Book-Entry Only System.

The Series 2016 Bonds will be issued as registered bonds in denominations of \$5,000 or multiples thereof. As long as the Series 2016 Bonds are held by DTC or its nominee, interest will be paid to Cede & Co., as nominee of DTC, in next day funds on each interest payment date. If the book-entry system is discontinued, interest on Series 2016 Bonds will be payable by check or draft mailed to the registered owner. Principal will be payable at the principal corporate trust office of the Bond Trustee.

Exchange of Bonds

As long as the Series 2016 Bonds are held by DTC or its nominee, Beneficial Owners may transfer their interest in the Series 2016 Bonds through the facilities of DTC as described in Appendix F hereto. If the book-entry system is discontinued, exchanges of Series 2016 Bonds may be made at the principal corporate trust office of the Bond Trustee for an equal aggregate principal amount of other Series 2016 Bonds of the same series and maturity, of authorized denominations and bearing interest at the same rate.

Upon receipt by the Authority and the Bond Trustee of evidence satisfactory to them that any Series 2016 Bond has been mutilated, lost or destroyed, the Authority may execute and the Bond Trustee may authenticate and deliver a new Series 2016 Bond upon receipt of payment of the reasonable expenses and charges of the Authority and the Bond Trustee and indemnity satisfactory to them.

Mandatory Sinking Fund Redemption

Series 2016 Bonds. The \$ _____ Series 2016 Bonds maturing on _____, _____, are required to be redeemed on _____, in amounts and at a price of par plus accrued interest to the redemption date, as follows:

Year Amount

20__ (maturity)

The \$ _____ Series 2016 Bonds maturing on _____, _____, are required to be redeemed on _____, in amounts and at a price of par plus accrued interest to the redemption date, as follows:

<u>Year</u>	<u>Amount</u>
20__ (maturity)	

The Bond Indenture provides for a credit against sinking fund redemption requirements for Series 2016 Bonds of the same series and maturity that, prior to any sinking fund redemption date, have been purchased and cancelled or surrendered for cancellation and which have not previously been applied as a credit against any sinking fund redemption requirement.

Optional Redemption

The Series 2016 Bonds maturing on or after _____, 20__, will be subject to redemption by the Authority, at the direction of the Corporation, prior to maturity in whole, or in part by lot, at any time, on and after _____, 20__, at a redemption price (expressed as a percentage of the principal amount of such Series 2016 Bonds being redeemed) equal to ___% of the principal amount to be redeemed plus accrued interest thereon to the redemption date.

Extraordinary Redemption

The Series 2016 Bonds are required to be redeemed in whole at any time upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date in the event the Corporation exercises its option to prepay the Series 2016 Obligation upon occurrence of any of the following:

(1) Damage or destruction of the Mortgaged Premises by fire or other casualty to such extent that, or loss of title to or use of substantially all of the Mortgaged Premises as a result of the exercise of the power of eminent domain or failure of title to the extent that, in the opinion of both the Corporation's board of directors (expressed in a resolution) and an independent architect or engineer reasonably acceptable to the Bond Trustee, both filed with the Bond Trustee, (a) the Mortgaged Premises cannot be reasonably repaired, rebuilt or restored within a period of 12 months to its condition immediately preceding such damage or destruction, or (b) the Corporation is prevented from carrying on its normal operations at the Mortgaged Premises for a period of 12 months, or (c) the cost of repairs, rebuilding or restoration would exceed, by more than one percent of Book Value, the Net Proceeds of insurance (including self-insurance) carried thereon pursuant to the Loan Agreement plus the amounts for which the Corporation is self-insured with respect to deductible amounts permitted by the Loan Agreement.

(2) A change in the Constitution of Virginia or of the United States of America or a legislative or administrative action (whether local, state or federal) or a final decree, judgment or order of any court or administrative body (whether local, state or federal) contested by the Corporation in good faith that causes the Loan Agreement or the Series 2016 Obligation to become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement or unreasonable burdens or excessive liabilities to be imposed on the Authority or the Corporation.

The Series 2016 Bonds are subject to redemption in part by the Authority at the direction of the Corporation at any time upon payment of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date in the event of loss of title or use of a portion of the Mortgaged Premises as a result of the exercise

of the power of eminent domain or failure of title or damage or destruction of the Mortgaged Premises. See the proposed form of the Loan Agreement attached in Appendix C hereto.

Notice of Redemption

Whenever Series 2016 Bonds are redeemed, whether by mandatory sinking fund redemption, optional redemption, extraordinary redemption, or otherwise, the Bond Trustee shall cause notice of the call for redemption identifying the Series 2016 Bonds to be redeemed to be sent by first class mail not less than 30 nor more than 60 days prior to the redemption date to the registered owner of each Series 2016 Bond to be redeemed at his address as it appears on the registration books of the Bond Trustee, which is registrar and paying agent for the Series 2016 Bonds. Such notice may be conditioned upon the occurrence of certain events such as the availability of funds to effect such redemption. During the period that DTC or its nominee is the registered holder of the Series 2016 Bonds the Bond Trustee will not be responsible for mailing notices of redemption to the Beneficial Owners of the Series 2016 Bonds. See Appendix F hereto.

Manner of Redemption

If less than all the Series 2016 Bonds of any series or any maturity of the same series are called for redemption, the Series 2016 Bonds to be redeemed shall be selected by DTC in accordance with its procedures, or if DTC is not the securities depository, then by lot in such manner as the Bond Trustee shall determine, except that if the Series 2016 Bonds are to be redeemed in part because of loss of title or use of a portion of the Mortgaged Premises due to the exercise of eminent domain or material damage to or destruction of the Mortgaged Premises, the Corporation may direct the Bond Trustee to redeem the Series 2016 Bonds from each maturity then outstanding, to the extent practicable, in the proportion that the principal amount of Series 2016 Bonds of such maturity bears to the total principal amount of all Series 2016 Bonds then outstanding or inverse order of maturity. If funds have been deposited with the Bond Trustee for such purpose, each Series 2016 Bond duly called for redemption will cease to bear interest on its redemption date.

Additional Bonds, Additional Obligations and Parity Indebtedness

The Bond Indenture permits the issuance of Additional Bonds secured thereby, including secured by amounts in the Debt Service Reserve Fund, and the Master Indenture permits the Corporation or any other Members of the Obligated Group, if any, to issue, incur, guarantee and assume additional Obligations, which may be secured on a parity basis with the Outstanding Obligations. Such additional Obligations would also be secured on a parity with the Series 2016 Bonds by the lien on the Obligated Group's Pledged Assets. At the option of the Obligated Group, additional Obligations under the Master Indenture may be secured on a parity basis with the Outstanding Obligations by the lien and mortgage created by the Deed of Trust. See "**SECURITY FOR THE SERIES 2016 BONDS – The Master Indenture and the Obligated Group**" herein and the proposed forms of the Master Indenture and Bond Indenture attached in Appendix C hereto.

Acceleration Upon Default; Other Remedies

All principal and accrued interest on the Series 2016 Bonds may become immediately due and payable, without premium, upon an Event of Default under the Bond Indenture if the Bond Trustee (1) exercises its option to so declare or (2) is directed to so declare by the holders of at least 25% in aggregate principal amount of Series 2016 Bonds then outstanding. The Bond Trustee's receipt of proceeds upon acceleration may be dependent upon the Bond Trustee and the Master Trustee taking certain action. See the proposed form of the Bond Indenture in Appendix C hereto. Required payments under the Series 2016 Obligation may only be accelerated by the Master Trustee. Upon the occurrence of an Event of Default under the Master Indenture, the Master Trustee may accelerate payment of the Series 2016 Obligation and shall do so if directed by the holders of not less than 25% in aggregate principal amount of Obligations outstanding under the Master Indenture.

Defeasance

When the interest on, and the principal and redemption premium (as the case may be) of all Series 2016 Bonds have been paid, or there have been deposited with the Bond Trustee an amount of money or other qualifying obligations (which includes securities other than government obligations) the maturing principal of which, when due and payable, shall provide sufficient amounts to pay the principal of, premium, if any, any interest due and to become due on the Series 2016 Bonds on or prior to the redemption date or maturity date thereof, such Series 2016 Bonds shall be no longer deemed outstanding under the Bond Indenture and the Bond Trustee shall cancel the obligations of the Authority to the holders of the Series 2016 Bonds. See the proposed form of the Bond Indenture attached in Appendix C hereto.

SECURITY FOR THE SERIES 2016 BONDS

General

The principal of, premium, if any, and interest on the Series 2016 Bonds will be payable solely from moneys paid by the Obligated Group pursuant to the Loan Agreement and the Series 2016 Obligation or derived from the security for such payment. The Series 2016 Obligation will be the joint and several obligations of the Corporation and each future Member of the Obligated Group. The Corporation is the sole Member of the Obligated Group.

The Series 2016 Bonds will be issued pursuant to the Bond Indenture and will be secured thereunder. Pursuant to the Bond Indenture, the Authority will assign to the Bond Trustee (1) its right, title and interest in and to the Series 2016 Obligation, (2) any of its rights under the Master Indenture and the Deed of Trust and (3) its right, title and interest in and to the Loan Agreement, including the right to receive loan payments thereunder (except for certain reserved rights, including its rights to indemnification and the payment of certain expenses, its rights to give certain approvals and consents and its right to receive certain documents, information and notices). The Series 2016 Bonds will further be secured by the moneys and securities held by the Bond Trustee in certain funds and accounts created under the Bond Indenture, including a Debt Service Reserve Fund which will secure the Series 2016 Bonds.

Limited Obligations

The Series 2016 Bonds and the interest thereon are limited obligations of the Authority, payable solely from the funds pledged therefor, and not from any other fund or source of the Authority, and are secured under the Bond Indenture and the Master Indenture as described herein. The Authority has no taxing power.

The Series 2016 Bonds and the premium, if any, and the interest thereon shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth, or any political subdivision thereof, including the Authority and the City of Lexington. Neither the Commonwealth, nor any political subdivision thereof, including the Authority and the City of Lexington shall be obligated to pay principal of or premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof, including the Authority and the City of Lexington is pledged to the payment of principal of the Series 2016 Bonds or interest thereon or other costs incident thereto.

The Master Indenture and the Obligated Group

The Series 2016 Obligation will be the first Obligation issued under the Master Indenture. The Series 2016 Obligation and any other Obligations issued by the Members of the Obligated Group in the future will be the joint and several obligations of each and every Member of the Obligated Group. All Obligations will rank on a parity basis with each other and will be equally and ratably secured by the Master Indenture. The Master Indenture requires all Members to make payments sufficient to pay all Obligations when due. Upon the issuance of the Series 2016 Bonds, the Series 2016 Obligation will be the only Outstanding Obligation.

The Corporation is currently the only Member of the Obligated Group. The Master Indenture provides that affiliates of any Member of the Obligated Group and other entities approved by Members may be admitted to the Obligated Group upon the satisfaction of certain conditions. Each Member, as a co-obligor and not as guarantor, will jointly and severally covenant to pay the principal of, premium, if any and interest on all Obligations issued under the Master Indenture and to perform any and all other covenants, agreements and obligations under the Master Indenture, subject to the right of such Member to withdraw from the Obligated Group under certain circumstances. The owner of the Mortgaged Premises, currently the Corporation, however, will covenant not to withdraw from the Obligated Group so long as any Series 2016 Bonds remain outstanding. See the proposed form of the Master Indenture attached in Appendix C hereto. The enforceability of the obligations of Members of the Obligated Group may be limited in certain circumstances. See "**RISKS – Bankruptcy,**" and "**- Limitations on Enforceability of Remedies**" herein.

The Members agree in the Master Indenture that they will not create or suffer the creation or existence of any lien on any Property other than certain Permitted Liens. Any lien so created, although not a Permitted Encumbrance, may nonetheless be enforceable against such Members. In addition, the Members of the Obligated Group are subject to restrictions and limitations with respect to the incurrence of indebtedness, consolidation and merger, transfer of assets and addition and withdrawal of Members of the Obligated Group. In the Master Indenture, the Members make certain covenants with respect to the maintenance of their property. The Members also covenant that, upon the occurrence of an Event of Default, they will pay over to the Master Trustee, if so directed, all Pledged Assets. Full drafts of the covenants of the Members under the Master Indenture are contained in the proposed form of the Master Indenture attached in Appendix C hereto.

Debt Service Payments

The Corporation will be required to deposit with the Bond Trustee (subject to credit for certain amounts on deposit in the Interest Account) each month an amount equal to one-sixth of the next payment of interest and one-twelfth of the next payment of principal on the Series 2016 Bonds, due either at maturity or subject to mandatory sinking fund redemption. Such payments and the required amounts thereof are set forth more fully in the proposed form of the Loan Agreement attached in Appendix C hereto.

Covenants; Additional Indebtedness

The Members will be subject to covenants under the Master Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio, the maintenance of Days' Cash on Hand and restricting, among other things, incurrence of Indebtedness, existence of Permitted Liens on Property, consolidation and merger, disposition of assets, addition of Members to the Obligated Group and withdrawal of Members from the Obligated Group. See "**FINANCING DOCUMENTS AND SELECTED COVENANTS**" herein and the proposed form of the Master Indenture attached in Appendix C hereto.

The Master Indenture permits each Member of the Obligated Group to incur additional indebtedness evidenced by obligations issued under the Master Indenture that will share the security for the Series 2016 Obligation in the pledged assets on a parity basis with such outstanding obligations. Such additional obligations will not be secured by the money or investments in any fund or account held by the Bond Trustee under the Bond Indenture, including the debt service reserve fund, as security for the Series 2016 Bonds unless issued as additional bonds under the Bond Indenture.

Debt Service Reserve Fund

Upon the issuance of the Series 2016 Bonds, there will be deposited in the Debt Service Reserve Fund created under the Bond Indenture, as security for the Series 2016 Bonds, an amount equal to the Debt Service Reserve Fund Requirement, which is the maximum amount required to be paid by the Corporation in the then current or any subsequent Bond Year taking into account principal and interest on the Series 2016 Bonds and certain Additional Bonds, assuming certain redemptions, sinking fund payment and interest payments, and excluding the final year of debt service payments related to the Series 2016 Bonds. The Corporation will be required to maintain the amount of the Debt Service Reserve Fund Requirement in the Debt Service Reserve Fund. The initial Debt Service Reserve Fund Requirement will be equal to \$ _____. See the proposed form of the Bond Indenture

attached in Appendix C hereto. Subject to satisfying the provisions in the Master Indenture related to additional indebtedness, the Corporation may issue Additional Bonds under the Bond Indenture, which would be secured by amounts in the Debt Service Reserve Fund.

The Debt Service Reserve Fund will be used to make transfers to the Bond Fund to the extent amounts in the Bond Fund are insufficient to make required payments of principal of and interest on the Series 2016 Bonds. The Debt Service Reserve Fund will not be pledged as security for any bonds or Obligations other than the Series 2016 Bonds and Additional Bonds issued under the Bond Indenture.

Other Covenants of the Obligated Group

In the Master Indenture, the Corporation will make certain additional covenants with respect to maintenance of the Mortgaged Premises, use of bond proceeds and maintenance of their existence as tax-exempt, nonprofit corporations. See the proposed form of the Master Indenture attached in Appendix C hereto.

Pledged Assets

Under the Master Indenture, each Member of the Obligated Group will grant to the Master Trustee a security interest in its Pledged Assets. During the continuance of an Event of Default under the Master Indenture, all Pledged Assets shall be transferred to the Master Trustee and applied as required in the Master Indenture. See the proposed form of the Master Indenture attached in Appendix C hereto.

"Pledged Assets" means all Accounts, Equipment, Gross Receipts, general intangibles, inventory, documents, instruments and chattel paper of each Member of the Obligated Group, now owned or hereafter acquired, and all supporting obligations related thereto and all proceeds thereof, including, without limitation all of the Obligated Group's rights under Residency Agreements with respect to, or lease of, residential units in the residence and care facilities owned by any Member of the Obligated Group; provided, however, that Pledged Assets shall not include contract rights consisting of charitable pledges nor any assets derived from Excluded Property. The security interest will extend to those Pledged Assets that are (1) inventory or proceeds therefrom, (2) accounts (including all rights to payments for services rendered) arising in the ordinary course of the Member's business or proceeds therefrom, (3) general intangibles and chattel paper or proceeds therefrom, all as defined by the Uniform Commercial Code of the Commonwealth (the "UCC").

The security interest in Pledged Assets will be perfected to the extent permitted by the UCC as in effect in the Commonwealth. Continuation statements with respect to such filings must be filed periodically to continue the perfection of such security interest.

Cash held by the Corporation may not be subject to any perfectible security interest under the UCC. The security interest in any item of inventory will be inferior to the interest of a buyer in the ordinary course of business and the security interest in any equipment will be inferior to a purchase money security interest, as defined in the UCC, perfected in connection with such equipment. The lien on certain other Pledged Assets may not be enforceable against third parties unless such other Pledged Assets are transferred and delivered to the Master Trustee (which transfer the Obligated Group is not required by the Master Indenture to make prior to a default thereunder and which transfer may be set aside if it occurs within 90 days of the filing of a petition of bankruptcy), is subject to exception under the UCC and may be lost if the proceeds are commingled or expended by the Obligated Group. In addition, the federal government restricts the assignment of rights arising out of Medicare, Medicaid and other federal programs.

In the event of the bankruptcy of a Member of the Obligated Group pursuant to the Federal Bankruptcy Code, any receivables in favor of such bankrupt Member coming into existence and any Pledged Assets of such bankrupt member received on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of proceedings in the Bankruptcy Court with respect to such bankrupt member may no longer be subject to the lien granted to secure the Obligations issued under the Master Indenture and, with respect to the Pledged Assets, the interest of the Master Trustee holding Obligations for the benefit of the Holders would be shared with general creditors of such bankrupt Member. Under certain circumstances, a Bankruptcy Court or a court of

equity may have the power to direct the use of Pledged Assets to meet expenses of the bankrupt entity before paying debt service on the Obligations. With respect to Pledged Assets not subject to the lien, the Holders of Obligations under the Master Indenture would occupy the position of an unsecured creditor.

Mortgage; Equipment

Pursuant to the Deed of Trust, as security for the payment of amounts due on certain Obligations issued under the Master Indenture, including the Series 2016 Obligation, the Corporation has conveyed a first mortgage lien on the Community, together with all buildings, improvements and fixtures thereon constituting the Mortgaged Premises, defined below, subject to Permitted Liens. Simultaneously with the delivery of the Series 2016 Bonds, the Corporation will deliver to the Master Trustee a new mortgagee title insurance policy on the Mortgaged Premises or an endorsement to the existing mortgagee title insurance policy on the Mortgaged Premises in an amount necessary to make the total amount of the title insurance policy on the Mortgaged Premises equal to the full principal amount of the secured Obligations outstanding under the Master Indenture, including the Series 2016 Obligation. Payments under the title policy may be limited by certain factors, including the market value of the Mortgaged Premises.

In addition, pursuant to the Deed of Trust, the Corporation has pledged, assigned and granted to the Master Trustee a security interest in the Equipment on the Mortgaged Premises as security for the payment of amounts due on the Series 2016 Obligation and certain other Obligations issued under the Master Indenture in the future at the option of the Obligated Group. The security interest in such Equipment on the Mortgaged Premises will be perfected to the extent and only to the extent that such security interest may be perfected by filing financing statements under the UCC. Continuation statements with respect to such filings must be filed periodically to continue the perfection of such security interest. The security interest in the Equipment will be subject to Permitted Liens that exist prior to or that may be created subsequent to the time the security interest in the Equipment attaches and is subject to the right of the Members of the Obligated Group to transfer Property and Equipment free of the security interest created in the Equipment under certain circumstances.

Under certain circumstances, if additional parity indebtedness is incurred by the Obligated Group to finance new facilities or improvements to existing facilities, the Obligated Group will be required to extend the lien and security interest of the Deed of Trust to cover such facilities. See the proposed form of the Master Indenture attached in Appendix C hereto. The Community and all facilities subsequently subjected to such lien are referred to herein as the "Mortgaged Premises." The Community includes all facilities owned and operated by the Obligated Group, including the Mortgaged Premises, but excluding Excluded Property. For the circumstances in which any portion of the Community may be transferred from the Obligated Group, see the proposed form of the Master Indenture attached in Appendix C hereto.

Amendments to Covenants and Security Provisions

Subject to certain exceptions, the covenants and other security provisions of the Master Indenture and the Deed of Trust may be amended with the consent of the holders of not less than a majority in aggregate principal amount of all Obligations then Outstanding (which may include Obligations issued in the future). Such amendments may alter or eliminate the covenants and security provisions described in this Official Statement. See the proposed form of the Master Indenture attached in Appendix C hereto.

KENDAL AT LEXINGTON

Kendal at Lexington is a not-for-profit nonstock corporation organized and existing under the laws of the Commonwealth that is exempt from federal income taxation under Section 501(c)(3) of the Code. Appendix A to this Official Statement includes a description of the Corporation, its operations and the Community. Appendix B to this Official Statement includes audited consolidated financial statements of the Corporation for the Fiscal Year ended December 31, 2015 and 2014, which statements have been audited by CliftonLarsonAllen LLP, independent certified public accountants.

[Reserved for Bank Financing description] See _____ in Appendix A.

PLAN OF REFUNDING

Plan of Refunding

The proceeds of the Series 2016 Bonds, together with other available funds, will be used by the Authority, at the direction of the Corporation, to refund the Prior Bonds, to fund a debt service reserve fund for the Series 2016 Bonds and to finance costs of issuance incurred in connection with the issuance of the Series 2016 Bonds and to pay costs of issuance relating to the Series 2016 Bonds. The proceeds of the Prior Bonds were originally issued to finance and refinance the costs of certain improvements at the Community, finance funded interest, fund a debt service reserve fund and finance costs of issuance.

Upon delivery of the Series 2016 Prior Bonds, a portion of the net proceeds thereof will be deposited in an escrow fund with [U.S. Bank National Association], as escrow agent (the "Escrow Agent"), under an Escrow Deposit Agreement effective as of the delivery date of the Series 2016 Bonds, among the Authority, the Corporation and the Escrow Agent, to redeem the outstanding principal amount of the Prior Bonds on January 1, 2017 at a redemption price equal to 100% of the principal amount of the Prior Bonds plus accrued interest to the redemption date. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Depending on market conditions after the issuance of the Preliminary Official Statement, the Corporation may decide to change the structure of the Series 2016 Bonds, including, without limitation, modifying provisions related thereto such as redemption, payment and interest rate terms. Investors should review the final Official Statement with respect to such possible revisions to the Series 2016 Bonds and the plan of refunding.

ESTIMATED SOURCES AND USES OF FUNDS

The Corporation's estimates of sources and uses of funds in connection with the issuance of the Series 2016 Bonds are provided below.

SOURCES OF FUNDS

Proceeds of the Series 2016 Bonds	\$ _____
Plus/Less Original Issue Premium/Discount [Equity Contribution ¹]	_____
TOTAL SOURCES OF FUNDS	\$ _____

USES OF FUNDS

Refunding of Prior Bonds	
Debt Service Reserve Fund ²	
Costs of Issuance ³	_____
TOTAL USES OF FUNDS	\$ _____

¹ The Corporation's equity is expected to be used to pay certain costs of issuance related to the Series 2016 Bonds.
² Contains the amount of the initial Debt Service Reserve Fund Requirement, as described in "SECURITY FOR THE SERIES 2016 BONDS - Debt Service Reserve Fund" herein. See also the proposed form of Bond Indenture in Appendix C hereto.
³ Includes Underwriter's discount, accounting and legal fees. See "UNDERWRITING" herein.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each 12 month period ending on December 31, the amounts payable to holders of the Series 2016 Bonds. The Bond Trustee will make payments of principal (including mandatory sinking fund payments) annually on _____ and payments of interest semiannually on _____ and _____. Payments of such amounts by the Obligated Group will be made monthly to the Bond Trustee in the manner and at the times set forth in the Bond Indenture.

Fiscal Year Ending December 31	Series 2016 Bonds		Total Debt Service Payments
	Principal or Sinking Fund Payments	Interest	
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
TOTAL			

RISKS

General

The Series 2016 Bonds are limited obligations of the Authority, payable solely from and secured exclusively by the funds pledged thereto, including the payments to be made by the Corporation under the Loan Agreement and the Series 2016 Obligation. Certain risks are inherent in the successful operation of the Community. Such risks should be considered in evaluating the Community's ability to generate sufficient revenues to pay principal or redemption price of, and interest on the Series 2016 Bonds when due. This section discusses some of these risks but is not intended to be a comprehensive listing of all risks associated with the operation of the Community and the payment of the Series 2016 Bonds. The order in which such risks are presented does not necessarily reflect the relative importance of such risks or the likelihood that any of the events or circumstances described below will occur or exist.

There are many diverse factors that may have a substantial bearing on the risks generally incident to the operation of the Community. Such factors include generally imposed fiscal policies, adverse use of adjacent or neighboring real estate, the ability to maintain the Community, local community acceptance of the Community, changes in demand for the Community, changes in the number of competing facilities, changes in the costs of operation of the Community, changes in the laws of the Commonwealth affecting long term care programs, the limited income of the elderly, changes in the long term care and health care industries, difficulties in or restrictions on Corporation's ability to raise rates charged, general economic conditions and the availability of working capital. In recent years, a number of long term care facilities throughout the United States have defaulted on various financing obligations or otherwise have failed to perform as originally expected. There can be no assurance Corporation will not experience one or more of the adverse factors that caused other facilities to struggle or fail. Many other factors may adversely affect the operation of facilities like the Community and cannot be determined at this time.

A prospective investor is advised to read this entire Official Statement, including the appendices hereto, including the section titled "SECURITY FOR THE SERIES 2016 BONDS" and this section for a discussion of certain risks related to an investment in the Series 2016 Bonds.

Limited Obligations

THE SERIES 2016 BONDS AND THE PREMIUM, IF ANY, AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON. NEITHER THE COMMONWEALTH, NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, SHALL BE OBLIGATED TO PAY PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016 BONDS OR OTHER COSTS INCIDENT THERETO EXCEPT FROM THE REVENUES AND RECEIPTS PLEDGED THEREFOR, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF THE SERIES 2016 BONDS OR INTEREST THEREON OR OTHER COSTS INCIDENT THERETO.

Actual Results May Differ from Historical and Projected Results

Certain audited and unaudited historical financial information regarding Corporation is set forth in Appendices A and B. There can be no assurance that the financial results achieved in the future will be similar to historical results. Such future results will vary from historical results and the variations may be material. Therefore, the historical financial results cannot be taken as a representation that Corporation will be able to fulfill its obligations under the Loan Agreement, the Master Indenture and the Series 2016 Obligation, respectively.

Uncertainty of Fee Collection

Except to the extent that the holders receive, under certain circumstances, proceeds of insurance, sale or condemnation awards, the Series 2016 Bonds will be payable solely from payments or prepayments to be made by Corporation under the Loan Agreement and by the Obligated Group on the Series 2016 Obligation. The ability of Corporation to make payments under the Loan Agreement and the ability of the Obligated Group to make payments on the Series 2016 Obligation is dependent upon the generation by the Obligated Group of revenues in the amounts necessary for the Obligated Group to pay the principal or redemption price of and interest on the Series 2016 Bonds as well as other operating and capital expenses. In particular, payment of the Series 2016 Bonds is dependent on the continuing ability of the Obligated Group to fill the Community and any additions thereto with residents who purchase the right to live there by paying an Entrance Fee, to collect new Entrance Fees from residents occupying independent living units vacated by deceased residents and permanent transfers to the nursing beds or assisted living units, and to keep the Community substantially occupied by residents who can pay the full amount of such Entrance Fees and the monthly maintenance fees.

Corporation's policy is to increase both Entrance Fees and monthly maintenance fees annually as necessary to offset increasing costs due primarily to inflation and other factors. There can be no assurance that such increases can or will be made or that increases in expenses will be no greater than assumed. Also, since many of the residents may be living on fixed incomes or incomes that do not readily change in response to changes in economic conditions, there can be no assurance that any such fee increases can be paid by residents or that such increases will not adversely affect the utilization of the Community. As a charitable tax-exempt organization, Corporation may be unable or unwilling to require residents who lack adequate financial resources to leave the Community. Corporation also accepts residents for admission who are unable to pay full fees to the extent that "fellowship funds" are available to cover such fees. The cost of caring for these residents could have an adverse effect on the financial condition of the Obligated Group. In addition, the number of persons who can afford payment of the substantial Entrance Fees and monthly maintenance fees may be affected by general economic conditions. In particular, a depressed housing market may prevent prospective residents from selling their homes and generating cash to pay Entrance Fees. In the future Corporation may be required to accept residents unable to pay all fees or be required to provide services to a certain number of indigent persons unable to pay any fees, in order to maintain its tax-exempt status.

The realization of future revenues and expenses are subject to, among other things, the capabilities of management of Corporation, government regulation and future economic (including but not limited to availability of credit) and other conditions that are unpredictable and that may affect revenues and payment of principal of and interest on the Series 2016 Bonds. No representation or assurance can be made that revenues will be realized by Corporation in amounts sufficient to make the required payments with respect to debt service on the Series 2016 Bonds.

Additions to the Obligated Group

Upon satisfaction of certain conditions in the Master Indenture, other entities can become Members of the Obligated Group. See the proposed form of Master Indenture in Appendix C hereto. The Obligated Group currently has no plans to add additional Members to the Obligated Group. However, if and when new Members are added, the Obligated Group's financial situation and operations will likely be altered from that of the Obligated Group as currently constituted.

Transfers Out of the Obligated Group; Limitation on Liens

Under the terms of the Master Indenture, the Obligated Group, subject to certain restrictions, may transfer assets to organizations outside the Obligated Group. See the proposed form of Master Indenture in Appendix C hereto for a description of the provisions under which the Obligated Group may transfer cash and other liquid assets, and dispose of the Pledged Assets.

Certificate of Public Need

Under the Virginia Medical Care Facilities Certificate of Public Need Law, the Obligated Group must obtain a Certificate of Public Need ("CON") for any significant changes in its capacity to provide health care services, for the addition of certain health care services, or for certain capital expenditures. Although the Obligated Group does not foresee undertaking any project requiring a CON in the near future, the CON law generally may affect the Obligated Group's ability to undertake other improvements to the Community necessary to attract new residents.

State Regulation; Rights of Residents

Under Virginia laws, Corporation's assisted living units are regulated by the Virginia Department of Social Services as "adult care residences" and the nursing care beds are subject to extensive legislative, regulatory, and inspection requirements of various federal and state agencies. The Virginia Continuing Care Provider Registration and Disclosure Act (the "Statute") requires the Obligated Group to provide to the Commonwealth and each resident a detailed disclosure statement and in certain circumstances requires the escrowing of deposits of Entrance Fees. The Statute also regulates the form of resident contracts and establishes certain rights of residents, including the right to organize, to obtain refunds under certain circumstances and not to have resident contracts canceled except for good cause. The Statute gives the State Corporation Commission power to promulgate regulations and issue injunctions and cease-and-desist orders.

The Obligated Group's management believes that it is in compliance with the requirements of the Statute and that continued compliance will not materially affect its operation, but there is no certainty that the Statute will not adversely affect operation of the Community or the financial condition of the Obligated Group.

The enactment of further legislation restricting operation of life care facilities, creating additional residents' rights or requiring certain financial reserves could adversely affect the financial condition of the Obligated Group. In addition, the ability of the Master Trustee to foreclose its lien on the Community or enforce other rights under the financing documents may be adversely affected by litigation on behalf of residents. Although under the current residence agreements, residents will have no special lien or claim against any property of the Obligated Group, there can be no certainty that residents could not successfully claim or otherwise restrict the use of the Obligated Group's property in bankruptcy proceedings or other disputes. Although Corporation expects to continue to use the continuing care concept of contracting with residents, it is under no obligation to do so.

Organized Resident Activity

Corporation may, from time to time, be subject to pressure from organized groups of residents seeking, among other things, to raise the level of services or to maintain the level of monthly fees with respect to the Community or other charges without increase. Moreover, Corporation may be subject to conflicting pressures from different groups of residents, some of whom may seek an increase in the level of services while others wish to hold down monthly fees and other charges. No assurance can be given that Corporation will be able satisfactorily to meet the needs of such resident groups.

Sale of Homes; Economic Conditions

The number of persons who can afford payment of the substantial Entrance Fees and monthly service fees may be affected by general economic conditions. It is anticipated that a substantial number of existing and potential applicants for residency at the Community will expect to pay the Entrance Fees from the proceeds of the sale of a residence. Nationwide there previously had been a substantial reduction in residential sales volume, a reduction in residential sales prices and residential mortgage loans generally had become less available. While housing prices and sales volume in Virginia have stabilized and shown recent improvement, if there is another reduction or stagnation in residential sales volume or if mortgage loans remain difficult to secure or if such loans are only available only at interest rates that prospective home purchasers are unwilling to pay, or should there be any material adverse conditions in the residential housing market, such applicants might be unable to sell their homes at acceptable financial terms, and in such event may choose not to establish residence at the Community.

Entrance Fee Refunds

Following departure of a resident from the Community and the termination of a residency agreement, Corporation may be obligated to refund a portion of the departing resident's Entrance Fee. See _____ in Appendix A.

Impact of Market Turmoil

The recent economic turmoil has had and may continue to have negative repercussions upon the United States and global economies. To date, this turmoil has particularly impacted the financial sector, prompting a number of banks and other financial institutions to seek additional capital, to merge and, in some cases, to cease operations. These events collectively have led to a scarcity of credit, lack of confidence in the financial sector, volatility in the financial markets, fluctuations in interest rates, reduced economic activity, increased business failures and increased consumer and business bankruptcies.

Changes in market conditions have adversely affected investment earnings and values and could adversely affect the value of Corporation's investments and those of prospective residents, as well as future investment earnings. As a result, prospective residents of the Community may encounter difficulty in liquidating investments and selling homes in order to raise necessary cash to pay their Entrance Fees and the monthly maintenance fees.

Reimbursement Under Federal and State Programs

The Obligated Group receives reimbursement from Medicaid, Medicare and other governmental programs for some persons treated at the health care center portion of the Community, although management expects such reimbursement will constitute less than [__]% of the Obligated Group's annual operating revenues. Participation in such programs subjects the Obligated Group to control and regulation by government agencies. Reimbursement under these programs is subject to both federal and state law and regulations. Inability to comply with such laws and regulations may affect receipt of Medicare and Medicaid reimbursement and may thus adversely affect the Obligated Group's revenues. Failure to comply with these laws can result in regulatory action, monetary fines, loss or restriction of licensure or certification, and other remedies. There is no certainty that compliance with the laws or regulatory actions under them will not adversely affect operation of the Community or the financial condition of Corporation.

The health care industry in general is subject to regulation by a number of federal, state and local governmental agencies, including the Centers for Medicare and Medicaid Services. As a result, the industry is sensitive to legislative changes in such programs and is affected by reductions in governmental spending for such programs. Congress has in the past enacted a number of provisions that affect health care providers and additional legislative changes can be expected. Previous legislative actions have included limitation of payments to nursing homes under the Medicare program. Additional legislation dealing with nursing home revenues could be introduced that, if enacted, might have an adverse impact upon the revenues of the Community.

Health Care Reform

Recently passed health care reform law at the federal level would impose certain expanded contracting requirements on long-term care facilities regarding coordination of care with hospitals and hospital systems going forward. In addition, legislation is periodically introduced in Congress and in the Virginia legislature that could result in limitations on revenues, reimbursements, or charges for health care facilities. At this time, no determination can be made as to whether such federal or state legislation will be enacted or, if enacted, its impact on the Community. Revenues from Medicaid and Medicare represent less than ___% of the revenues of Corporation.

Tax-Exempt Status

Members of the Obligated Group have received letters from the Internal Revenue Service ("IRS") confirming their status as tax-exempt organizations described in Section 501(c)(3) of the Internal Revenue Code. In order to maintain such status, the Obligated Group will be required to conduct its operations in a manner consistent

with representations it previously made to the IRS and with current and future IRS regulations and rulings governing tax-exempt facilities for the residence and care of the elderly. In recent years the IRS and members of Congress have expressed concern about the need for more restrictive rules governing the tax-exempt status of 501(c)(3) organizations generally and, in particular, the acceptance of low income residents by facilities comparable to the Community and such facilities' ability to utilize tax-exempt financing. Compliance with current and future regulations and rulings of the IRS could adversely affect the ability of the Obligated Group to charge and collect revenues, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of the Series 2016 Bonds. Corporation's loss of tax-exempt status would likely have a significant adverse effect on the Obligated Group and its operations and the tax-exempt status of interest on the Series 2016 Bonds. In the Loan Agreement, Corporation has covenanted to maintain its status as a tax-exempt organization.

Tax Consequences to Residents

Section 7872 of the Internal Revenue Code of 1986, as amended (the "Code") provides that, in each year of a "below market loan," the lender will be treated as receiving taxable interest income calculated at the "applicable federal rate" in each year of the loan, even if the obligation to pay the loan does not provide for payment of any interest. The payment to Corporation of the Entrance Fee may be deemed to be a below market loan. If, however, the Obligated Group and the residents satisfy the conditions of Section 7872(h) of the Code dealing with certain payments to a "qualified continuing care facility" pursuant to a "continuing care contract," an Entrance Fee will not be treated as a "below market loan." No Treasury Regulations interpreting Section 7872(h) or the committee reports have been issued.

If a resident's payment of an Entrance Fee does not satisfy the conditions of Section 7872(h), then the prospect of a resident having to pay taxes on amounts not actually received will increase the resident's costs and may increase the time necessary to fill vacancies in the Community. This, in turn, could adversely affect revenues of Corporation. Section 7872 of the Code could have an adverse effect on Corporation's ability to maintain current reservations or to market additional units of the Community.

Nature of Income of the Elderly

A large percentage of the monthly income of some residents of the Community is fixed income derived from pensions and social security. If, due to inflation or otherwise, substantial increases in monthly service fees are required to cover increases in operating costs, nursing care costs, wages, benefits and other expenses, residents may have difficulty paying or may be unable to pay such increased monthly service fees. Management conducts a financial analysis of each potential resident before a residency agreement is executed to determine the likely ability of the resident to meet the financial obligations to Corporation; however, no assurance may be given that future events, including life expectancy, will not result in residents encountering difficulty in paying monthly service fees.

Limited Assets of Obligated Group

The Obligated Group's primary business consists of the ownership and operation of the Community providing services to the elderly. Although it may seek donations from groups and individuals, the Obligated Group has no guaranteed sources of funds if revenues from operation of the Community are not sufficient to cover expenses, including debt service on the Series 2016 Bonds.

Limited Value at Foreclosure

In _____, _____, the Mortgaged Property was appraised by _____, on a going concern basis at values of (1) approximately \$_____ as of _____, _____, and (2) approximately \$_____ prospectively as of _____, _____. The Community has been specifically designed and constructed as a continuing care retirement facility. The number of entities that could be expected to purchase or lease the Community are limited, and thus the ability of the Master Trustee to realize funds from the sale or rental of the Community upon an Event of Default may be limited. Such value may be also limited by actual or alleged rights of residents. See "**State Regulation; Rights of Residents**" above.

In addition, the practical realization of value from the real property subject to the Deed of Trust upon any default will depend on the exercise of remedies specified under the Deed of Trust, principally, foreclosure. Under Virginia law, however, the remedies may not be readily available or may otherwise be limited. Other statutory provisions (such as the federal bankruptcy laws) also may have the effect of delaying enforcement of the lien and security interest under the Deed of Trust in the event of a default by Corporation.

An appraisal represents only the opinion of the appraiser and only as of its date. There may be a difference between the actual value of the Community and the amount of the Series 2016 Obligation, and that difference may be material and adverse to Bondholders. In particular, it cannot presently be determined with certainty what the value of the Community would be in the event of foreclosure under the Deed of Trust. Further, the value of the Community at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the Series 2016 Bond transaction. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with the Community to suggest that its value would remain stable or would not decrease if the general values of property in its local area were to decline.

Appraisals are estimates of value and not an assurance of what any particular property would bring on sale. Appraisals also are subject to numerous other limitations set forth therein. Potential investors should not assume that the values described above represent reliable estimates of what the Community would bring in liquidation following an Event of Default.

Environmental Risks

The Corporation is subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, health care operations, facilities and properties owned or operated by health care providers. Among the type of regulatory requirements faced by health care providers are (1) air and water quality control requirements, (2) waste management requirements, including medical waste disposal, (3) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (4) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the clinics, (5) requirements for training employees in the proper handling and management of hazardous materials and wastes and (6) other requirements.

The Corporation may be subject to liability for investigating and remedying any hazardous substances that may have migrated off of its property. Typical health care operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may (1) result in damage to individuals, property or the environment, (2) interrupt operations and increase their cost, (3) result in legal liability, damages, injunctions or fines and (4) result in investigations, administrative proceedings, penalties or other governmental agency actions. The Corporation may encounter such issues in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation. At the present time management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Corporation, would have a material adverse effect on its operations or financial condition.

Competition

The Community is located in an area where other continuing care retirement facilities and other competitive facilities exist or may be developed. See _____ in Appendix A. The Community may also face additional competition in the future as a result of changing demographic conditions and the construction of new, or the renovation or expansion of existing continuing care facilities in the geographic area served by the Community. Corporation will also face competition from other forms of retirement living including condominiums, apartment buildings and facilities not specifically designed for the elderly, some of which may be designed to offer similar facilities, but not necessarily similar services, at lower prices. In addition, there are few entry barriers to future competitors because competing facilities generally do not require a certificate of need approval for residential

living facilities. All of these factors combine to make the elderly housing industry volatile and subject to material change that cannot be currently predicted.

Labor Union Activity and Staffing

Although the employees of the Obligated Group are not represented by a union and management is not aware of any labor organizational efforts, health care facilities in Virginia are being subjected to increasing union organizational efforts. The unionization of the Obligated Group's employees could have an adverse effect on the Obligated Group's financial condition. Furthermore, although the Obligated Group has been able to attract desirable employees in the past, low unemployment in the Richmond area may adversely affect the availability of and the wages of future staff, which in turn may adversely affect the Obligated Group's financial condition.

Insurance; Professional Liability Claims and Losses

The Master Indenture requires Corporation to carry certain insurance. See the proposed form of Master Indenture in Appendix C hereto. Corporation maintains insurance policies with insurance companies for workers compensation, property and casualty coverage, flood insurance for applicable properties, general and professional liability, directors' and officers' coverage including employment practices, business interruption coverage and boiler and machinery coverage, among others.

While Corporation believes that it maintains adequate insurance coverage and reserves, there can be no assurance that future claims will not exceed insurance limits and available reserves. If such situation arose, it could adversely affect the financial condition of Corporation.

The operations of Corporation, and thereby of the Community, may also be affected by increases in the incidence of professional liability lawsuits against healthcare facilities in general and increases in the dollar amount of patient damage recoveries, resulting in increased insurance premiums and an increased difficulty in obtaining malpractice insurance. Litigation may also arise from the corporate and business activities of Corporation, including from its status as an employer. Many of these risks would be covered by insurance, but some might not be. For example, antitrust claims, claims arising from wrongful termination, business disputes and workers' compensation may not be covered by insurance or other sources and may, in whole or in part, be a liability of Corporation if determined or settled adversely. Corporation believes it maintains professional liability insurance in the appropriate amount. It is not possible at this time to determine either the extent to which such insurance coverage will continue to be available to Corporation or the premiums at which such coverage can be obtained.

Market for Bonds

It is the present practice of the Underwriters to make a secondary market in the bond issues that they offer. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular bond issue, these secondary marketing practices in connection with a particular bond issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially lower than the original purchase price. While there can be no guarantee or assurance that their present secondary marketing practices will always be continued, the Underwriters presently intend to make a secondary market in the Series 2016 Bonds, subject to the foregoing limitations. Nevertheless, there can be no guarantee that there will be a secondary market for the Series 2016 Bonds or, if a secondary market exists, that the Series 2016 Bonds can be sold for any particular price.

Bankruptcy

The filing by, or against, Corporation or the Authority for relief under the United States Bankruptcy Code (the "Bankruptcy Code") would have an adverse effect on the ability of the Master Trustee and holders of the Series 2016 Bonds to enforce their claim or claims to the security granted by the Master Indenture, and their claim or claims to money owed them as unsecured claimants, if any. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against Corporation or the Authority, as applicable, and their respective property and as an automatic stay of any act or proceeding to enforce a lien against

such property. Moreover, following such a filing the revenues and accounts receivable and other property of Corporation or the Authority, as applicable, acquired after the filing (and under some conditions prior to the filing) would not be subject to the liens and security interests created under the Master Indenture. In addition, the bankruptcy court has the power to issue any order, process or judgment that is necessary or appropriate to carry out the provisions of the Bankruptcy Code; such a court order could require that the property of Corporation or the Authority, as applicable, including the Gross Receipts of Corporation and proceeds thereof, to be used for the benefit of Corporation, despite the lien and security interest of the Master Trustee and the Deed of Trust therein.

The amount of the secured claim which could be filed by the Master Trustee on behalf of the holders of the Series 2016 Bonds would be limited to the value of the Community at the time the bankruptcy proceeding was commenced. This amount would likely be less than the principal amount of the Series 2016 Bonds, the Series 2016 Obligation, since the failure of the Community to produce sufficient revenues to pay operating expenses and debt service requirements prior to the bankruptcy would reduce the value of the Community. To the extent the principal amount of the Series 2016 Obligation and any other Obligations exceed the value of the Community, the excess would be an unsecured claim which would rank on a parity with the claims of unsecured general creditors of Corporation. As a result, if the Community was sold following commencement of a bankruptcy proceeding, it is unclear how much the holders of the Series 2016 Bonds would receive.

In a bankruptcy proceeding, the debtor could file a plan of reorganization which modifies the rights of creditors generally, or any class of creditors, secured or unsecured. The holders of the Series 2016 Bonds may only receive post-petition interest on the Series 2016 Bonds to the extent the value of their security exceeds their claim. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan.

No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly in favor of junior creditors. More particularly, the Bankruptcy Code would permit the liquidation of Corporation or the adoption of a reorganization plan for Corporation or the Authority, as applicable, even though such plan had not been accepted by (1) the holders of a majority in aggregate principal amount of the Series 2016 Bonds, if the plan is "fair and equitable" and does not discriminate unfairly against the holders of the Series 2016 Bonds as a class and is in the "best interest of the creditors," which may mean that the holders of the Series 2016 Bonds are provided with the benefit of their original lien or the "indubitable equivalent;" or (2) any holder of the Series 2016 Bonds if the holders of the Series 2016 Bonds, as a class, are deemed unimpaired under the plan.

In addition, if the bankruptcy court were to conclude that the holders of the Series 2016 Bonds have "adequate protection," it may (1) substitute other security for the security subject to the lien of the Master Indenture or (2) subordinate the lien of the holders of the Series 2016 Bonds to persons who supply credit to Corporation or the Authority, as applicable, after commencement of the case. In the event of the bankruptcy of Corporation or the Authority, any amount realized by the Master Trustee or holders of the Series 2016 Bonds may depend on the bankruptcy court's interpretation of "indubitable equivalent" and "adequate protection" under then existing circumstances. Any transfers made to the holders of the Series 2016 Bonds or the Master Trustee at or prior to the commencement of the case may be avoided and recaptured if such transfers are (1) avoidable by a judicial lien creditor who obtained its lien on the date the case commenced (regardless of whether such a creditor actually exists), (2) preferential or fraudulent or (3) voidable under applicable law by any actual unsecured creditor. The holders of the Series 2016 Bonds may also be subject to avoidance and recapture of post-petition transfers, turnover of property of the debtor which they, the Master Trustee or a custodian hold and assumption, assignment or rejection of executory contracts.

Certain judicial decisions have cast doubt upon the right of a trustee, in the event of a health care facility's bankruptcy, to collect and retain for the benefit of holders of the Series 2016 Bonds portions of revenues consisting of Medicare and other governmental receivables.

Additional Indebtedness

The Master Indenture permits any Member of the Obligated Group to incur Additional Indebtedness which may be equally and ratably secured with the Series 2016 Obligation. Any such additional parity indebtedness would be entitled to share ratably with the holders of the Series 2016 Obligation, as set forth in the Master Indenture, in any money realized from the exercise of remedies in the event of a default under the Master Indenture. The issuance of additional parity indebtedness could impair the ability of Corporation to maintain its compliance with certain covenants described in the proposed form of Master Indenture in Appendix C hereto. There is no assurance that, despite compliance with the conditions upon which Additional Indebtedness may be incurred at the time such debt is created, the ability of Corporation to make the necessary payments to repay the Series 2016 Obligation may not be materially adversely affected upon the incurrence of Additional Indebtedness.

Certain Amendments to Master Indenture

In general, the Master Indenture permits amendments to be made thereto (except for certain amendments that do not require consent of the holders of the outstanding Obligations) only with the consent of the holders of a majority in aggregate principal amount of Obligations then outstanding. Upon the issuance of the Series 2016 Bonds, the Series 2016 Obligation will represent all of the Obligations outstanding for purposes of voting, controlling and exercising certain remedies. Pursuant to the Master Indenture, the amount of any Obligation that evidences and secures Derivative Indebtedness shall be deemed to be zero and such Obligation shall be disregarded for purposes of any request, direction or consent of the Holders requested or permitted under the Master Indenture, unless the related agreement has been terminated.

The Master Indenture further provides that without the consent of the owners of all the Obligations at the time Outstanding nothing therein contained shall permit, or be construed as permitting any of the following:

- (1) Change the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the holder of such Obligation.
- (2) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the holders of all Obligations then Outstanding.
- (3) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the holders of which is required to authorize such amendment, without the consent of the holders of all Obligations then Outstanding.

Certain Matters Relating to Enforceability of the Master Indenture

The obligations of the Obligated Group and any future Member of the Obligated Group under the Series 2016 Obligation will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below.

The accounts of the Obligated Group and any future Member of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met, notwithstanding the uncertainties as to the enforceability of certain obligations of the Obligated Group contained in the Master Indenture which bear on the availability of the assets and revenues of the Obligated Group to pay debt service on Obligations, including the Series 2016 Obligation pledged under the Master Indenture as security for the Series 2016 Bonds. The obligations described herein of the Obligated Group to make payments of debt service on Obligations issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (a) are requested with respect to payments on any Obligations issued by a Member other than the Member from which such payment is requested, issued for a purpose which is not consistent with the charitable purposes of the

Member of the Obligated Group from which such payment is requested or issued for the benefit of a Member of the Obligated Group which is not a "governmental unit" within the meaning of Section 141 of the Code or any person organized under the laws of the United States of America, or any state thereof, that is an organization described in Section 501(c)(3) of the Code exempt from federal income taxation under Section 501(a) of the Code; (b) are requested to be made from any money or assets which are donor-restricted or which are subject to a direct or express trust which does not permit the use of such money or assets for such a payment; (c) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the assets of any future Member of the Obligated Group may fall within the categories (ii) and (iii) above with respect to the Series 2016 Obligation cannot now be determined. The amount of such assets which could fall within such categories could be substantial.

A Member of the Obligated Group may not be required to make any payment on any Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member of the Obligated Group to the extent that such payment would render such Member of the Obligated Group insolvent or which would conflict with or not be permitted by or which is subject to recovery for the benefit of other creditors of such Member of the Obligated Group under applicable laws. There is no clear precedent in the law as to whether such payments from a Member of the Obligated Group in order to pay debt service on the Series 2016 Obligation may be voided by a trustee in bankruptcy in the event of bankruptcy of a Member of the Obligated Group, or by third-party creditors in an action brought pursuant to Virginia fraudulent conveyance statutes. Under the Bankruptcy Code, a trustee in bankruptcy and, under Virginia fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the Bankruptcy Code or Virginia fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on an Obligation for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that such Member is analogous to a guarantor of the debt of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for such Member's guaranty was not received and that the incurrence of such Obligation has rendered or will render the such Member insolvent.

Limitation on Security Interest in Gross Receipts

The effectiveness, priority and perfection of the security interest in the Obligated Group's Pledged Assets granted in the Master Indenture and the Deed of Trust and the ability to receive and realize on the same may be limited by a number of factors, including: (1) present or future prohibitions against assignment contained in any applicable statutes or regulations; (2) certain judicial decisions which cast doubt upon the right of the Master Trustee, in the event of the bankruptcy of any Member of the Obligated Group, to collect and retain accounts receivable from Medicare and other governmental programs; (3) commingling of the proceeds of Pledged Assets with other money of a Member of the Obligated Group not subject to the security interest in Pledged Assets; (4) statutory liens; (5) rights arising in favor of the United States of America or any agency thereof; (6) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (7) federal bankruptcy laws which may affect the enforceability of the mortgage or the security interest in the Pledged Assets of the Obligated Group which are earned by the Obligated Group within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against a Member of the Obligated Group; (8) rights of third parties in Pledged Assets converted to cash and not in the possession of the Master Trustee; (9) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Virginia Uniform Commercial Code as from time to time in effect; and (10) rights of residents of the Community pursuant to residency agreements.

Pursuant to the Master Indenture, each Member of the Obligated Group that pledges its Pledged Assets under the Master Indenture covenants and agrees that, if an Event of Default involving a failure to pay any installment of interest or principal on an Obligation should occur and be continuing, it will deposit the proceeds of

its Pledged Assets with the Master Trustee. Such deposits will continue daily until such default is cured. It is unclear whether the covenant to deposit the proceeds of Pledged Assets with the Master Trustee is enforceable. In light of the foregoing and of questions as to limitations on the effectiveness of the security interest granted in such Pledged Assets, as described above, no opinion will be expressed by counsel to the Obligated Group as to enforceability of such covenant with respect to the required deposits.

In addition, accounts receivable of the Members of the Obligated Group which constitute Pledged Assets and are pledged as security under the Master Indenture may be sold if such sale is in accordance with the provisions of the Master Indenture. Any lien created under the Master Indenture would terminate and be immediately released upon any such sale with respect to any such accounts receivable so sold.

Limitations on Enforceability of Remedies

The financial results of all the Members of the Obligated Group will be combined for purposes of various covenants and tests, including debt incurrence tests, under the Master Indenture. Although the assets of the Obligated Group are expected to produce revenues necessary to provide for payment of the Series 2016 Bonds, under the terms of the Master Indenture, substantial portions of all such assets could be conveyed to other Members. In an action against a Member of the Obligated Group involving the enforceability of an Obligation or the security interest in Pledged Assets granted as security therefor, payment of such Obligation may not be enforced if sufficient consideration was not received by such Member for the Series 2016 Obligation and its incurrence will render such Member insolvent.

The realization of any rights upon a default will depend upon the exercise of various remedies specified in the Bond Indenture, the Master Indenture, Loan Agreement and the Deed of Trust. Any attempt by the Master Trustee or the Bond Trustee to enforce such remedies may require judicial action, which is often subject to discretion and delay. Under existing law, certain of the legal and equitable remedies specified in the Bond Indenture, the Loan Agreement, the Deed of Trust and the Master Indenture may not be readily available.

Any default in the performance of a covenant set forth in the Master Indenture (including a default which has become an Event of Default thereunder) would constitute an Event of Default under the Master Indenture only following notice by the Master Trustee and lapse of time. The Master Trustee may give such notice at any time in its discretion, but is not required to give such notice without the request of the Holders of at least 25% in aggregate principal amount of the Obligations outstanding under the Master Indenture. Events of Default specified by the Master Indenture are remediable through enforcement action taken by the Master Trustee in its discretion or at the request of the Holders of not less than 25% in aggregate principal amount of the Obligations outstanding under the Master Indenture. Notwithstanding any provision of the Master Indenture described in this paragraph, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding under the Master Indenture will have the right to control all remedial proceedings.

Federal Tax Matters

Possible Changes in Corporation's Tax Status. The possible modification or repeal of certain existing federal income or state tax laws or other loss by Corporation of the present advantages of certain provisions of the federal income or state tax laws could materially and adversely affect the status of Corporation and thereby the revenues of Corporation. Corporation has obtained a determination letter from the Internal Revenue Service to the effect that Corporation is exempt from federal income taxation under Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code. As an exempt organization, Corporation is subject to a number of requirements affecting its operation. The failure of Corporation to remain qualified as an exempt organization would affect the funds available to Corporation for payments to be made under the Loan Agreement. Failure of Corporation or the Authority to comply with certain requirements of the Code, or adoption of amendments to the Code to restrict the use of tax-exempt bonds for facilities such as those being refinanced with Series 2016 Bond proceeds, could cause interest on the Series 2016 Bonds to be included in the gross income of holders of Series 2016 Bonds or former holders of Series 2016 Bonds for federal income tax purposes.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of charitable organizations. There can be, however, no assurance that future changes in the laws and

regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of Corporation by requiring it to pay income taxes.

Intermediate Sanctions. Section 4958 of the Code, provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to the "intermediate sanctions law," the IRS could punish such violations only through revocation of an entity's tax-exempt status. Intermediate sanctions may be imposed where there is an "excess benefit transaction," defined to include a disqualified person (i.e., a director, officer or other related party) (1) engaging in a non-fair market value transaction with the tax-exempt organization; (2) receiving excessive compensation from the tax-exempt organization; or (3) receiving payment in an arrangement that violates the private inurement proscription. A disqualified person who benefits from an excess benefit transaction will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in an excess benefit transaction knowing it to be improper are subject to a first-tier penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period.

Bond Audit. IRS officials have stated that more resources will be allocated to audits of tax-exempt bonds in the charitable organization sector. The Series 2016 Bonds may be subject to audit, from time to time, by the IRS. Corporation believes that the Series 2016 Bonds properly comply with applicable tax laws and regulations. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2016 Bonds, as described under the heading "**TAX EXEMPTION**" below. No ruling with respect to the tax-exempt status of the Series 2016 Bonds has been or will be sought from the IRS and opinions of counsel are not binding on the IRS or the courts, and are not guarantees. There can be no assurance, therefore, that an audit of the Series 2016 Bonds will not adversely affect the Series 2016 Bonds.

Other Tax Status Issues. The IRS has also issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under Section 501(c)(3). Revenue Rulings 61-72 and 72-124 hold that, if otherwise qualified, a facility providing residential services to the elderly is exempt under Section 501(c)(3) if the organization (1) is dedicated to providing, and in fact provides or otherwise makes available services for, care and housing to aged individuals who otherwise would be unable to provide for themselves without hardship, (2) to the extent of its financial ability, renders services to all or a reasonable proportion of its residents at substantially below actual cost, and (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 holds that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons, and that the organization is committed by established policy to maintaining persons as residents, even if they become unable to pay the monthly charges after being admitted to the facility.

[Risks Related to Bank Financing

The Corporation is considering a future financing that may be structured as a private placement with a bank or similar financial institution (a "Bank Financing"). Under the possible Bank Financing, the Corporation may agree to certain covenants or events of default (or both) that are either not contained in the Master Indenture or the Loan Agreement or that are similar but vary in some respects from the covenants contained in the Master Indenture and the Loan Agreement. Thus, although the Obligated Group may be in compliance with the provisions of the Master Indenture, it may nonetheless be in default under the terms of the Bank Financing, which could lead to early acceleration and redemption of the Bank Financing.]

Other Risk Factors

Various other factors, such as fluctuations in interest rates and changes in tax laws affecting the Obligated Group's cost of capital, and the inability to obtain necessary CONs for expansions of the health center, could also affect the future financial strength of the Obligated Group, and therefore its ability to make required payments of principal and interest on the Series 2016 Obligation. A significant portion of the Obligated Group's budget relates to fixed expenses, which cannot be easily reduced or eliminated.

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of Corporation:

- (1) Reinstatement or establishment of mandatory governmental wage, rent or price controls;
- (2) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in revenues from residents whose incomes will largely be fixed;
- (3) Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of Corporation;
- (4) The cost and availability of energy;
- (5) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the Community in order to maintain the charitable status of the Corporation;
- (6) Inflation or other adverse economic conditions;
- (7) Changes in tax, pension, social security or other laws and regulations affecting the provisions of health care and other services to the elderly;
- (8) The occurrence of natural disasters, including hurricanes, volcanic eruptions and typhoons, floods or earthquakes, which may damage the facilities of Corporation, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities; or
- (9) Cost and availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that organizations such as Corporation generally carry.

UNDERWRITING

The Authority, the Corporation and the Underwriters will enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") which provides that the Underwriters will purchase the Series 2016 Bonds at a purchase price reflecting an underwriter's discount of \$ _____.

The obligation of the Underwriters to pay for the Series 2016 Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including (1) delivery of specified opinions of counsel and (2) delivery of a certificate of the Corporation that there has been no material adverse change in its condition (financial or otherwise) from that set forth in this Official Statement. The Obligated Group has agreed in the Bond Purchase Agreement to indemnify the Underwriters against certain liabilities relating to this Official Statement.

The Underwriters 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 lower than the public offering prices stated on the inside cover of this Official Statement. Such initial public offering prices may be changed from time to time by the Underwriters.

BONDS ELIGIBLE FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS

The Act provides that bonds issued pursuant thereto shall be securities in which all public officers and public bodies of the Commonwealth and all its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, trustees and other fiduciaries may properly and legally invest funds. No representation is made as to the eligibility of the Series 2016 Bonds for investment or any other purpose under any law of any other state. The Act also provides that bonds issued pursuant thereto may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the

Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Bond Counsel, Hunton & Williams LLP, under current law, interest on the Series 2016 Bonds (a) will not be included in gross income for Federal income tax purposes, and (b) will not be an item of tax preference for purposes of the Federal alternative minimum income tax; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest will be taken into account in determining adjusted current earnings for purposes of computing such tax. No other opinion is expressed by Bond Counsel regarding the Federal tax consequences of the ownership of or the receipt or accrual of interest on the Series 2016 Bonds.

Bond Counsel's opinion will be given in reliance upon certifications by representatives of the Authority and the Corporation as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and is subject to the condition that there is compliance subsequent to the issuance of the Series 2016 Bonds with all requirements of the Code that must be satisfied in order that interest thereon not be included in gross income for Federal income tax purposes. The Authority and the Corporation have covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of proceeds of the Series 2016 Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Series 2016 Bonds. Failure by the Authority or the Corporation to comply with such covenants could cause interest on the Series 2016 Bonds to be included in gross income for Federal income tax purposes retroactively to their date of issue.

In the opinion of Bond Counsel, under current law, interest on the Series 2016 Bonds will be exempt from taxation by the Commonwealth. Each prospective purchaser of the Series 2016 Bonds should consult its own tax advisor as to the status of interest on the Series 2016 Bonds under the tax laws of any state other than Virginia.

Bond Counsel's opinion represents a legal judgment based in part upon the representations and covenants referenced therein and a review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Bond Counsel assumes no duty to update or supplement such opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law or the interpretation thereof that may thereafter occur or become effective.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, exclusions, conditions and limitations that are a part of the conclusions therein. See Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions in The Business Lawyer, Volume 63, Page 1277 (2008) and Legal Opinion Principles in The Business Lawyer, Volume 53, Page 831 (1998). Purchasers of the Series 2016 Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Series 2016 Bonds, including with respect to the Bond Counsel opinion.

Original Issue Discount

The initial public offering prices of certain of the Series 2016 Bonds may be less than their stated principal amount. In the opinion of Bond Counsel, under current law, the difference between the stated principal amount of such Series 2016 Bonds and the respective initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of such Series 2016 Bonds is sold will constitute original issue discount. The respective offering prices set forth on the inside cover of this Official Statement are expected to be the initial offering prices to the public at which a substantial amount of each maturity of Series 2016 Bonds are sold.

Under the Code, for purposes of determining the holder's adjusted basis in Series 2016 Bonds with original issue discount, such discount treated as having accrued while the holder holds the Series 2016 Bond will be added to the holder's basis therein. Original issue discount will accrue on a constant yield to maturity method based on

regular compounding. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of such Series 2016 Bond.

Prospective purchasers of Series 2016 Bonds should consult their own tax advisors with respect to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Series 2016 Bonds.

Original Issue Premium

Series 2016 Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Series 2016 Bond must be reduced by the amount of premium which accrues while such Series 2016 Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Series 2016 Bonds while so held. Purchasers of such Series 2016 Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Series 2016 Bonds.

Other Tax Matters

In addition to the matters addressed above, 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, property and casualty insurance companies, S Corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2016 Bonds should consult their tax advisors as to the applicability and impact of such consequences. From time to time, proposed legislation is considered by the United States Congress that, if enacted, would affect the tax consequences of owning tax-exempt obligations such as the Series 2016 Bonds. Consequently, prospective purchasers should be aware that future legislation may have an adverse effect on the tax consequences of owning the Series 2016 Bonds.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Series 2016 Bonds, under current Service procedures, the Service will treat the Authority as the taxpayer and the owners of the Series 2016 Bonds will have only limited rights, if any, to participate.

There are many events which could affect the value and liquidity or marketability of the Series 2016 Bonds after their issuance, including but not limited to public knowledge of an audit of the Series 2016 Bonds by the Service, a general change in interest rates for comparable securities, a change in Federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Series 2016 Bonds who purchase Series 2016 Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purport to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Series 2016 Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Series 2016 Bonds.

Post-Issuance Tax Compliance

[Consistent with recent IRS pronouncements, the Corporation has established written post-issuance procedures (the "Tax Procedures") to monitor compliance with requirements under IRS regulations and rulings for maintaining the tax exempt status of the Series 2016 Bonds. In the Loan Agreement the Corporation has covenanted to maintain appropriate Tax Procedures so long as any of the Series 2016 Bonds remain outstanding. The Authority is not adequately staffed to monitor post-issuance tax compliance directly in a meaningful way. Other than requiring the Corporation to maintain the Tax Procedures, the Authority has assumed no responsibility with respect to the Tax Procedures.]

LEGAL MATTERS

Certain legal matters relating to the authorization, issuance and sale of the Series 2016 Bonds are subject to the approving opinion of Hunton & Williams LLP, Richmond, Virginia, Bond Counsel. Such opinion will be available at the time of delivery of the Series 2016 Bonds. Bond Counsel's opinion, in substantially the form set forth in Appendix D hereto, will be limited to matters relating to the authorization and validity of the Series 2016 Bonds and to the exemption of interest on the Series 2016 Bonds under current Federal and Virginia income tax laws and will make no statement as to the ability of the Corporation to provide for payment of the Series 2016 Bonds. Certain legal matters will be passed upon for the Authority by its counsel, Mann, Vita & Elrod, P.L.L.C., Lexington, Virginia; for the Obligated Group by Glenn, Feldmann, Darby & Goodlatte, Roanoke, Virginia; for the Corporation by its counsel, Hunton & Williams LLP, Richmond, Virginia; and for the Underwriters by their counsel, McGuireWoods LLP, Richmond, Virginia.

FINANCIAL STATEMENTS

The audited financial statements of the Corporation as of December 31, 2014 and 2015 included in Appendix B hereto have been audited by CliftonLarsonAllen LLP, independent auditors, as stated in their report appearing therein. A summary of the consolidated statements of operations of the Corporation for each of the last three fiscal years ended December 31, 2015 and for the six-month period ended June 30, 2016, is included in Appendix A hereto.

[NO] RATING

[TBD]

LITIGATION

The Authority

There is now no litigation of any nature to which the Authority is a party pending or, to the knowledge of the Authority, threatened against it to restrain or enjoin 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 taken with respect to the issuance or sale thereof, or in any way contesting or affecting the validity of or application of any moneys or the security provided for the Series 2016 Bonds.

The Corporation

Management of the Corporation is of the opinion that there is no litigation or any proceedings of any nature pending or, to its knowledge, threatened against the Corporation that, if decided adverse to the Corporation, would have a material adverse effect on the financial position of the Corporation.

RELATIONSHIP OF PARTIES

Hunton & Williams LLP, Richmond, Virginia, Bond Counsel, provides legal services on other matters to [U.S. Bank, National Association, which is serving as Bond Trustee and Master Trustee.]

McGuireWoods LLP, Richmond, Virginia, counsel to the Underwriters, also provides legal services on other matters to [U.S. Bank, National Association, which is serving as Bond Trustee and Master Trustee.]

FINANCING DOCUMENTS AND SELECTED COVENANTS

Attached as Appendix C hereto are the proposed forms of the Financing Documents. The Bond Indenture, the Master Indenture and the Loan Agreement contain certain covenants of the Obligated Group with respect to maintenance of the Community, incurrence of additional debt, disposition of assets, use of bond proceeds, maintenance of the existence of the Corporation as a tax-exempt, nonprofit corporation and information reporting.

Below is a summary of selected covenants contained in the Financing Documents, which is qualified in its entirety by the forms attached as Appendix C hereto.

Rate Covenant. Under the Master Indenture, each Member of the Obligated Group covenants to set rates and collect charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated as of the end of each Fiscal Year, will not be less than 1.20; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first full Fiscal Year commencing after substantially all of such capital improvements are placed in service (except that with respect to capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds, the Long-Term Debt Service Requirement with respect thereto will not be taken into account until all capital improvements are placed in service, except for capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds and in that case, the Long-Term Debt Service Requirement will be taken into account in the earlier to occur of (1) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds reaches 90% or (2) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months following the date upon which substantially all such independent or assisted living units or health care beds are placed in service; in either case, the Obligated Group agrees that it will notify the Master Trustee of such event within 10 days following its occurrence).

In the event the Long-Term Service Debt Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but greater than 1.00 and the Obligated Group has at least 300 Days' Cash on Hand, no Event of Default will be deemed to have occurred and no further action need be taken.

In the event the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but greater than 1.00 and the Obligated Group does not have at least 300 Days' Cash on Hand, the Obligated Group will retain a Consultant to analyze the reasons for the failure to achieve a Long-Term Debt Service Coverage Ratio of 1.20 and to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to such amount. If for two successive Fiscal Years, the Long-Term Debt Service Coverage Ratio is less than 1.00, it will be an Event of Default.

The preceding covenants will not be construed to (1) limit the right of any Member to establish and implement policies for the admission of residents to its facilities, (2) prohibit any Member from providing services without charge or at reduced rates for persons unable to pay in whole or in part if reasonably deemed necessary by the Member to retain its status as an organization exempt from federal income taxation or to comply with any applicable requirements of law as then in effect, or (3) limit the ability of any Member to grant fellowships to residents from fellowship funds held by a Member or from funds received from donors restricting the use of funds provided to the Member.

Liquidity Covenant. Each Member will conduct its business so that, on each Liquidity Testing Date, the Obligated Group has not less than 150 Days' Cash on Hand. If the Obligated Group does not have at least 150 Days' Cash on Hand, the Group Representative will promptly notify the Master Trustee. If the Days' Cash on Hand, calculated as of the end of any Fiscal Year, is less than 150, the Corporation shall deliver to the Master Trustee a copy of a resolution approved by its Board of Trustees that explains in reasonable detail the reasons for the deficiency and adopting a specific plan designed to achieve at least 150 Day's Cash on Hand for future Fiscal Years. If the Days' Cash on Hand is less than 150 for any two consecutive Fiscal Years, the Members shall retain a Consultant to make recommendations regarding the rates, fees and charges of the Obligated Group, the Obligated Group's methods of operation and other factors affecting its financial condition in order to achieve at least 150 Day's Cash on Hand for future Fiscal Years.

The Members will follow any management report and plan or any Consultant's recommendations and plan delivered pursuant to paragraphs above, except to the extent that (1) any of the Consultant's recommendations conflict with law or existing contracts, (2) the implementation of the Consultant's recommendations would have an adverse effect on the validity of Related Bonds or the exclusion of interest on Related Bonds from the gross income of the owners thereof for purposes of federal income taxation, or (3) the Boards of Trustees of the Members reasonably determine by resolution that such recommendations are unreasonable, impractical or unfeasible. So long as the Members will, as required by the Master Indenture, deliver the management report and plan or retain a

Consultant and so long as the Members will follow such management report and plan or such Consultant's recommendations and plan to the fullest extent feasible as set forth in the Master Indenture, the Master Indenture will be deemed to have been complied with for a Liquidity Testing Date even if the Days' Cash on Hand is less than 150 on such Liquidity Testing Date, and such circumstances will not constitute an Event of Default under the Master Indenture.

Liquidity Testing Date means each December 31, commencing December 31, 2016.

Payment of Kendal Fees. In the Loan Agreement, the Obligated Group makes the following covenants with respect to the Monthly System Fee payable to Kendal under the Affiliation Agreements.

If the Obligated Group's Long-Term Debt Service Coverage Ratio in any fiscal year is less than 1.20, the Obligated Group shall cause Kendal to rebate to the Obligated Group the Monthly System Fees paid to Kendal during such fiscal year in an amount equal to the lesser of (1) 50% of the total Monthly System Fees paid in such fiscal year, and (2) such amount that would have been necessary for the Obligated Group's Long-Term Debt Service Coverage Ratio for such fiscal year to equal at least 1.20. If any amounts have been so rebated and not subsequently repaid by the Obligated Group to Kendal, at the completion of any subsequent fiscal year (the "Applicable Fiscal Year"), the Obligated Group may repay any such rebated amounts to the extent that, if such amount had been repaid in the Applicable Fiscal Year, the Obligated Group's Long-Term Debt Service Coverage Ratio would have been not less than 1.20.

Notwithstanding the above, the Obligated Group may pay the Monthly System Fees without restriction and shall not cause Kendal to rebate any of the Monthly System Fees beginning the earlier to occur of either (1) the Long-Term Debt Coverage Ratio has not been less than 1.20 for six consecutive calendar quarters, or (2) the Long-Term Debt Service Coverage Ratio has not been less than 1.20 for four consecutive calendar quarters [and the Reserve Ratio has not been less than 35% for four consecutive calendar quarters.]

CONTINUING DISCLOSURE

Continuing Disclosure Certificate

Upon the issuance of the Series 2016 Bonds, the Corporation will execute a Continuing Disclosure Certificate obligating the Corporation to provide certain annual and event disclosure as provided in SEC Rule 15c2-12 (the "Rule"). See Appendix E hereto for the form of the Continuing Disclosure Certificate. [The Corporation has complied in all material respects with its prior continuing disclosure undertakings during the previous five years. – *under review by the underwriters*]

The Continuing Disclosure Certificate provides holders of the Series 2016 Bonds with certain enforcement rights in the event of a failure by the Corporation to comply with the terms thereof. There can be no assurance, however, as to the outcome of any effort to enforce the terms of the Continuing Disclosure Certificate. Moreover, a default under the Continuing Disclosure Certificate will not constitute a default under the Bond Indenture, the Loan Agreement, the Deed of Trust, the Series 2016 Obligation or the Master Indenture. The Continuing Disclosure Certificate may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series 2016 Bonds are advised that the Continuing Disclosure Certificate should be read in its entirety for more complete information regarding its contents.

No financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Series 2016 Bonds and the Authority will not provide any such information. The Authority shall have no liability to the holders of the Series 2016 Bonds or any other person with respect to disclosures by the Corporation.

Limited Information

Under the Continuing Disclosure Certificate, the Corporation is required to provide only limited information at specified times and such information may not be sufficient to value the Series 2016 Bonds at any particular time.

Additional Disclosure

Under the Loan Agreement, the Corporation covenants that it will provide the following additional information.

Within 45 days after the end of each quarter of each Fiscal Year of the Corporation, commencing with the fiscal quarter ending September 30, 2016, the Corporation shall provide to the Bond Trustee, the Underwriter, and EMMA (collectively, the "Required Information Recipients"), the following information:

(1) The cumulative unaudited financial statements, including income statements, balance sheet and statement of cash flows, of the Obligated Group for the Fiscal Year to date, showing a comparison to the Obligated Group's current budget;

(2) Occupancy statistics for the Facilities for such Fiscal Quarter and year to date, which shall include (a) the average number of units available for the quarter, (b) the average number of units occupied for the quarter, (c) the percent of units occupied during the quarter, and (d), the number of independent living units vacated during the quarter, specifying the reason for turnover;

(3) Computations of the Long-Term Debt Service Coverage Ratio calculated on an annualized basis for the period beginning on the first day of such Fiscal Year and ending on the last day of such Fiscal Quarter then ended, the number of Days' Cash on Hand as of the end of such Fiscal Quarter, [and the Reserve Ratio as of the end of such Fiscal Quarter]; and

(4) an abbreviated narrative of the operating and financial environment of the Obligated Group for such Fiscal Quarter.

The Corporation shall provide to any beneficial owner or any registered municipal securities broker or dealer or a member in good standing of the National Association of Securities Dealers, Inc., a copy of the Corporation's annual budget, when available, or any report and recommendations of any Management Consultant required to be delivered to the Bond Trustee, or both. See "**FINANCING DOCUMENTS AND SELECTED COVENANTS**" herein.

Failure of the Corporation to comply with the provisions regarding additional disclosures shall not be deemed an Event of Default under the Loan Agreement.

MISCELLANEOUS

The Corporation has furnished all information in this Official Statement except the information in "**THE AUTHORITY**," "**UNDERWRITING**," "**SERIES 2016 BONDS ELIGIBLE FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS**," "**TAX MATTERS**" and the information in "**LITIGATION**" herein, as it relates to the Authority. The Authority assumes no responsibility for the accuracy or completeness of any information in this Official Statement other than the information in "**THE AUTHORITY**" and the information in "**LITIGATION – The Authority**" herein, and, except for the provision of that information, has not otherwise participated in the preparation of this Official Statement.

The use of this Official Statement have been duly authorized by the Authority and approved by the Corporation. The Authority has deemed this Official Statement "final" within the meaning of the Rule, except for the omission of certain information permitted to be omitted pursuant to the Rule.

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

By: _____

Its: _____

Approved:

**LEXINGTON RETIREMENT COMMUNITY, INC.,
d/b/a Kendal at Lexington**

By: _____

Its: _____

APPENDIX A
KENDAL AT LEXINGTON

APPENDIX B

FINANCIAL STATEMENTS OF KENDAL AT LEXINGTON

APPENDIX C

PROPOSED FORMS OF THE FINANCING DOCUMENTS

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

*Set forth below is the proposed form of opinion of Hunton & Williams LLP, Bond Counsel.
It is preliminary and subject to change prior to delivery of the Series 2016 Bonds.*

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") dated as of October 1, 2016, is executed and delivered by Lexington Retirement Community, Inc. d/b/a Kendal at Lexington, a not-for-profit Virginia nonstock corporation (the "Corporation"), in connection with the issuance by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), of its \$ _____ Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the "Bonds"). The Corporation hereby covenants and agrees as follows:

Section 1. Purpose. This Disclosure Certificate is being executed and delivered by the Corporation for the benefit of the holders of the Bonds and in order to assist the original purchasers of the Bonds in complying with the provisions of Section (b)(5)(i) of Rule 15c2-12, as amended (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC") by providing certain annual financial information and material event notices required by the Rule (collectively, the "Continuing Disclosure"). The Bonds are being issued pursuant to a Bond Trust Indenture dated as of October 1, 2016 (the "Bond Indenture"), between the Authority and U.S. Bank, National Association, as Bond Trustee (the "Bond Trustee"). The Bonds will be secured pursuant to obligations issued under the Master Trust Indenture dated as of October 1, 2016 (as supplemented from time to time, the "Master Indenture"), between U.S. Bank, National Association, as master trustee (the "Master Trustee") and the Corporation as current sole member of an obligated group (the "Obligated Group"). Unless otherwise defined, each capitalized term used herein shall have the meaning given it in the Master Indenture.

Section 2. Annual Disclosure. (a) The Corporation shall provide annually financial information and operating data in accordance with the provisions of Section (b)(5)(i) of the Rule as follows:

(i) annual financial statements of the Obligated Group, including a consolidated or combined and an unaudited consolidating or combining balance sheet as of the end of such Fiscal Year, a consolidated or combined and an unaudited consolidating or combining statement of revenues and expenses and changes in net assets for such Fiscal Year and a consolidated or combined and an unaudited consolidating or combining statement of cash flows for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a report of a firm of independent certified public accountants (the "Audited Financial Statements"); and

(ii) [to the extent such items are not included in the audited financial statements referred to in (a) above, the current fee structure for the Corporation's independent living units, assisted living units and nursing care beds, certain financial and operating data with respect to the Obligated Group and its facilities as of the end of the Fiscal Year, including occupancy data of the type described in "Fee Structure," "Occupancy" and in the table "Borden Center Payor Mix" in "Borden Center and Webster Center Sources of Revenue," all in "THE FACILITIES" and "Historical Financial Performance" and "Summary of Financial Information" in "FINANCIAL INFORMATION," all in Appendix A.]

If the financial statements filed pursuant to Section 2(a)(i) are not audited (the "Unaudited Financial Statements"), the Corporation shall file such statements as audited when available.

(b) The Corporation shall file annually with the Municipal Securities Rulemaking Board (the "MSRB") the financial information and operating data described in subsection (a) above (collectively, the "Annual Disclosure") within 120 days after the end of the Corporation's fiscal year, commencing with the Corporation's fiscal year ending December 31, 2016, with a copy to the Bond Trustee and the Master Trustee or, if such Audited Financial Statements are not available by 120 days after the end of such fiscal year, the Unaudited Financial Statements for such fiscal year to be replaced subsequently by the Audited Financial Statements to be delivered within 15 days after such Audited Financial Statements become available for distribution.

(c) Any Annual Disclosure may be included by specific reference to other documents previously provided to the MSRB or filed with the SEC; provided, however, that any final official statement incorporated by reference must be available from the MSRB.

(d) The Corporation shall file with the MSRB in a timely manner notice specifying any failure of the Corporation to provide the Annual Disclosure by the date specified above.

Section 3. Event Disclosure. The Corporation shall file with the MSRB, with a copy to the Bond Trustee and the Master Trustee, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies.
- (b) Non-payment related defaults, if material.
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (d) Unscheduled draws on any credit enhancement reflecting financial difficulties.
- (e) Substitution of credit or liquidity providers, or their failure to perform.
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
- (g) Modifications to rights of the holders of the Bonds, if material.
- (h) Bond calls, if material, and tender offers.
- (i) Defeasances of all or any portion of the Bonds.
- (j) Release, substitution, or sale of property securing repayment of the Bonds, if material.
- (k) Rating changes.
- (l) Bankruptcy, insolvency, receivership or similar event of the Corporation.
- (m) The consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 4. Financial Statements for Obligated Group. All financial statements filed pursuant to Sections 2 and 3 shall clearly identify and describe the financial performance of the Obligated Group alone by either separate financial statements or with schedules or information included with consolidated financial statements that permit review of the financial performance of the Obligated Group and its compliance with financial covenants with respect to the Bonds. All filings made under this agreement shall clearly identify which financial statements relate to the Obligated Group and which relate to both the Obligated Group and other entities.

Section 5. Termination. The obligations of the Corporation will terminate upon the redemption, defeasance (within the meaning of the Rule) or payment in full of all the Bonds.

Section 6. Amendment. The Corporation may modify its obligations hereunder without the consent of the holders of the Bonds, provided that this Disclosure Certificate as so modified complies with the Rule as it exists at the time of modification and is supported by an approving legal opinion of a firm nationally-recognized in the field

of municipal securities. The Corporation shall within a reasonable time thereafter file with the MSRB a description of such modification(s), with a copy to the Bond Trustee and the Master Trustee.

Section 7. Defaults. (a) Failure by the Corporation to comply with any covenant or obligation regarding continuing disclosure specified in this Disclosure Certificate shall not constitute an "Event of Default" under the Loan Agreement dated as of October 1, 2016, between the Corporation and the Authority, as provided therein.

(b) Notwithstanding subparagraph (a), any holder (within the meaning of the Rule) of Bonds then outstanding may, by notice to the Corporation and the Bond Trustee, proceed to protect and enforce its rights and the rights of the holders by an action for specific performance of the Corporation's covenant to provide the Continuing Disclosure.

Section 8. Filing Method. Any filing required hereunder shall be made by transmitting such disclosure, notice or other information in electronic format to the MSRB through the MSRB's Electronic Municipal Market Access (EMMA) system pursuant to procedures promulgated by the MSRB. All information provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Section 9. Additional Disclosure. The Corporation may from time to time disclose certain information and data in addition to the Continuing Disclosure. Notwithstanding anything herein to the contrary, the Corporation shall not incur any obligation to continue to provide, or to update, such additional information or data, unless it specifically agrees to such obligation.

Section 10. Dissemination Agent. The Corporation may, from time to time, appoint a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and the Corporation may, from time to time, discharge the dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not a designated dissemination agent, the Corporation will be the dissemination agent.

Section 11. Counterparts. This Disclosure Certificate may be executed in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Disclosure Certificate shall be construed and enforced in accordance with the laws of the Commonwealth.

**LEXINGTON RETIREMENT COMMUNITY, INC.
d/b/a Kendal at Lexington**

By: _____

Its: _____

APPENDIX F

DTC BOOK-ENTRY ONLY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2016 Bonds, payments of principal of and premium, if any, and interest on the Series 2016 Bonds to DTC, its nominee, Direct and Indirect Participants, as defined below, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2016 Bonds and other bond-related transactions by and between DTC, Direct and Indirect Participants and Beneficial Owners is based solely on information furnished by DTC.

The 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 bond certificate will be issued for each maturity of the Series 2016 Bonds and will be deposited with DTC.

DTC, the world's largest securities 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 (the "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 (the "DTCC"). DTCC is the holding company for 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 (the "Indirect 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 (the "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 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 Series 2016 Bonds may wish to take certain steps to augment the 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 security documents. For example, Beneficial Owners of 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 notices be provided directly to them.

Redemption notices will 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 issue 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 the Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and premium, if any, 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 detailed information from the Authority 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, the Bond Trustee, the paying agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority and the Bond Trustee or the paying agent, as applicable, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the 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. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2016 Bonds 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). In that event, certificates for the Series 2016 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The Authority and the Bond Trustee have 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 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.

§ _____
**Industrial Development Authority of the City of Lexington, Virginia
Residential Care Facility Refunding Revenue Bonds
(Kendal at Lexington),
Series 2016**

Bond Purchase Agreement

_____, 2016

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

Lexington Retirement Community, Inc.
d/b/a Kendal at Lexington
Lexington, Virginia

Ladies and Gentlemen:

This is to confirm the agreement between Lexington Retirement Community, Inc. d/b/a Kendal at Lexington (the "Borrower"), a not-for-profit Virginia nonstock corporation, the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), and B.C. Ziegler and Company (the "Representative"), on behalf of itself and Davenport & Company LLC (each, an "Underwriter" and collectively, the "Underwriters"), concerning the sale by the Authority and the purchase by the Underwriters of \$_____ aggregate principal amount of the Authority's Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the "Series 2016 Bonds"). The Series 2016 Bonds will be dated the date of delivery, and will mature on the dates and in amounts and bear interest at rates as set forth on Exhibit A attached hereto. The offer is made subject to acceptance by the Borrower and the Authority prior to [10:00 P.M.], Richmond, Virginia time, on the date hereof. If such offer is not so accepted, it is subject to withdrawal by the Representative, on behalf of the Underwriters, upon notice to the Borrower and the Authority at any time prior to acceptance. All references herein to the rights and responsibilities with respect to the Series 2016 Bonds shall be construed as rights and responsibilities of the Underwriters.

The Representative represents that the other Underwriter has heretofore designated and authorized the Representative to execute this Bond Purchase Agreement on behalf of the other Underwriter. Each Underwriter represents and warrants that it has full power and authority to enter into this Bond Purchase Agreement and to perform its obligations hereunder. The Representative, for itself and on behalf of the other Underwriter, represents, warrants and covenants that (assuming the due authorization and execution thereof by the Authority and the Borrower), this Bond Purchase Agreement is a valid and binding obligation of the Underwriters.

Any capitalized terms contained herein and not otherwise defined shall have the meaning set forth in the Official Statement (as defined below).

1. **Purpose of Financing.** The purpose of the issuance of the Series 2016 Bonds is to assist the Borrower in refunding the outstanding principal amount of the Authority's Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A (the "Prior Bonds"), paying certain costs of issuance of the Series 2016 Bonds, and funding a debt service reserve fund for the Series 2016 Bonds.

2. **Security and Authorization.** The Series 2016 Bonds will be issued under and secured by a Bond Trust Indenture dated as of October 1, 2016 (the "Trust Indenture"), between the Authority and [U.S. Bank National Association,] as bond trustee (the "Bond Trustee").

Simultaneously with the issuance of the Series 2016 Bonds, the Authority and the Borrower will enter into a Loan Agreement dated as of October 1, 2016 (the "Loan Agreement"). Pursuant to the Loan Agreement, the Borrower will deliver to the Authority its promissory note securing the Series 2016 Bonds, in the principal amount of the Series 2016 Bonds, dated as of the date of delivery (the "Series 2016 Note") required payments on which will be sufficient to pay, among other things, all principal of and premium, if any, and interest on the Series 2016 Bonds, and certain related expenses. Simultaneously with the issuance of the Series 2016 Bonds, the Borrower will enter into a Supplemental Indenture for Series 2016 Obligation dated as of October 1, 2016 (the "Series 2016 Supplement"), supplementing the Master Trust Indenture dated as of October 1, 2016 (the "Master Indenture"), each between the Borrower and U.S. Bank National Association, as master trustee (the "Master Trustee"). The Master Indenture will recognize the Series 2016 Note as an Obligation thereunder secured by the terms thereof on parity with the other Obligations issued thereunder. Certain Obligations under the Master Indenture, including the Series 2016 Note, will also be secured at the option of the Borrower by a first mortgage lien on certain real estate of the Borrower, and a security interest in certain personal property of the Borrower created by the Master Indenture and an Amended and Restated Credit Line Deed of Trust dated as of October 1, 2016 (the "Deed of Trust"), both between the Borrower and certain deed of trust trustees. The Series 2016 Bonds will also be secured by a debt service reserve fund.

The Series 2016 Bonds, the Trust Indenture, the Master Indenture, the Series 2016 Supplement, the Loan Agreement, the Series 2016 Note and the Deed of Trust will be in the forms previously supplied to you, with such subsequent amendments as shall be approved by you and us.

3. **Representations of Authority.** The Authority makes the following representations, all of which shall survive the delivery of the Series 2016 Bonds:

(a) The Authority is a validly existing political subdivision of the Commonwealth of Virginia, a body politic and corporate, and is vested with the rights and powers granted pursuant to the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia, as amended (the "Act").

(b) The Authority has the power (1) to enter into and perform its obligations under this Bond Purchase Agreement, the Trust Indenture and the Loan Agreement (collectively with the Offering Documents, hereinafter defined, the "Authority Documents") and the transactions contemplated thereby, (2) to secure the Series 2016 Bonds as provided in the Authority Documents, (3) to loan a portion of the proceeds of the Series 2016 Bonds to the Borrower so that it may refund the Prior Bonds, which is authorized to be refinanced under the Act, such loan being in furtherance of the purposes for which the Authority was organized, and (4) to assign the Series 2016 Note to the Bond Trustee. The Authority has taken or will take all action required by the Act in connection therewith.

(c) The Authority (1) has duly authorized the execution and delivery of the Authority Documents, (2) has duly authorized the assignment of the Series 2016 Note and the issuance, sale and delivery of the Series 2016 Bonds, and (3) has taken or will take all action necessary or appropriate to carry out the issuance, sale and delivery of the Series 2016 Bonds to the Underwriters.

(d) To the knowledge of the Authority, the Authority is not in default in the payment of the principal of, premium, if any, or interest on any of its other indebtedness for borrowed money and is not in default under any instrument under or subject to which any indebtedness for borrowed money has been incurred that would adversely affect the Authority's power or authority to issue the Series 2016 Bonds, to execute and deliver the Authority Documents and to perform the obligations thereunder, and no event has occurred and is continuing under the provisions of any such instrument that with the lapse of time or the giving of notice, or both, would constitute an event of default thereunder; provided, however, that this representation does not include a default with respect to other financings in which the Authority has acted as "conduit" issuer for other public or private entities not affiliated with the Borrower, wherein a default by such public or private entity would not have a material effect on the credit of the Authority or of the Borrower.

(e) The execution and delivery of the Authority Documents, the assignment of the Series 2016 Note and the performance by the Authority of its obligations thereunder are within the corporate powers of the Authority and will not conflict with or constitute a breach or result in a violation of (1) the Act or the Authority's bylaws, (2) any federal or Virginia constitutional or statutory provision, (3) any current order, rule, regulation, decree or ordinance of any court, government or governmental authority having jurisdiction over the Authority or its property or (4) to the best of its knowledge, any agreement or other instrument to which the Authority is a party or by which it is bound.

(f) All authorizations, consents, approvals, findings and certificates of governmental bodies or agencies required to be obtained by the Authority in connection with (1) the execution and delivery by the Authority of the Authority Documents and the issuance of the Series 2016 Bonds, and (2) the performance by the Authority of its obligations under the Authority Documents and the Series 2016 Bonds have been obtained and are in full force and effect; provided, however, that no representation is made with respect to (1) compliance with any applicable Blue Sky or securities laws of any state or (2) consents, filings, approvals, etc., required in connection with the tax-exempt status of the interest on the Series 2016 Bonds.

(g) There is no litigation, inquiry or investigation of any kind before or by any judicial court or governmental agency pending or, to the knowledge of the Authority, threatened against the Authority with respect to (1) its organization or existence, (2) its authority to execute and deliver the Authority Documents or the Series 2016 Bonds or perform its obligations thereunder, (3) the validity or enforceability of the Series 2016 Bonds or any of the Authority Documents, (4) the title of the officers executing the Authority Documents or the Series 2016 Bonds, or (5) any authority or proceedings relating to the authority of such officers to execute and deliver the Authority Documents or the Series 2016 Bonds on behalf of the Authority, and no such authority or proceedings have been repealed, revoked, rescinded or amended; provided, however, the foregoing does not include any litigation or administrative proceeding that may have been filed against, but not served on, the Authority, and of which it has no knowledge.

(h) When authenticated by the Bond Trustee and delivered to and paid for by the Underwriters in accordance with the terms of the Trust Indenture and this Bond Purchase Agreement, the Series 2016 Bonds will (1) have been duly authorized, executed and issued, (2) constitute legal, valid and binding limited obligations of the Authority enforceable in accordance with their terms except as limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws and usual equity principles, and (3) be secured by the Trust Indenture.

4. **Representations and Warranties of the Borrower.** The Borrower makes the following representations and warranties, all of which shall survive the delivery of the Series 2016 Bonds:

(a) The Borrower is a not-for-profit, nonstock corporation duly organized and validly existing in good standing under the laws of the Commonwealth of Virginia and has full power and authority to own its properties, to refund the Prior Bonds, and to operate its business, as currently conducted.

(b) The Borrower is (1) an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not a "private foundation" as defined in Section 509(a) of the Code. The Borrower has conducted its operations and filed all required reports or documents with the Internal Revenue Service so as to maintain such status. The Borrower is organized and operated exclusively for benevolent, fraternal, charitable or reformatory purposes, and not for pecuniary profit, and no part of its net earnings 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 "1933 Act"), and of Subsection 12(g)(2)(D) of the Securities Exchange Act of 1934, as amended. The Borrower has not received notice or communication of any kind from the Internal Revenue Service directly or indirectly questioning its status under Section 501(c)(3) of the Code or indicating that it is or will be audited with respect to such status.

(c) The Borrower has authorized the execution and delivery of this Bond Purchase Agreement, the Series 2016 Note, the Series 2016 Supplement and the Loan Agreement, and the Deed of Trust (collectively, the "Borrower Documents"). The Borrower has approved the Offering Documents and the terms of the Trust Indenture. The Borrower will take

all action necessary or appropriate to cooperate in the issuance, sale and delivery of the Series 2016 Bonds by the Authority to the Underwriters.

(d) The execution and delivery of the Borrower Documents, the performance of its obligations thereunder and the approval of the Offering Documents and the Trust Indenture are within the corporate powers of the Borrower and will not conflict with or constitute a breach or result in a violation of (1) the articles of incorporation or bylaws of the Borrower, (2) any federal or Virginia constitutional or statutory provision, (3) any agreement or instrument to which the Borrower is a party or by which it is bound, or (4) any current order, rule, regulation, decree or ordinance of any court, government or governmental authority having jurisdiction over the Borrower or its property.

(e) The Borrower has obtained all consents, approvals, authorizations and orders of governmental or regulatory authorities (collectively, "Consents") that are required to be obtained by the Borrower as a condition precedent to the issuance of the Series 2016 Bonds, the execution and delivery of the Borrower Documents or the performance by the Borrower of its obligations thereunder and the refunding of the Prior Bonds, with the exception of those Consents not yet required to be obtained and as otherwise disclosed in the Offering Documents. All such Consents previously obtained are in full force and effect. The Borrower will obtain when needed all other Consents required for the performance of its obligations under the Borrower Documents and has no reason to believe that all required or necessary Consents cannot be promptly obtained when needed.

(f) There is no litigation at law or in equity or any proceeding before any governmental agency pending or, to the knowledge of the 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 (financial or otherwise) or assets of the Borrower or affect its existence or authority to do business, the validity of the Borrower Documents or the performance by the Borrower of its obligations thereunder.

(g) The Borrower is not a party to any contract or agreement or subject to any charter or other restriction not disclosed in the Offering Documents, the performance of or compliance with which may have a material adverse effect on the financial condition or operations of the Borrower.

(h) The Borrower is not in default in the payment of the principal of or interest on any of its indebtedness for borrowed money or under any instrument under or subject to which any indebtedness has been incurred, including without limitation the Prior Bonds. No event has occurred and is continuing that, with the lapse of time or the giving of notice or both, would constitute an event of default under any such instrument.

(i) The consolidated financial statements of the Borrower as set forth in Appendix B to the Official Statement described below (the "Financial Statements"), present fairly the financial condition of the Borrower as of the respective dates, and the results of operations for the respective periods, set forth therein and have been prepared in accordance with generally accepted accounting principles consistently applied, except as otherwise noted therein. The unaudited financial statements of the Borrower for the six-month period ended June 30,

2016, included in Appendix A to the Official Statement, present fairly the financial condition of the Borrower as of such date, and the results of operations for the respective periods set forth therein, subject to year-end adjustments. Since June 30, 2016, no material and adverse change has occurred in the financial position or results of operations of the Borrower, nor has the Borrower incurred any material liabilities other than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

5. **Issuance, Sale and Purchase of Series 2016 Bonds.** On the basis of the representations and warranties contained herein and the other agreements referred to herein and subject to the terms and conditions set forth herein, the Authority agrees to issue and sell to the Underwriters, and the Representative, on behalf of the Underwriters, agrees, consistent with the first paragraph of this Agreement, that the Underwriters will purchase from the Authority, the Series 2016 Bonds at a purchase price of \$_____ (which represents the par amount of the Series 2016 Bonds minus an underwriters' discount of \$_____ and plus a net original issue [premium/discount] of \$_____.

The Underwriters shall purchase the Series 2016 Bonds in immediately available funds, in the amount of the purchase price thereof payable to the order of the Bond Trustee.

Having approved the terms of such issuance and sale, the Authority hereby sells the Series 2016 Bonds to the Underwriters, subject to the terms of this Bond Purchase Agreement. Concurrently with the execution of this Bond Purchase Agreement, the Representative has received a letter from CliftonLarsonAllen LLP, independent certified accountants, in substantially the form attached as Exhibit B, which letter is a condition precedent to the execution of this Bond Purchase Agreement. The delivery and sale of the Series 2016 Bonds (the "Closing") will be at such place in Richmond, Virginia, as the Representative may designate, at [11:00 a.m.], Eastern Time, on _____, 2016, or at such other time or such other place or on such other date as the Borrower and the Representative may agree upon (the "Closing Date"). The Series 2016 Bonds shall be delivered in book entry form to the Bond Trustee, as agent for The Depository Trust Company, as securities depository for the Series 2016 Bonds.

6. **Offering Documents; Offering by the Underwriters; Indemnification.** (a) On any business day as reasonably determined by the Representative following the date hereof, but in any event no more than seven business days after the time of your acceptance hereof, the Authority shall deliver to the Underwriters, at the expense of the Borrower, the number of copies of the Official Statement with respect to the Series 2016 Bonds required to permit the Underwriters to comply with the requirements of Rule 15c2-12 of the Securities and Exchange Commission (with any amendments or supplements thereto, the "Official Statement"), in substantially the form of the Authority's Preliminary Official Statement with respect to the Series 2016 Bonds dated _____, 2016 (the "Preliminary Official Statement," together with the Official Statement, the "Offering Documents"), marked to include such changes as shall have been accepted by the Representative and are necessary or desirable to reflect the terms of this Bond Purchase Agreement, and to complete such Official Statement in final form, executed and approved on behalf of the Authority.

(b) The Authority represents that the information with respect to the Authority contained in the sections of the Offering Documents entitled "**THE AUTHORITY**" and, to the

extent applicable to the Authority, "**LITIGATION**" is true and correct and does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading. The Authority ratifies the use by the Underwriters of the Preliminary Official Statement and authorizes and consents to the use by the Underwriters of the Official Statement.

(c) The Borrower represents and warrants that the information contained in the Offering Documents (including the Appendices (other than Appendix D) but excluding the sections "**THE AUTHORITY**," "**UNDERWRITING**," "**TAX EXEMPTION**," "**LITIGATION – The Authority**" and Appendix F – **DTC BOOK-ENTRY ONLY SYSTEM** is true and correct and does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading. The Borrower ratifies the use of the Preliminary Official Statement and authorizes and consents to the use by the Underwriters of the Official Statement in the offering and sale of the Series 2016 Bonds.

(d) The Representative, on behalf of the Underwriters, agrees that the Underwriters will offer the Series 2016 Bonds only pursuant to the Offering Documents and only in states where the offer and sale of the Series 2016 Bonds are legal, either as exempt securities, as exempt transactions or as a result of due registration of the Series 2016 Bonds for sale in any such state. The Representative, on behalf of the Underwriters, agrees that the Underwriters will make a public offering of the Series 2016 Bonds at the initial offering prices or yields set forth in the Offering Documents, but reserves the right to change such prices or yields as they may deem necessary or desirable in connection with the offering and sale of the Series 2016 Bonds and to sell the Series 2016 Bonds to dealers (including dealer banks and dealers depositing Series 2016 Bonds into investment trusts) and others at prices lower than the public offering prices. The Representative, on behalf of the Underwriters, also reserves the right of the Underwriters to over allot or effect transactions that stabilize or maintain the market price of the Series 2016 Bonds at a level above that which might otherwise prevail in the open market and to discontinue such stabilizing, if commenced, at any time. The Underwriters shall provide such certificates with respect to the offering and sale prices of the Series 2016 Bonds as shall be reasonably required by Bond Counsel in connection with the issuance of the Series 2016 Bonds.

(e) The Borrower shall indemnify and hold harmless the Authority, the Underwriters and each of their respective officers, directors and counsel, and each person, if any, who controls the Authority or either of the Underwriters within the meaning of Section 15 of the 1933 Act from any and all losses, claims, damages and liabilities (including legal and other expenses of defending any actions) that they or any of them may incur or have asserted against any of them as a result of the falsity (or alleged falsity) or any breach (or alleged breach) by the Borrower of any of its representations, warranties or covenants set forth in this Bond Purchase Agreement.

(f) If any litigation is commenced or threatened against any of the parties entitled to indemnification under subsection (e) above, such indemnified party shall promptly notify the Borrower thereof in writing, but failure to notify the Borrower shall not relieve it from any liability that it may have whether on account of this indemnity or otherwise so long as the Borrower is given reasonable opportunity to defend such litigation; provided that under no

circumstances shall the Borrower be liable for any legal or other expenses incurred by any indemnified party in investigating or employing separate counsel to defend any such litigation unless the Borrower has been notified of the litigation and such investigation or employment of separate counsel has been specifically authorized by the Borrower, which authorization will not be unreasonably withheld, conditioned or delayed. The Borrower shall promptly assume the investigation, preparation and defense of all such litigation or action, including the employment of counsel reasonably acceptable to the indemnified party, the payment of fees and expenses and the right to negotiate and consent to settlement. Any indemnified party shall have the right to make its own investigation or employ separate counsel, but the fees and expenses of such investigation or counsel shall be at the expense of such indemnified party unless such investigation or the employment of such counsel has been specifically authorized by the Borrower. If any litigation or action is settled, such indemnity shall be limited to the aggregate amount paid under a settlement effected with the written consent of the Borrower. The indemnification provided in this subsection is in addition to the indemnification provided in Section 5.6 of the Loan Agreement.

(g) The Authority (upon being indemnified to its satisfaction) and the Borrower shall take all actions and provide all information reasonably requested by the Representative necessary or desirable to register the Series 2016 Bonds under, or comply with, any state Blue Sky laws; *provided*, that neither the Authority nor the Borrower shall be required to execute a general consent to service of process in connection with qualification of the Series 2016 Bonds for sale in any jurisdiction.

(h) The Authority and the Borrower, at the Borrower's expense, shall take all actions and provide all information reasonably requested by the Representative to ensure that the Offering Documents at all times during the initial offering and distribution of the Series 2016 Bonds do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. From the date of this Bond Purchase Agreement to the ninety-first day (or such later date, not to exceed 150 days, that may be specified by the Representative) following the Closing Date (the "Initial Offering Period"), the Authority and the Borrower will notify the Representative whenever, in their judgment, the Official Statement should be amended or supplemented in order for the Offering Documents not to contain any untrue statement of a material fact, or not to omit to state any material fact necessary to make the statements in the Official Statement not misleading. If, in the reasonable judgment of the Representative, any event or condition requires the preparation and publication of a supplement or amendment to the Offering Documents during the Initial Offering Period, the Authority and the Borrower, at the Borrower's expense, shall supplement or amend any of the Offering Documents in a form and in a manner approved by the Representative, which approval shall not be unreasonably withheld. The obligation of the Authority to take action under this subsection shall be limited to circumstances in which it has actual knowledge of an event described above or it is specifically requested by the Representative to take any action or provide any information within its control.

(i) The Authority represents that (1) it deemed the Preliminary Official Statement final as of its date except for information permitted to be omitted under paragraph (b)(1) of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), and (2) based upon the representations and warranties of the Borrower in subsection (j)(ii) below, the Official

Statement constitutes, as of the date hereof, a final official statement within the meaning of paragraph (e)(3) of the Rule. As promptly as possible and in any case within seven business days of the date of this Bond Purchase Agreement, the Authority shall cause to be delivered to the Underwriters (at such addresses as specified by the Underwriters), at the Borrower's expense and direction, printed copies of the final Official Statement in sufficient quantity to permit compliance by the Underwriters with paragraph (b)(4) of the Rule.

(j) The Borrower represents and warrants that (1) a duly authorized officer of the Borrower, acting on its behalf, deemed the Preliminary Official Statement final as of its date except for information permitted to be omitted under paragraph (b)(1) of the Rule and (2) the Official Statement constitutes, as of the date hereof, a final official statement within the meaning of paragraph (e)(3) of the Rule.

(k) The Authority and the Borrower shall, at the expense of the Borrower, take all additional steps reasonably requested by the Representative or its counsel to enable compliance by the Underwriters with the Rule and with the rules of the Municipal Securities Rulemaking Board in connection with the issuance, sale and delivery of the Series 2016 Bonds.

(l) The representations, warranties and indemnity agreements set forth in this Bond Purchase Agreement shall survive the Closing and shall remain operative and in full force and effect regardless of (1) any investigation made by or on behalf of the Underwriters and (2) payment for the Series 2016 Bonds.

7. **Continuing Disclosure.** In order to permit compliance by the Underwriters with the Rule, the Borrower has agreed in the Loan Agreement to provide while the Series 2016 Bonds are outstanding: (1) within 30 days of receipt but not later than 120 days after the end of each of its fiscal years, certain financial information and operating data, including audited financial statements for the preceding fiscal year, as described in the Loan Agreement and sufficient to permit the Underwriters to comply with Section (b)(5)(i) of the Rule, (2) timely notice of the failure of the Borrower to provide the required financial information and operating data and (3) timely notice of the occurrence of the events specified in the Rule with respect to the Series 2016 Bonds. Such annual financial information and material event notices shall be provided to the Municipal Securities Rulemaking Board as required under the Rule.

8. **Conditions.** The Underwriters' obligations hereunder are subject to:

(a) The accuracy on the Closing Date, as if made as of such date, of all representations of the Authority and all representations and warranties of the Borrower contained herein.

(b) The due performance by the Authority and the Borrower of their obligations hereunder.

(c) There being no material adverse change in the condition (financial or otherwise) of the Borrower between the most recent dates as to which information is given in the Preliminary Official Statement and the Closing Date other than as reflected in or contemplated by the Offering Documents, and there being on the Closing Date no material transactions or obligations (not in the ordinary course of business) entered into by the Authority and the

Borrower subsequent to the date of the Preliminary Official Statement other than as reflected in or contemplated by the Offering Documents.

(d) Delivery of all documentation required by Section 9.

9. **Closing Documentation.** There shall be delivered to the Representative at Closing the following, all dated the Closing Date unless otherwise approved by the Representative and in form and substance reasonably satisfactory to the Representative:

(a) A certificate executed by appropriate officers of the Authority, confirming the matters as to the Authority referred to in subsections (a) and (b) of Section 8.

(b) A certificate executed by appropriate officers of the Borrower, confirming the matters as to the Borrower referred to in subsections (a), (b) and (c) of Section 8.

(c) The Official Statement, executed on behalf of the Authority and the Borrower by the respective duly authorized officials or representatives thereof.

(d) Original executed copies of the Trust Indenture, the Series 2016 Supplement, the Loan Agreement, and the Deed of Trust.

(e) A certified copy of the Master Indenture.

(f) Specimens of the Series 2016 Bonds and the Series 2016 Note.

(g) Letter from CliftonLarsonAllen, independent certified accountants, in substantially the form attached as Exhibit B hereto.

(h) An opinion of Mann, Vita & Elrod, P.L.L.C., counsel to the Authority, in substantially the form attached as Exhibit C hereto.

(i) An opinion of Glenn, Feldmann, Darby & Goodlatte, counsel for the Borrower, dated the Closing Date, in substantially the form attached as Exhibit D hereto.

(j) Opinion of Hunton & Williams, LLP, Bond Counsel, in substantially the form attached as Appendix C to the Official Statement.

(k) A supplemental opinion of Hunton & Williams, LLP, Bond Counsel, in substantially the form attached as Exhibit E hereto.

(l) An opinion of McGuireWoods LLP, counsel for the Underwriters, in substantially the form attached as Exhibit F hereto.

(m) Receipt by the Master Trustee of a mortgage title insurance policy on the Mortgaged Premises (as defined in the Deed of Trust) of the Borrower, in the form of an ALTA standard policy, or an endorsement to an existing policy, such that the aggregate amount insured equals the principal amount of the Series 2016 Bonds for the benefit of the Master Trustee issued by a company duly authorized to issue the same acceptable to the Representative, insuring that

the Deed of Trust is a first lien on the mortgaged property of the Borrower subject to no exceptions other than "Permitted Liens" as defined in the Master Indenture, containing no exceptions for filed or unfiled mechanics' and materialmen's liens except as otherwise covered by pending disbursements language acceptable to the Representative, containing no exceptions as to survey matters, and containing no other exceptions except those notice of which has been given to the Representative prior to the execution of this Bond Purchase Agreement and which are acceptable to the Representative.

(n) Evidence regarding the status of title to personal property owned by the Borrower, including information regarding liens or other encumbrances thereon, which evidence may be in the form of a UCC search conducted by a firm or attorney acceptable to the Representative.

(o) Copies of insurance certificates and a statement signed by an Insurance Consultant, as defined in the Master Indenture, to the effect that the insurance required by the Master Indenture is in effect.

(p) A copy of IRS Form 8038 completed by the Authority with respect to the Series 2016 Bonds.

(q) Originals or, where appropriate, specimens of the documents, opinions and other items required by the Trust Indenture for authentication and delivery of the Series 2016 Bonds.

(r) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Representative or Bond Counsel may reasonably request to evidence compliance by the Authority or the Borrower with legal requirements, the truth and accuracy as of the Closing Date of the representations of the Authority or the Borrower herein and in the Offering Documents, the ownership of the Facilities (as defined in the Trust Indenture) by the respective members of the Borrower and the due performance or satisfaction by the Authority or the Borrower at or prior to the Closing Date of all agreements then to be satisfied by the Authority or the Borrower.

10. **Termination.** The Representative, on behalf of the Underwriters, may terminate this Bond Purchase Agreement at any time prior to the Closing Date by notice to the other parties hereto if between the date hereof and the Closing Date:

(a) The Representative is informed by the Authority or the Borrower or their respective agents and counsel, or the Representative concludes in the exercise of its reasonable business judgment that one or more of the conditions listed in Section 8 above cannot or will not be met;

(b) The Borrower shall have sustained a substantial loss by fire, flood, accident or other calamity that, in the reasonable judgment of the Representative, shall render it inadvisable to proceed with the sale of the Series 2016 Bonds, whether or not such loss shall have been insured;

(c) Legislation shall have been favorably reported by a committee of the United States Congress or enacted by the United States Congress, or a decision by any court of the United States, including the Tax Court, shall have been rendered, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States or any branch thereof, including the Internal Revenue Service, or any other governmental agency shall have been made or proposed, with respect to federal or state taxation upon revenues or other income of the general character derived by the Authority or upon interest received on obligations of the general character of the Series 2016 Bonds or other action or events shall have transpired that (1) may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of owning the Series 2016 Bonds or (2) in the reasonable opinion of the Representative materially affects the ability of the Underwriters to enforce contracts or orders for the sale of the Series 2016 Bonds at the contemplated offering prices;

(d) 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 opinion of the Representative materially and adversely affects the market price of the Series 2016 Bonds;

(e) Any legislation shall have been enacted or be proposed, any decision by a court of the United States shall have been rendered or any stop order, ruling, regulation or official statement by or on behalf of the Securities and Exchange Commission or other governmental agency shall have been made to the effect that (1) obligations of the general character of the Series 2016 Bonds, or the Trust Indenture are not exempt from registration, qualification or other requirements of the 1933 Act or the Trust Indenture Act of 1939, as amended, or (2) the Offering Documents do not contain adequate information as to the Authority or the Borrower;

(f) A stop order, ruling, regulation or official statement by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of the Series 2016 Bonds, of obligations of the general character of the Series 2016 Bonds or the offering of any other security that is represented by the Series 2016 Bonds as contemplated hereby, is in violation of any provision of the 1933 Act, the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended;

(g) Any event shall have occurred or condition shall exist that, in the reasonable opinion of the Representative, makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Offering Documents or that is not reflected in the Offering Documents but should be reflected therein as of such time in connection with the offering and sale of the Series 2016 Bonds in order to make the statements and information contained therein, in light of the circumstances under which they were made, not misleading in any material respect as of such time including, without limitation, events or conditions relating to the business and affairs of the Authority or the Borrower, or the effect of additional disclosure as to such event or condition, regardless of its form in the Offering Documents, in the reasonable opinion of the Representative is to materially adversely affect the

market price or marketability of the Series 2016 Bonds or the ability of the Underwriters to enforce contracts for the sale of the Series 2016 Bonds;

(h) There shall be in force a general suspension of trading on the New York Stock Exchange;

(i) Any state "blue sky" or securities commission shall have withheld registration, exemption or clearance of the offering, and in the reasonable judgment of the Representative the market for the Series 2016 Bonds is materially adversely affected thereby; and

(j) In the reasonable opinion of the Representative, the market price of the Series 2016 Bonds, or the market price generally of obligations of the general character of the Series 2016 Bonds, has been adversely affected because (1) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange, (2) the New York Stock Exchange, other national securities exchange or any governmental authority shall have imposed as to the Series 2016 Bonds or similar obligations any material restrictions not now in force, or increased materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters, (3) a general banking moratorium shall have been established by federal, New York or Virginia authorities, or any devaluation of the dollar shall have been proposed or effected by any governmental authority of the United States, or (4) war or an outbreak of hostilities or other national or international calamity or crisis shall have occurred or escalated from current conditions, or any armed conflict shall have occurred or escalated from current conditions, to such a magnitude as in the reasonable opinion of the Representative to have a materially adverse effect on the ability of the Underwriters to enforce contracts or orders for the sale of the Series 2016 Bonds at the contemplated offering prices.

If the Authority and the Borrower shall be unable to satisfy any of the conditions to the obligations of the Underwriters contained in this Bond Purchase Agreement and such condition is not waived by the Representative, or if the obligation of the Underwriters to purchase and accept delivery of the Series 2016 Bonds shall be terminated or canceled for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and the Underwriters, the Borrower and the Authority shall be under no further obligation hereunder; except that the respective obligations to pay expenses, as provided in Paragraph 11 hereof and to indemnify, as provided in Paragraph 6 hereof, shall continue in full force and effect.

11. **Expenses.** The Borrower shall cause to be paid from the proceeds of the Series 2016 Bonds or from its own funds the issuance and administrative fees of the Authority; the fees and disbursements of Bond Counsel, counsel to the Borrower and the Authority, and counsel to the Underwriters; the fees of the Bond Trustee and of the Master Trustee and their respective counsel; accountants' and consultants' fees; the costs of printing the Offering Documents and the Series 2016 Bonds; and the cost of qualifying the Series 2016 Bond for sale in various states selected by the Underwriters. The Borrower shall pay all such fees and disbursements to the extent not paid with the proceeds of the Series 2016 Bonds. The Underwriters shall pay all advertising expenses in connection with the public offering of the Series 2016 Bonds, and all

other expenses incurred by them with respect to the public offering and distribution of the Series 2016 Bonds, excluding the fees and disbursements of their counsel.

If the Series 2016 Bonds are not sold as provided herein, the Borrower agrees to pay (1) the fees and disbursements of Bond Counsel, counsel to the Authority, counsel to the Underwriters and counsel to the Borrower, (2) the fees of the Bond Trustee and of the Master Trustee and their respective counsel, (3) accountants' and consultants' fees, and (4) the costs of printing the Offering Documents; provided that the Borrower shall be obligated to pay the fees, disbursements and costs referred to in clauses (1), (2), (3) and (4) for services actually rendered to the date on which this Bond Purchase Agreement is terminated.

12. **Finders.** Each of the Borrower and the Representative, on behalf of the Underwriters, represents and warrants that no finder or other agent has been employed or consulted by it in connection with this transaction.

13. **Applicable Law; Counterparts.** This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to its conflict of law rules and may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

14. **Notices.** All communications hereunder shall be in writing and shall be deemed delivered, if delivered in person, telegraphed or sent by certified mail, return receipt requested, to the respective parties as follows:

(a) To the Representative, on behalf of the Underwriters, B.C. Ziegler and Company, 4801 Cox Road, Suite 102, Richmond, Virginia 23060 (Attention: Tad Melton);

(b) To the Authority, Industrial Development Authority of the City of Lexington, 300 East Washington Street, Lexington, Virginia 24450 (Attention: Chairman).

(c) To the Borrower, Lexington Retirement Community, Inc., d/b/a Kendal at Lexington, 160 Kendal Drive, Lexington, Virginia 24450 (Attention: President).

Any telegraph notice shall be promptly confirmed by letter in the manner provided by this section.

15. **Miscellaneous.** This Bond Purchase Agreement is made solely for the benefit of and is binding on each of the parties and their respective successors and assigns. It is the entire agreement of the parties, superseding all prior agreements, and may not be modified except in writing signed by all of the parties hereto.

Very truly yours,

**B.C. ZIEGLER AND COMPANY, on behalf of
itself and Davenport & Company LLC**

By: _____

Its: _____

Accepted:

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

By: _____

Its: _____

**LEXINGTON RETIREMENT COMMUNITY, INC.,
d/b/a KENDAL AT LEXINGTON**

By: _____

Its: _____

TERMS OF BONDS

\$ _____
INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON,
VIRGINIA
RESIDENTIAL CARE FACILITY MORTGAGE REFUNDING REVENUE BONDS
(KENDAL AT LEXINGTON),
SERIES 2016

**PRINCIPAL MATURITIES AND INTEREST RATES
SERIES 2016 BONDS**

\$ _____ Serial Bonds - due _____ as follows:

<u>Due</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
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\$ _____ % Term Bonds due _____ priced at _____ % to yield _____ %

Mandatory Sinking Fund Redemption. The \$ _____ Series 2016 Bonds maturing on _____, 20__ with the _____ % coupon are required to be redeemed on _____, in amounts and at a price of par plus accrued interest to the redemption date, as follows:

<u>Year</u>	<u>Amount</u>
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Optional Redemption. The Series 2016 Bonds maturing on or after _____, 20__ will be subject to redemption by the Authority, at the direction of the Corporation, prior to maturity on or after _____, 20__, in whole or in part at any time upon payment of the following redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the redemption date.

Form of Auditor Letter

Date of Pricing

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

B.C. Ziegler and Company,
on behalf of itself and Davenport & Company LLC
Richmond, Virginia

Industrial Development Authority of the City of Lexington, Virginia
\$ _____ Residential Care Facility Refunding Revenue Bonds
(Kendal at Lexington), Series 2016

Dear Ladies and Gentlemen:

We consent to the inclusion of the audited consolidated financial statements as of December 31, 2015 and December 31, 2014, and our report with respect thereto in the Official Statement dated _____, 2016, relating to the above-captioned bonds and to the references made to us in such Official Statement.

Very truly yours,

Form of Authority Counsel Opinion

[Form To Be Provided]

Form of Borrower Counsel Opinion

[Date of Closing]

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

B.C. Ziegler and Company, on behalf of
itself and Davenport & Company LLC,
as underwriters
Richmond, Virginia

[U.S. Bank National Association,
as Bond Trustee and Master Trustee
Richmond, Virginia]

\$ _____
Industrial Development Authority of the City of Lexington, Virginia
Residential Care Facility Refunding Revenue Bonds
(Kendal at Lexington),
Series 2016

Ladies and Gentlemen:

We have acted as counsel to Lexington Retirement Community, Inc. d/b/a Kendal at Lexington (the "Corporation"), a not-for-profit Virginia nonstock corporation, in connection with the issuance and sale by the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), a political subdivision of the Commonwealth of Virginia, of the above-referenced bonds (the "Bonds"). Unless otherwise defined, all capitalized terms used in this opinion have the meanings set forth in the Master Indenture and Trust Indenture, as defined below. In so acting we have examined:

A. The articles of incorporation, bylaws and minute books of the Corporation and certain authorizing resolutions of the Corporation's Board of Trustees.

B. A certificate issued by the Virginia State Corporation Commission on _____, 2016 attesting to the continued existence and good standing in Virginia of the Corporation (the Good Standing Certificate").

C. Documents relating to the tax-exempt status of the Corporation under the Internal Revenue Code of 1986, as amended (the "Code").

D. A Bond Purchase Agreement dated _____, 2016 (the "Bond Purchase Agreement"), among the Authority, the Corporation and B.C. Ziegler and Company, on behalf of itself and Davenport & Company LLC (together, the "Underwriters").

E. An Official Statement of the Authority in preliminary form dated _____, 2016, and in final form dated _____, 2016 (the "Official Statement"), with respect to the offering and sale of the Bonds.

F. A Bond Trust Indenture, dated as of October 1, 2016 (the "Trust Indenture"), between the Authority and [U.S. Bank National Association, as bond trustee (the "Bond Trustee")].

G. A Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"), between the Authority and the Corporation.

H. A Supplemental Indenture for Series 2016 Obligation, dated as of October 1, 2016 (the "Supplement"), supplementing the Master Trust Indenture, dated as of October 1, 2016 (the "Master Indenture"), all between the Corporation and [U.S. Bank National Association, as successor master trustee (the "Master Trustee")].

I. The Corporation's promissory note dated _____, 2016 in the original principal amount of \$ _____ (the "Series 2016 Note"), issued under and recognized by the Master Indenture as Obligation No. 1, and payable to the Authority or its assigns.

J. An Amended and Restated Credit Line Deed of Trust, dated as of October 1, 2016 (the "Deed of Trust"), amending and restating the Amended and Restated Credit Line Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated as of June 1, 2007, recorded _____, 2007, in the Clerk's Office of the Circuit Court of the City of Lexington, Virginia (the "Clerk's Office"), as Instrument No. _____, between the Corporation and certain individual trustees.

K. UCC Financing Statements naming the Corporation as debtor and the Master Trustee as secured party under the Uniform Commercial Code as in effect on the date hereof in the Commonwealth of Virginia (the "Virginia UCC"), to be filed in the Clerk's Office (the "Deed of Trust Financing Statement").

L. UCC Financing Statement naming the Corporation as debtor and the Master Trustee as secured party under the Virginia UCC, to be filed with the State Corporation Commission (the "Master Indenture Financing Statement"; the Master Indenture Financing Statement and the Deed of Trust Financing Statement are, collectively, the "Financing Statements").

As to questions of fact material to the opinions expressed herein, we have relied upon representations of the Corporation in the Documents (as defined below) and certified corporate proceedings of the Corporation and certifications by the officers and representatives of the Corporation.

The opinions set forth herein are subject to the following assumptions:

i. the documents delivered to us as copies are accurate copies of the original documents and have not been subsequently amended;

ii. the signatures of all persons other than the officers and representatives of the Corporation are genuine and authentic, and none of such persons suffers any legal disability; and

iii. all documents either referred to in this opinion or examined by us with respect to matters addressed in this opinion have been duly authorized, executed and delivered by, and constitute valid, binding and enforceable obligations of, all parties to such documents (other than the Corporation).

PART I

Based on the foregoing and such other information and investigation as we consider necessary for the purpose of rendering this opinion, we are of the opinion that:

1. The Corporation is a nonstock corporation duly organized and validly existing in good standing under the laws of the Commonwealth of Virginia. The Corporation has the power and authority to own its properties and to operate its business as currently conducted.

2. The Corporation is 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. To our knowledge, the Corporation has conducted its operations and filed all required reports or documents with the Internal Revenue Service so as to maintain such status. The Corporation is organized and, to our knowledge, operated exclusively for benevolent, fraternal, charitable or reformatory purposes and not for pecuniary profit, and no part of its net earnings inures to the benefit of any person, private stockholder or individual, within the meaning of Section 3(a)(4) of the Securities Act of 1933, as amended, and of Section 12(g)(2) of the Securities Act of 1934, as amended. To our knowledge, the Corporation has not received any notice or communication from the Internal Revenue Service that questions its status under Section 501(c)(3) of the Code or indicating that the Corporation is or will be audited with respect to such status or in any way questioning the tax-exempt status of bonds issued for the benefit of the Corporation.

3. The Corporation has authorized the execution and delivery of the Bond Purchase Agreement, the Loan Agreement, the Series 2016 Note, the Master Trust Indenture, the Supplement and the Deed of Trust (collectively, the "Documents"). The Corporation has duly approved the Official Statement and the terms of the Trust Indenture. The Documents have been duly authorized, executed and delivered by the Corporation and, assuming their due authorization, execution and delivery by the other parties thereto, constitute valid and binding legal obligations of the Corporation enforceable as to the Corporation in accordance with their respective terms. The enforceability of the obligations of the Corporation under the Documents is subject to the provisions of bankruptcy, insolvency, reorganization, fraudulent conveyance, liquidation, moratorium and other laws affecting the enforcement of creditors' rights generally. The enforceability of such obligations also is subject to usual equity principles that may limit the specific enforcement of certain remedies, and to principles of public policy as expressed in applicable securities laws or otherwise. We express no opinion regarding the enforceability of (1) any right in the Deed of Trust to obtain possession of any property or the exercise of self-help remedies without judicial process, or (2) any language in the Deed of Trust providing that after-

acquired property shall immediately, without an appropriate amendment to the instrument and/or other actions, become subject to the Deed of Trust.

4. The execution and delivery of the Documents, the performance by the Corporation of its obligations thereunder and the approval of the Official Statement and the Trust Indenture are within the corporate powers of the Corporation and will not conflict with or constitute a breach or result in a violation of (1) the articles of incorporation or bylaws of the Corporation, (2) any federal or Virginia constitutional or statutory provision, (3) to our knowledge, any agreement or other instrument to which the Corporation is a party or by which it is bound, or (4) any current order, rule, regulation, decree or ordinance of any court, government or governmental authority having jurisdiction over the Corporation or its property.

5. The Corporation has obtained all consents, approvals, authorizations and orders of governmental or regulatory authorities (collectively, "Consents") that are required to be obtained by the Corporation as a condition precedent to the execution and delivery of the Documents. We have no reason to believe that the Corporation cannot obtain when needed any Consent not obtained as of the date hereof that will be required for the performance by the Corporation of its obligations under the Documents or for the completion and operation of the projects financed with the proceeds of the Bonds. We express no opinion, however, with respect to compliance with federal or state securities or "blue sky" laws of the various states of the United States or of the United States or federal tax laws.

6. There is no litigation at law or in equity or any proceeding before any governmental agency pending or threatened against the Corporation, in which any liability of the Corporation is not adequately covered by insurance or in which any judgment or order would have a material adverse effect upon the business (financial or otherwise) or assets of the Corporation or affect its existence or authority to do business, the validity of the Documents or the performance by the Corporation of its obligations thereunder.

7. The Corporation is not in default in the payment of the principal of or interest on any of its indebtedness for borrowed money or under any instrument under or subject to which any indebtedness has been incurred, and no event has occurred and is continuing that, with the lapse of time or the giving of notice or both, would constitute an event of default under any such instrument.

PART II

We have also participated in various conferences with the officers of the Corporation, the Underwriters and their counsel, and the Authority and its counsel. At those conferences, the contents of portions of the Official Statement were discussed and revised. Because of the inherent limitations in the independent verification of factual matters and the character of determinations involved in the preparation of the Official Statement, we are not passing upon, do not assume any responsibility for, and make no representation that we have independently verified the accuracy, completeness or fairness of any statement contained in the Official Statement. We also do not express any opinion or belief or include in our reference to the Official Statement in the following sentence (1) the Corporation's financial statements, other financial, operating, quantitative or statistical information, projection or estimate that is included

in Appendix A to the Official Statement or that is included in the Official Statement and its other Appendices, and (2) the sections in the Official Statement entitled "The Authority," "Tax Exemption," "Underwriting," "Legal Matters," "Litigation – The Authority," "Relationship of Parties" and Appendix F or in Appendices C and D, as to which no view is expressed. Subject to the foregoing, however, solely on the basis of our participation in the conferences referred to above and our examination of the documents referred to herein and in the course of our representation as special counsel to the Corporation, we advise you that nothing has come to our attention that would lead us to believe that the Official Statement at the date thereof or at this date contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

PART III

We have examined the Deed of Trust. We have also examined: (1) the Deed of Trust UCC Financing Statement, which names the Corporation as debtor and the Master Trustee as secured party under the Virginia UCC describing the Mortgaged Premises (as defined in the Deed of Trust) and the Equipment (as defined in the Deed of Trust, and together with such items that are part of the Mortgaged Premises and may under applicable law be subject to a security interest, hereinafter referred to as the "Deed of Trust Pledged Assets") located on the Mortgaged Premises as collateral, and (2) the Master Indenture Financing Statement which names the Corporation as debtor and the Master Trustee as secured party describing the Pledged Assets (as defined in the Master Indenture and hereinafter referred to as the "Master Indenture Pledged Assets") as collateral. We have also examined the results of Uniform Commercial Code lien searches naming the Corporation as debtor (the "UCC Search Reports") conducted by _____ of the records of the SCC through _____, 2016, the Clerk's Office through _____, 2016.

Based solely on our examination of the Deed of Trust, the Master Indenture, the Financing Statements and the UCC Search Reports, we are of the opinion that:

1. The Deed of Trust creates in favor of the Master Trustee a valid security interest in all right, title and interest of the Corporation in those items and types of the Deed of Trust Pledged Assets which are described in the Deed of Trust in which a security interest may be created pursuant to the provisions of Article 9 of the Virginia UCC. The filing of the Deed of Trust Financing Statement with the Clerks' Office and the SCC is sufficient to perfect the security interest granted under the Deed of Trust in those items and types of the Deed of Trust Pledged Assets in which a security interest therein may be created pursuant to the provisions of Article 9 of the Virginia UCC to the extent that a security interest therein may be perfected by the filing in the Clerks' Offices and the SCC, as appropriate, of a financing statement under Article 9 of the Virginia UCC. Based on the UCC Search Reports, no financing statements have been filed since _____, 2016, with the Clerks' Office or the SCC naming the Corporation as debtor that describe the Deed of Trust Pledged Assets as collateral, and the UCC Search Reports through their respective dates do not disclose any lien or security interest with respect to the Deed of Trust Pledged Assets that takes priority over the security interests therein created by the Deed of Trust.

2. The filing of the Master Indenture Financing Statement with the SCC is sufficient to perfect the security interest granted under the Master Indenture in those items and types of the Master Indenture Pledged Assets in which a security interest therein may be created pursuant to the provisions of Article 9 of the Virginia UCC to the extent that a security interest therein may be perfected by the filing in the SCC of a financing statement under Article 9 of the Virginia UCC. Based on the UCC Search Reports, no financing statements have been filed since _____, 2016, with the Clerks' Office or the SCC naming the Corporation as debtor that describe the Master Indenture Pledged Assets as collateral, and the UCC Search Reports through their respective dates do not disclose any lien or security interest with respect to the Master Indenture Pledged Assets that takes priority over the security interests therein created by the Master Indenture.

3. The Deed of Trust is in appropriate form for recording with the Clerks' Offices.

With respect to the opinions set forth in paragraphs 1 and 2 of this Part III, we have assumed that: (1) none of the Deed of Trust Pledged Assets or the Master Indenture Pledged Assets consists or will consist of as-extracted collateral, farm products or timber to be cut; (2) the Corporation has (and, at the time the Financing Statements were filed, had) rights in the Deed of Trust Pledged Assets and the Master Indenture Pledged Assets, and value has been given to the Corporation; (3) the Financing Statements give the correct name and mailing address of the Master Trustee; and (4) the Financing Statements will be duly filed and properly indexed in the Clerks' Office and the SCC, as appropriate. We express no opinion as to the Corporation's title to or rights in any property and, except as expressly provided in paragraphs 1 and 2 of this Part III, we express no opinion as to the creation, perfection or priority of any security interest, lien or other encumbrance in or on any of its assets.

Without limiting the generality of the foregoing, the opinions expressed in paragraphs 1 and 2 of this Part III are expressly subject to: (1) the limitation that a security interest would continue in the Deed of Trust Pledged Assets and the Master Indenture Pledged Assets after its sale, lease, license, exchange or other disposition and in the proceeds thereof only to the extent provided in Section 9A-315 of the Virginia UCC; (2) the limitation that Section 552 of the Bankruptcy Code of 1978, as amended, may affect the validity of such security interest as to the Deed of Trust Pledged Assets and the Master Indenture Pledged Assets acquired after the commencement of a proceeding thereunder; (3) the requirement that continuation statements be filed in accordance with the provisions of Section 9A-515 of the Virginia UCC and the facts applicable to the financing statements in the same office where the original financing statements were filed in order to maintain the effectiveness of the financing statements; (4) the requirement that amendments to the financing statements be filed within four months after the debtor so changes its name as to cause any filed financing statement to become seriously misleading; (5) the limitation expressed in Section 9A-316 of the Virginia UCC that perfection will lapse as to a security interest in any of the Deed of Trust Pledged Assets or the Master Indenture Pledged Assets, the perfection of which is based upon the location of the debtor, upon the expiration of four months after a change in such debtor's location to another jurisdiction, unless the security interest in the Deed of Trust Pledged Assets or the Master Indenture Pledged Assets, as the case may be, is perfected in such collateral prior to the expiration of such four month period; and (6) the limitation that the security interest shall lapse pursuant to Sections 9A-320(a) and 9A-330

of the Virginia UCC as to inventory, chattel paper or instruments sold in the ordinary course of business.

PART IV

The foregoing opinions are subject to the following additional limitations and qualifications:

1. Our opinions are based solely upon the laws of the Commonwealth of Virginia (without giving effect to Virginia's principles of conflict of laws), and we express no opinion based upon the laws of any other state.

2. We express no opinion as to (1) compliance with federal securities laws, regulations, and judicial and agency decisions relating to registration or qualification of securities, and (2) compliance with the registration or qualification requirements of any state securities or "Blue Sky" laws of any state (including the Commonwealth of Virginia) or the District of Columbia.

3. Whenever an opinion herein is qualified by the phrase "to our knowledge" or any similar phrase implying a limitation on the basis of knowledge, it is intended to indicate that the individuals in the firm working on the transaction or having substantial involvement with the Corporation have no current actual knowledge of such matters. We have not, however, undertaken any independent investigation or due diligence to determine such matters and no inference as to our knowledge of the existence or nonexistence of such matters should be drawn from the fact of our representation of the Corporation.

We are furnishing this opinion to you solely for your benefit and only with respect to the specific transactions contemplated by the Documents, and no other person is entitled to rely hereon. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose, in each instance without our prior written consent. Further, we do not undertake to advise you of any changes in the opinions expressed herein resulting from matters that might hereafter come or be brought to our attention.

Very truly yours,

Form of Supplemental Opinion of Bond Counsel

[Form To Be Provided]

Form of Underwriters' Counsel Opinion

[Date of Closing]

B.C. Ziegler and Company, on behalf of
itself and Davenport & Company LLC,
as underwriters
Richmond, Virginia

\$ _____
**Industrial Development Authority of the City of Lexington, Virginia
Residential Care Facility Refunding Revenue Bonds
(Kendal at Lexington),
Series 2016**

Ladies and Gentlemen:

We have acted as your counsel in connection with your purchase from the Industrial Development Authority of the City of Lexington, Virginia (the "Authority"), of its Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the "Bonds"), subject to the terms and conditions set forth in a Bond Purchase Agreement dated _____, 2016, among you, the Authority and Lexington Retirement Community, Inc. d/b/a Kendal at Lexington (the "Corporation"), a not-for-profit Virginia nonstock corporation.

In our capacity as your counsel, we have examined an executed copy of the Official Statement dated _____, 2016 (the "Official Statement"), relating to the Bonds and executed or conformed copies of certain of the documents referred to therein. We also have examined certain proceedings of the Authority and the Corporation, and originals or copies identified to our satisfaction of such agreements, instruments, opinions, certificates and other documents as we have deemed necessary for purposes of the advice contained in this letter. We have assumed the genuineness of signatures on documents submitted to us as originals, the authenticity thereof and the conformity with the originals of any documents submitted to us as copies or specimens.

We have also examined the Official Statement generally and have discussed certain statements contained therein with representatives of the Authority and the Corporation, bond counsel, counsel to the Authority, independent certified public accountants and your representatives.

On the basis of the foregoing, we advise you that although we have not verified, are not passing upon and do not assume any responsibility for the accuracy or completeness of the statements contained in the Official Statement, nothing has come to our attention during the course of our review and discussion of the Official Statement with the above-referenced parties

that would cause us to believe that the Official Statement, on the date thereof or on this date, contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Our advice in this paragraph does not apply to (1) any financial statements or financial or statistical data, forecasts, numbers, estimates, assumptions or expressions of opinion contained or incorporated by reference in the Official Statement, (2) the summaries of documents, conclusions or opinions contained in the Official Statement and addressed by bond counsel in a supplemental opinion to you dated the date hereof or (3) the information contained in the Official Statement relating to the Depository Trust Company and its book-entry only system, as to all of which no advice is given.

This letter is solely for the information of, and assistance to, you and is not to be used, circulated, quoted or otherwise referred to in connection with the offering of the Bonds, except that reference to our letter may be made in the Official Statement or any other document and reference to and a copy of this letter may be made or included, as applicable, in any list of closing documents pertaining to the sale of the Bonds.

Very truly yours,

FORM OF SERIES 2016 OBLIGATION

**THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933
OR ANY STATE SECURITIES LAW**

**§ _____
KENDAL AT LEXINGTON PROMISSORY NOTE
CONSTITUTING THE SERIES 2016 OBLIGATION**

LEXINGTON RETIREMENT COMMUNITY, INC., d/b/a Kendal at Lexington, a not-for-profit Virginia nonstock corporation (the “Borrower”), for value received, hereby promises to pay to the **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA**, or registered assigns, at the designated corporate trust office of U.S. Bank National Association, as Trustee (the “Bond Trustee”), the principal sum set forth above and to pay interest on the unpaid principal balance hereof, in each case as provided in Section 4.1 of the Loan Agreement dated as of October 1, 2016 (the “Loan Agreement”), between the Industrial Development Authority of the City of Lexington, Virginia (the “Authority”), and the Borrower, and on such other dates as may be required by the Loan Agreement, until the principal amount hereof is paid or made available for payment.

Principal of, premium, if any, and interest on this Note are payable in any coin or currency of the United States of America that, at the respective times of payment, is legal tender for the payment of public and private debts.

The principal hereof, premium, if any, and interest hereon shall be payable in immediately available funds by depositing the same with the Bond Trustee, at or prior to the opening of business on the date the same shall become due and payable, and by giving notice of payment to the Master Trustee, as hereinafter defined, as provided in the Bond Indenture, as hereinafter defined.

This Note is issued in the principal amount of \$ _____, is dated October __, 2016, and is designated as the “Kendal at Lexington Promissory Note Constituting the Series 2016 Obligation” (the “Note” and, together with all other Obligations issued under the Master Indenture, the “Obligations”) issued under and pursuant to the Supplemental Indenture for Series 2016 Obligation dated as of October 1, 2016 (the “Supplemental Indenture”), supplementing and amending the Master Trust Indenture dated as of October 1, 2016 (the “Master Indenture”), between the Borrower and U.S. Bank National Association, as Master Trustee (the “Master Trustee”), and delivered pursuant to the Loan Agreement. The Master Indenture, as supplemented and amended by the Supplemental Indenture, is herein called the “Indenture”.

Pursuant to the terms of the Indenture, each of the Obligated Group Members described therein will be jointly and severally liable for the payment of this Note and all other Obligations.

This Note is issued for the purpose of securing the payment of the principal of, premium, if any, and interest on the Authority’s Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the “Series 2016 Bonds”). The Series 2016 Bonds were issued under the laws of the Commonwealth of Virginia, including particularly the Industrial

Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the “Act”), and a Bond Indenture dated as of October 1, 2016 (the “Bond Indenture”), between the Authority and the Bond Trustee.

The Borrower will use the proceeds of the Series 2016 Bonds to (1) refund the outstanding principal amount of the Authority’s Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A, (2) fund a debt service reserve fund for the Series 2016 Bonds and (3) finance the costs of issuance of the Series 2016 Bonds.

Copies of the Indenture are on file at the corporate trust office of the Master Trustee and reference is hereby made to the Indenture for the provisions, among others, with respect to the nature and extent of the rights of the holder of this Note, the terms and conditions of which, and the purposes for which, this Note is issued and the rights, duties and obligations of the Obligor and the Master Trustee under the Indenture, to all of which the holder hereof, by acceptance of this Note, assents.

Any amounts in either account of the Bond Fund (as defined in the Loan Agreement) at the close of business of the Bond Trustee on the day immediately preceding any payment date on this Note in excess of the aggregate amount then required to be contained in such account of such Bond Fund shall be credited against the payments due by the Borrower and the other Obligated Group Members on such next succeeding principal or interest payment date on this Note.

To the extent permitted by and as provided in the Indenture, modifications or changes of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Obligated Group Members (as defined in the Indenture) and of the holders of the Obligations in any particular may be made with the consent of the Master Trustee and the Obligated Group Members and, in certain circumstances, with the consent of the holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding under the Indenture. No such modification or change shall be made that will reduce the percentage of the Obligations, the consent of the holders of which is required to consent to such supplemental indenture, or permit a preference or priority of any Obligation or Obligations over any other Obligation or Obligations, or which will affect a change in the times, amount and currency of payment of the principal of, and premium, if any, or interest on any Note or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the holder of such Obligation. Any such consent by the holder of this Note shall be conclusive and binding upon such holder and all future holders and owners hereof irrespective of whether or not any notation of such consent is made upon this Note.

In the manner and with the effect provided in the Indenture, this Note and its principal installments will be subject to prepayment and redemption prior to maturity, in whole at any time, or in part from time to time at the option of the Borrower, without penalty, upon payment of a sum, in cash and/or obligations, sufficient, together with any other cash and/or obligations held by the Bond Trustee and available for such purpose, to cause an equal aggregate principal amount of outstanding Series 2016 Bonds to be deemed to have been paid within the meaning of Section 801 of the Bond Indenture and to pay all reasonable fees and expenses of the Authority

accrued and to be accrued to the date of discharge of the Bond Indenture with respect to the Series 2016 Bonds.

With respect to principal, if the Obligated Group Representative (i) shall have elected to apply a Series 2016 Bond or Series 2016 Bonds that have been redeemed or otherwise acquired by the Borrower or the Authority and delivered to the Bond Trustee for cancellation by the Bond Trustee, in payment of all or a part of a sinking fund requirement under the Bond Indenture and (ii) shall have delivered written notice to the Authority and a copy thereof to the Bond Trustee in accordance with the provisions of Section 303 of the Bond Indenture, and the Authority shall have received a credit against such sinking fund requirement in the amount of 100% of the principal amount of the Series 2016 Bond or Series 2016 Bonds thus applied, then the Bond Trustee shall promptly notify the Master Trustee, whereupon the Borrower and the other Obligated Group Members shall receive a credit, equal to the credit received by the Authority, in respect of the payment of principal due on this Note on the same date as the sinking fund payment date under the Bond Indenture for the sinking fund requirement in payment of which the Series 2016 Bond or Series 2016 Bonds have been applied, and the principal amount of this Note due on such date will be reduced accordingly.

Any redemption, either in whole or in part, shall be made upon at least 45 days' notice to the Bond Trustee in the manner and upon the terms and conditions provided in the Indenture. If this Note shall have been duly called for redemption and payment of the redemption price, together with interest accrued thereon to the date fixed for redemption, shall have been made or provided for, as more fully set forth in the Indenture, interest on this Note shall cease to accrue from the date fixed for redemption, and from and after such date this Note shall be deemed not to be Outstanding, as defined in the Indenture, and shall no longer be entitled to the benefits of the Indenture, and the holder hereof shall have no rights in respect of this Note other than payment of the redemption price, together with accrued interest to the date fixed for redemption.

Upon the occurrence of certain "Events of Default," as defined in the Indenture, the principal of all outstanding Obligations may be declared due and payable, and thereupon shall become due and payable as provided in the Indenture.

The holder of this Note shall have no right to enforce the provisions of the Indenture, or to institute any action to enforce the covenants therein, or to take any action with respect to any default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

This Note shall be registered on the register to be maintained by the Master Trustee and this Note shall be transferable only upon said register at said office by the registered owner or by his duly authorized attorney. Such transfer shall be without charge to the holder hereof, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the holder requesting such transfer as a condition precedent to the exercise of such privilege. Upon any such transfer, the Borrower shall execute and the Master Trustee shall authenticate and deliver in exchange for this Note a new registered Note without coupons, registered in the name of the transferee.

The Borrower and the other Obligated Group Members, the Master Trustee and any paying agent may deem and treat the person in whose name this Note is registered as the absolute owner hereof for all purposes; and neither the Borrower and the other Obligated Group Members, any paying agent, the Master Trustee nor any Obligation registrar shall be affected by any notice to the contrary. All payments made to the registered owner hereof shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable on this Note.

No covenant or agreement contained in this Note or the Indenture shall be deemed to be a covenant or agreement of any officer, agent or employee of any of the Obligated Group Members in his individual capacity, and neither the Board of Directors of any of the Obligated Group Members nor any officer executing this Note shall be liable personally on this Note or be subject to any personal liability or accountability by reason of the issuance of this Note.

This Note shall not be entitled to any benefit under the Indenture, or be valid or become obligatory for any purpose, until this Note shall have been authenticated by execution by the Master Trustee, or its successor as Master Trustee, of the Certificate of Authentication inscribed hereon.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed in its name and on its behalf by the manual or facsimile signature of its _____.

**LEXINGTON RETIREMENT COMMUNITY, INC.,
d/b/a Kendal at Lexington**

By: _____
Title:

Form of Master Trustee's Certificate of Authentication

The undersigned Master Trustee hereby certifies that this Series 2016 Obligation is one of the Obligations contemplated by the within-mentioned Indenture.

Date of Authentication: October __, 2016.

U.S. BANK NATIONAL ASSOCIATION,
as Master Trustee

By: _____
Authorized Signatory

ASSIGNMENT

The Industrial Development Authority of the City of Lexington, Virginia (the “Authority”), (1) hereby irrevocably assigns without recourse the foregoing Series 2016 Obligation to U.S. Bank National Association (the “Bond Trustee”), acting pursuant to a Bond Indenture dated as of October 1, 2016 (the “Bond Indenture”), between the Authority and the Bond Trustee and (2) hereby directs Lexington Retirement Community, Inc., d/b/a Kendal at Lexington, as the maker of the Series 2016 Obligation, to make all payments of principal of, premium, if any, and interest thereon directly to the Bond Trustee at its corporate trust office in Richmond, Virginia, or at such other place as the Bond Trustee may direct in writing. Such assignment is made as security for the payment of the Authority’s \$_____ Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016, issued pursuant to the Bond Indenture.

This ___ day of October, 2016.

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

By: _____
Chairman

BOND INDENTURE

between

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

and

U.S. BANK NATIONAL ASSOCIATION, as Bond Trustee

October 1, 2016

Relating to

**\$ _____
Industrial Development Authority of the City of Lexington, Virginia
Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington)
Series 2016**

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EXHIBIT A - Form of Series 2016 Bond

EXHIBIT B - Form of Requisition for Cost of Issuance Fund

This **BOND INDENTURE** dated as of October 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, having a corporate trust office in Richmond, Virginia, as Bond Trustee (in such capacity, together with any successor in such capacity the “Bond Trustee” or the “Trustee”);

WITNESSETH:

WHEREAS, the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the “Act”), authorizes the creation of industrial development authorities in several counties, cities and towns in Virginia and empowers such authorities, among other things, to acquire, improve, maintain, equip, own and sell and make loans with respect to facilities for the residence and care of the aged to the end that the Authority shall protect and promote the health and welfare of the inhabitants of the Commonwealth of Virginia, and further authorizes such authorities to issue their bonds for the purpose of carrying out any of their powers, and to pledge the revenues and receipts from loans with respect thereto, or from any other source, to the payment of such bonds;

WHEREAS, the Authority has been duly organized pursuant to the Act;

WHEREAS, the Act authorizes the Authority to issue its bonds for the payment or retirement of bonds, notes and other evidences of debt previously issued by it;

WHEREAS, in order to further the purposes of the Act, the Authority has determined to issue its Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the “Series 2016 Bonds”), in an aggregate principal amount of \$_____ and use the proceeds thereof to make a loan to Lexington Retirement Community, Inc. d/b/a Kendal at Lexington, a not-for-profit Virginia nonstock corporation (the “Borrower”) under the terms of a Loan Agreement dated as of the date hereof (the “Agreement”), between the Authority and the Borrower;

WHEREAS, the Borrower will use the proceeds of the Series 2016 Bonds to (1) refund the outstanding principal amount of the Authority’s Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A, (2) fund a debt service reserve fund for the Series 2016 Bonds, and (3) finance costs of issuance incurred in connection with the issuance of the Series 2016 Bonds;

WHEREAS, simultaneously with the issuance of the Series 2016 Bonds, the Borrower will execute and deliver to the Authority a Promissory Note in the principal amount of the Series 2016 Bonds constituting the Series 2016 Obligation (the “Series 2016 Obligation”) under the Master Indenture (as hereinafter defined), secured by the Master Indenture and the Deed of Trust (as hereinafter defined);

WHEREAS, the Authority is entering into this Indenture for the purpose of authorizing the Series 2016 Bonds and securing the payment thereof by assigning its rights as registered owner of the Series 2016 Obligation and certain of its rights under the Agreement;

WHEREAS, the Series 2016 Bonds and the Bond Trustee's certificate of authentication thereon are to be in substantially the form attached hereto as Exhibit A, with appropriate variations, omissions and insertions as permitted or required by this Indenture; and

WHEREAS, all things necessary to make all Bonds, when authenticated by the Bond Trustee and issued as provided in this Indenture, valid, binding and legal limited obligations of the Authority and to constitute this Indenture a valid and binding agreement securing the payment of the principal of and premium, if any, and interest on all Bonds issued and to be issued hereunder have been done and performed, and the execution and delivery of this Indenture and the execution and issuance of the Series 2016 Bonds, subject to the terms hereof, have in all respects been duly authorized;

NOW, THEREFORE, THIS INDENTURE FURTHER WITNESSETH:

That, as security for payment of the principal of, premium, if any, and interest on the Bonds when due, and for the funds which may be advanced by the Bond Trustee pursuant hereto, the Authority does hereby pledge and assign to, and grant a security interest to the Bond Trustee in, the following described property:

A. All of the Authority's right, title and interest in and to any Obligations delivered by the Borrower to the Authority pursuant to the Agreement.

B. All of the Authority's right, title and interest in and to the Agreement (except for the Authority's rights to receive payments under Sections 4.1(b)(2), 5.6 and 6.5 thereof), together with all powers, privileges, options and other benefits of the Authority contained in the Agreement; provided, however, that nothing in this clause shall impair, diminish or otherwise affect the Authority's obligations under the Agreement or, except as otherwise provided in this Indenture, impose any such obligations on the Bond Trustee.

C. The funds, including moneys, investment income and investments therein, held by the Bond Trustee pursuant to the terms of this Indenture.

D. All other property of any kind mortgaged, pledged or hypothecated at any time as and for additional security hereunder by the Authority or by anyone properly authorized on its behalf or with its written consent in favor of the Bond Trustee, which is hereby authorized to receive all such property at any time and to hold and apply it subject to the terms hereof.

TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby conveyed and assigned, or agreed or intended to be, to the Bond Trustee and its assigns forever.

IN TRUST, however, 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 except as on the terms and conditions hereinafter stated.

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

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 101. Definitions.

Unless otherwise required by the context, all words and terms defined in the Agreement and the Master Indenture shall have the same meaning in this Indenture. In addition, the following words and terms shall have the following meanings in this Indenture unless the context otherwise requires:

“Act” shall mean the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended.

“Additional Bonds” shall mean the one or more series of additional bonds authorized to be issued by the Authority pursuant to Section 207.

“Agreement” shall mean the Loan Agreement dated as of the date hereof, between the Authority and the Borrower.

“Authority” shall mean the Industrial Development Authority of the City of Lexington, Virginia, a political subdivision of the Commonwealth of Virginia, its successors and assigns.

“Authorized Representative of the Borrower” shall mean any person or persons designated to act on behalf of the Borrower by certificate signed by the Executive Director, Finance Manager, President or a Vice President of the Borrower and filed with the Authority and the Bond Trustee. Initially, the Authorized Representative of the Borrower shall be the Finance Manager and the Executive Director of the Borrower.

“Bond Counsel” shall mean an attorney or firm of attorneys nationally recognized on the subject of municipal bonds and reasonably acceptable to the Bond Trustee and the Authority.

“Bond Fund” shall mean the Bond Fund established by Section 601.

“Bond Obligations” shall mean Obligations issued under the Master Indenture and delivered by the Borrower to the Authority pursuant to the Agreement to secure payment of Bonds.

“Bond Trustee” shall mean the Bond Trustee at the time serving as such under this Indenture, whether the original or successor trustee.

“Bond Year” shall mean the 12 month period ending December 31.

“Bondholder”, “bondholder” or “Holder” shall mean the registered owner of any Bond.

“Bonds” shall mean the Series 2016 Bonds and any Additional Bonds.

“Business Day” shall mean any day other than a Saturday, Sunday or day on which banking institutions are authorized or obligated by law to close in the Commonwealth of Virginia or at the place where the designated corporate trust office of the Bond Trustee is located.

“Costs of Issuance” shall mean all costs that are treated as costs of issuing or carrying the Bonds under existing Treasury Department regulations and rulings, including, but not limited to, (a) underwriter’s spread (whether realized directly or derived through purchase of the Bonds at a discount below the price at which they are expected to be sold to the public); (b) counsel fees (including bond counsel, underwriter’s counsel, Authority counsel and Borrower counsel, as well as any other specialized counsel fees incurred in connection with the issuance of the Bonds); (c) financial advisory fees incurred in connection with the issuance of the Bonds; (d) rating agency fees; (e) Trustee fees incurred in connection with the issuance of the Bonds; (f) paying agent and certifying and authenticating agent fees related to issuance of the Bonds; (g) accountant fees related to the issuance of the Bonds; (h) printing costs of the Bonds and of the preliminary and final offering materials; (i) publication costs associated with the financing proceedings; (j) costs of engineering and feasibility studies necessary to the issuance of the Bonds and (k) reimbursement to the Borrower for any costs described above paid by it, whether before or after the issuance of the Bonds; provided, that bond insurance premiums and certain credit enhancement fees, to the extent treated as interest expense under applicable regulations, shall not be treated as “Costs of Issuance.”

“Cost of Issuance Fund” shall mean the Cost of Issuance Fund established by Section 501.

“Deed of Trust” shall mean the Second Amended and Restated Credit Line Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated as of October 1, 2016, from the Borrower, for the benefit of the Master Trustee, as mortgagee, as security for all Obligations issued under this Master Indenture, as the same may be supplemented or amended from time to time in accordance with their respective terms.

“DTC” shall have the meaning set forth in Section 213.

“Escrow Agreement” shall mean the Escrow Deposit Agreement dated as of the date hereof between the Borrower and U.S. Bank National Association, as escrow agent, relating to the refunding of the Series 2007A Bonds.

“Escrow Fund” shall mean the escrow fund established pursuant to the Escrow Agreement.

“Event of Default” shall mean any of the events enumerated in Section 901.

“Improvements” shall mean any repairs, refurbishments, restorations, improvements, extensions or additions to the Facilities including the acquisition and construction of additional facilities and equipment.

“Indenture” shall mean this Bond Indenture, including any supplements hereto.

“Interest Account” shall mean the Interest Account established in the Bond Fund.

“Interest Payment Date” shall mean (i) with respect to the Series 2016 Bonds, the meaning given to it in Section 202(a), and (ii) with respect to any Additional Bonds, the meaning given to it in the applicable supplement hereto.

“Letter of Representations” shall mean the Blanket Letter of Representations dated March 25, 1999, from the Authority to the Securities Depository and any amendments thereto or successor agreements between the Authority and any successor Securities Depository, relating to a book-entry system to be maintained by the Securities Depository with respect to the Bonds. Notwithstanding any provision of this Indenture including Article XI regarding amendments, the Bond Trustee may enter into any such amendment or successor agreement without the consent of Bondholders.

“Master Indenture” shall mean the Master Trust Indenture dated as of October 1, 2016, between the Borrower and the Master Trustee, as supplemented by the Supplement for the Series 2016 Obligation and any future amendments or supplements thereto.

“Master Trustee” shall mean U.S. Bank National Association, as Master Trustee under the Master Indenture, and successors thereto.

“Mortgaged Premises” shall mean “Mortgaged Premises” as defined in the Deed of Trust.

“Outstanding” or “Bonds outstanding” shall mean all Bonds that have been authenticated and delivered by the Bond Trustee under this Bond Indenture, except the following:

(a) Bonds canceled or purchased by or delivered to the Bond Trustee for cancellation pursuant to the provisions of this Bond Indenture;

(b) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including interest accrued to the due date, of which sufficient moneys are held by the Bond Trustee;

(c) Bonds deemed paid pursuant to Section 801 of this Bond Indenture; and

(d) Bonds that have been authenticated under Section 204 of this Bond Indenture (relating to registration and exchange of Bonds) or Section 211 of this Bond Indenture (relating to mutilated, lost, stolen, destroyed or undelivered Bonds) in lieu of other Bonds.

“Principal Account” shall mean the Principal Account established in the Bond Fund.

“Reserve Fund” shall mean the Reserve Fund established by Section 604.

“Reserve Fund Requirement” shall mean an amount equal to Maximum Annual Debt Service on all Bonds then Outstanding excluding from such calculation debt service in the final Bond Year for any series of Bonds if (i) the debt service thereon in such Bond Year is more than 150% of the average debt service on such series of Bonds for the previous five years and (ii) amounts in a debt service reserve fund are reasonably expected by the Obligated Group to be available to pay a substantial portion of the debt service in such final Bond Year.

“Series 2007A Bonds” shall mean the Authority’s \$34,155,000 Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A, currently outstanding in the principal amount of \$_____.

“Series 2016 Bonds” shall mean the Authority’s Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016.

“Series 2016 Obligation” shall mean the Borrower’s Promissory Note Constituting the Series 2016 Obligation in the initial principal amount of \$_____ dated the date hereof, issued under the Master Indenture and delivered to the Authority pursuant to the Agreement.

“Supplement for the Series 2016 Obligation” shall mean the Supplemental Indenture for the Series 2016 Obligation dated the date hereof, between the Borrower and the Master Trustee.

“Tax-Exempt Bonds” shall mean the Series 2016 Bonds and any Additional Bonds, the interest on which is intended to be excludable from the gross income of the owners thereof for federal income tax purposes.

“Term Bonds” shall mean the Series 2016 Bonds maturing on _____.

“Unassigned Rights” shall mean the rights of the Authority under the Agreement to payment of fees and expenses, indemnification and receipt of notices.

Section 102. Rules of Construction.

The following rules shall apply to the construction of this Indenture unless the context otherwise requires:

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

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

(c) All references herein to particular articles or sections are references to articles or sections of this Indenture.

(d) The headings and Table of Contents herein are solely for convenience of reference and shall not constitute a part of this Indenture nor shall they affect its meaning, construction or effect.

(e) All references herein to the payment of Bonds are references to payment of principal of and interest on such Bonds.

(f) All accounting terms used herein which are not otherwise expressly defined in this Indenture shall have the meanings respectively given to them in accordance with GAAP. Except as otherwise expressly provided herein, all financial computations made pursuant to this

Indenture shall be made in accordance with GAAP and all balance sheets and other financial statements shall be prepared in accordance with GAAP.

(g) Unless otherwise specified, the interest rate applicable to all Series 2016 Bonds shall be a rate per year consisting of 360 days, with computations of interest over any period of less than 360 days to be made on the basis of twelve 30-day months.

ARTICLE II

AUTHORIZATION, EXECUTION AUTHENTICATION, REGISTRATION AND DELIVERY OF BONDS

Section 201. Authorization of Series 2016 Bonds.

The Authority hereby authorizes the issuance of its Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016, in the aggregate principal amount of \$_____.

Section 202. Details of Series 2016 Bonds.

(a) The Series 2016 Bonds shall be issuable as registered bonds in the denominations of \$5,000 and multiples thereof, shall be dated the date of their delivery, shall be numbered appropriately, shall bear interest payable semiannually commencing on _____, 2017, and on each _____ and _____ thereafter (each an "Interest Payment Date") at rates, and shall mature on _____ in years and amounts, as follows:

<u>Year</u>	<u>Amount</u>	<u>Rate</u>
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(b) Each Series 2016 Bond shall bear interest (a) from the date of its delivery if it is authenticated prior to _____, 2017, and (b) otherwise from the Interest Payment Date that is, or immediately precedes, the date on which such Series 2016 Bond is authenticated; provided, however, that if at the time of authentication of any Bond interest is in default, such Bond shall bear interest from the date to which interest has been paid.

Principal of, premium, if any, and interest on the Series 2016 Bonds shall be payable in lawful money of the United States of America, but only from the revenues and receipts derived from the Borrower and the security therefor and pledged to the payment thereof as hereinafter provided. Principal of and premium of Series 2016 Bonds shall be payable upon presentation and surrender of the Series 2016 Bonds as they become due at the designated corporate trust

office of the Bond Trustee; provided that, for so long as Cede & Co. or other nominee of DTC is the sole Bondholder, principal of and premium, if any, on the Series 2016 Bonds shall be payable as provided in the Letter of Representations. Interest on Series 2016 Bonds shall be payable to the registered owners by check or draft mailed to such owners at their addresses as they appear on registration books kept by the Bond Trustee as Bond Registrar, as of the [15th day] of the month preceding the Interest Payment Date.

If any principal of or premium, if any, or interest on any Series 2016 Bond is not paid when due (whether at maturity, upon acceleration or call for redemption or otherwise), then the overdue installments of principal and, to the extent permitted by law, interest shall bear interest until paid at the same rate set forth in such Series 2016 Bond.

Nothing herein shall be construed as prohibiting the Authority from issuing each maturity of Series 2016 Bonds as one fully registered bond for the purpose of qualifying such maturity of Series 2016 Bonds for book entry registration by a securities depository or any similar arrangement whereby investors may hold a participation interest in such Series 2016 Bonds.

Section 203. Execution of Bonds.

The Bonds shall be signed by the manual or facsimile signature of the Chairman or the Vice Chairman of the Authority, and a manual or facsimile of its seal shall be printed thereon and attested by the manual or facsimile signature of the Secretary or the Assistant Secretary of the Authority. In case any officer whose signature or a facsimile of whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes as if he had remained in office until such delivery. Any Bond may bear the facsimile signature of such persons as at the actual time of the execution thereof shall be the proper officers to sign such Bond although at the date of delivery of such Bond such persons may not have been such officers.

Section 204. Authentication of Bonds.

The Bonds shall bear a certificate of authentication, substantially in the form set forth in Exhibit A, duly executed by the Bond Trustee. The Bond Trustee shall authenticate each Bond with the signature of an authorized representative of the Bond Trustee, but it shall not be necessary for the same officer to authenticate all of the Bonds or all of the Bonds of a particular series. Only such authenticated Bonds shall be entitled to any right or benefit under this Indenture, and such certificate on any Bond issued hereunder shall be conclusive evidence that the Bond has been duly issued and is secured by the provisions hereof.

Section 205. Form of Series 2016 Bonds.

The Series 2016 Bonds shall be substantially in the form set forth in Exhibit A, with such appropriate variations, omissions and insertions as permitted or required by this Indenture.

Section 206. Delivery of Series 2016 Bonds.

(a) The Bond Trustee shall authenticate and deliver the Series 2016 Bonds when there have been filed with it the following:

(1) A certified copy of a resolution or resolutions of the Authority authorizing (A) the execution and delivery of the Agreement and the assignment of the Series 2016 Obligation, (B) the execution and delivery of this Indenture, and (C) the issuance, sale, execution and delivery of the Series 2016 Bonds.

(2) An original executed counterpart of this Indenture.

(3) An original executed counterpart of the Agreement.

(4) The original executed Series 2016 Obligation, assigned by the Authority, without recourse, to the Bond Trustee.

(5) An original executed counterpart of the Master Indenture.

(6) An original executed counterpart of the Deed of Trust.

(7) An endorsement or substitute to the mortgagee title insurance policy on the Mortgaged Premises, such that the aggregate amount insured is at least in the amount of the Series 2016 Bonds and designating the Master Trustee as the insured named in Schedule A thereto.

(8) An Opinion of Glenn, Feldman, Darby & Goodlatte, Counsel to the Borrower, to the effect that the Borrower is (A) a “501(c)(3) organization” within the meaning of Section 145 of the Code, and (B) not a private foundation within the meaning of Section 509(a) of the Code and also to the effect that (C) the Agreement, the Series 2016 Obligation, the Master Indenture and the Deed of Trust have been duly authorized, executed and delivered by the Borrower and are enforceable against the Borrower, subject to bankruptcy and equitable principles.

(9) Internal Revenue Service form 8038 completed by the Authority with respect to the Series 2016 Bonds together with a certificate of the Borrower with respect to the information contained therein.

(10) An opinion of Hunton & Williams LLP, Bond Counsel, that the interest on the Series 2016 Bonds is excludable from gross income for federal income tax purposes under existing law and is exempt from taxation by the Commonwealth of Virginia and also to the effect that the issuance of the Series 2016 Bonds has been duly authorized.

(11) An opinion of Hunton & Williams LLP, Bond Counsel, to the Bond Trustee to the effect that registration of the Series 2016 Bonds under the Securities Act of 1933, as amended, and qualification of this Indenture under the Trust Indenture Act of 1939, as amended, is not required.

(12) A request and authorization of the Authority, signed by its Chairman or Vice Chairman, to the Bond Trustee to authenticate and deliver the Series 2016 Bonds to such person or persons named therein upon payment to the Bond Trustee for the account of the Authority of a specified sum plus accrued interest to the date of delivery.

(b) Simultaneously with the delivery of the Series 2016 Bonds, the Bond Trustee shall apply, or arrange for the application of, the proceeds thereof, in the amount of \$_____, as follows:

- (1) \$_____ of proceeds of the Series 2016 Bonds, together with \$_____ from _____, will be transferred to the Escrow Fund to be applied for the refunding and defeasance of the Series 2007A Bonds;
- (2) To the Reserve Fund, the sum of \$_____, such amount being equal to the Reserve Fund Requirement; and
- (3) To the Cost of Issuance Fund \$_____.

Section 207. Additional Bonds.

(a) Additional Bonds are hereby authorized to be issued hereunder for the purposes set forth in Section 3.1(b) of the Agreement. If the Borrower requests the issuance of any Additional Bonds, it shall file with the Authority and the Bond Trustee a certificate specifying the amount of Additional Bonds to be issued and the purpose for such issuance. Thereupon, the Authority may request the authentication and delivery of such Additional Bonds; provided that the Borrower and the Authority shall have entered into an amendment to the Loan Agreement to provide, among other things, for delivery of an Obligation entitled to the benefit and security of the Master Indenture in an amount at least sufficient to pay principal of, premium, if any, and interest on the Additional Bonds when due, for a deposit into a separate account in the Reserve Fund relating to such Additional Bonds of an amount which, together with amounts then contained in the other accounts in the Reserve Fund will equal the Reserve Fund Requirement on all Bonds Outstanding at the date of issuance of such Additional Bonds, and for such additional covenants and conditions as the Authority and the Borrower deem desirable. All Additional Bonds shall be secured in the same manner as and rank on a parity with the Series 2016 Bonds, but shall bear such date or dates, bear such interest rate or rates, have such maturity dates, redemption dates, options and premiums, and be issued at such prices as shall be approved in writing by the Authority and the Borrower. Upon the execution and delivery of appropriate supplements to this Bond Indenture and the Master Indenture and amendments to the Loan Agreement, the Authority may execute and deliver to the Bond Trustee, and the Bond Trustee shall authenticate, such Additional Bonds and deliver them to the initial purchasers thereof as directed by the Authority.

(b) Whenever requesting the authentication and delivery under this Article II of any Additional Bonds the Authority shall furnish the Bond Trustee the following:

- (1) Borrower's Certificate. A certificate of the Borrower stating (i) that no default exists under the Agreement, the Master Indenture or this Bond Indenture, (ii) that the Borrower approves the issuance and delivery of such Additional Bonds and (iii) any other matters to be approved by the Borrower pursuant to Section 3.1(c) of the Agreement and this Section.

(2) Certified Resolution. A certified copy of a resolution of the Authority authorizing the issuance of the Additional Bonds and the execution and delivery of the amendment to the Agreement and a supplement to this Bond Indenture.

(3) Amendment to the Agreement. An original executed counterpart of the amendment to the Agreement.

(4) Supplemental Bond Indenture. An indenture supplemental hereto, designating the new series to be created and prescribing expressly or by reference with respect to the Bonds of such series:

(A) the principal amount of the Bonds of such series,

(B) the text of the Bonds of such series,

(C) the maturity date or dates thereof,

(D) the place or places where principal, premium, if any, and interest are to be paid and where the Bonds are to be registerable, transferable, or exchangeable,

(E) the rate or rates of interest and the date from which, and the date or dates on which, interest is payable,

(F) provisions as to redemption,

(G) provisions (if any) as to exchangeability,

(H) any other provisions necessary to describe and define such series within the provisions and limitations of this Bond Indenture, and

(I) any other provisions and agreements in respect thereof provided, or not prohibited, by this Bond Indenture.

(5) Supplement to Master Indenture. Original executed counterparts of a supplement to the Master Indenture authorizing the execution and delivery of an additional Obligation or Obligations, if any.

(6) Additional Obligations. An Obligation or Obligations executed by the Borrower which shall:

(A) require payment or payments of principal of, premium, if any, and interest in amounts and at times sufficient, together with any other funds available therefor, to permit the payments of principal of, premium, if any, and interest on the Additional Bonds, taking into account any mandatory sinking fund requirements (pursuant to the Bond Indenture) that are required in respect of the related bonds, and

(B) require each payment on the Obligation to be made on the due date for the corresponding payment to be made on the related bonds of the Authority.

(7) Reserve Fund. For deposit into a separate account in the Reserve Fund relating to such Additional Bonds, an amount that, together with the amounts then on deposit in the other accounts in the Reserve Fund, will equal the Reserve Fund Requirement on Bonds to be Outstanding upon the issuance of such Additional Bonds.

(8) Opinion as to Instruments Furnished Bond Trustee, Etc. Opinion or Opinions of Counsel acceptable to the Bond Trustee that:

(A) all instruments furnished to the Bond Trustee conform to the requirements of this Bond Indenture and constitute sufficient authority hereunder for the Bond Trustee to authenticate and deliver the Additional Bonds then applied for,

(B) all laws and requirements with respect to the form and execution by the Authority of the supplement to the Bond Indenture, the amendment to the Agreement, and the execution and delivery by the Authority of the Additional Bonds then applied for have been complied with,

(C) the Authority has power to issue such Additional Bonds and has taken all necessary action for that purpose,

(D) the Additional Bonds are valid and binding in accordance with their terms and are secured by the lien of this Bond Indenture, equally and ratably with all other Bonds theretofore issued and then Outstanding hereunder,

(E) the excludability of interest on any Outstanding Tax-Exempt Bonds from gross income of the holders thereof will not be affected by the issuance of the Additional Bonds, and

(F) the additional Obligation referred to in paragraph (6) of this Section and the supplement to the Master Indenture are valid and binding in accordance with their terms and the additional Obligation is entitled to the benefits of the Master Indenture.

Section 208. Exchange of Bonds; Persons Treated as Owners.

The Bond Trustee shall maintain registration books for the registration of exchange of Bonds. Upon surrender of any Bond at the designated corporate trust office of the Bond Trustee, together with an assignment duly executed by the registered owner or his duly authorized attorney or legal representative in such form as shall be satisfactory to the Bond Trustee, such Bond may be exchanged for an equal aggregate principal amount of Bonds of authorized denominations, of the same series, form and maturity, bearing interest at the same rate as the Bonds surrendered and registered in the name or names requested by the then registered owner. The Authority shall execute and the Bond Trustee shall authenticate any Bonds necessary to provide for exchange of Bonds pursuant to this section.

Prior to due presentment for registration of transfer of any Bond the Bond Trustee shall 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 shall be made to the person registered on the 15th day of the month preceding the Interest Payment Date as owner on the registration books maintained by the Bond Trustee.

Section 209. Charges for Exchange of Bonds.

The Bond Trustee shall require the payment by any Bondholder requesting exchange or transfer of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

Section 210. Temporary Series 2016 Bonds.

Prior to the preparation of Series 2016 Bonds in definitive form the Authority may issue temporary Series 2016 Bonds in such denominations as the Authority may determine, but otherwise in substantially the form hereinabove set forth with appropriate variations, omissions and insertions. The Authority shall promptly prepare, execute and deliver to the Bond Trustee before the first Interest Payment Date Series 2016 Bonds in definitive form and thereupon, upon presentation and surrender of Series 2016 Bonds in temporary form, the Bond Trustee shall authenticate and deliver in exchange therefor Series 2016 Bonds in definitive form of the same series and maturity for the same aggregate principal amount. Until exchanged for Series 2016 Bonds in definitive form, Series 2016 Bonds in temporary form shall be entitled to the lien and benefit of this Indenture. Notwithstanding the foregoing, so long as the Series 2016 Bonds are held in book-entry-only form they may be typewritten.

Section 211. Mutilated, Lost or Destroyed Bonds.

If any Bond has been mutilated, lost or destroyed, the Authority shall execute, and the Bond Trustee shall authenticate and deliver, a new Bond of the same series and of like date and tenor in exchange and substitution for, and upon cancellation of, such mutilated Bond or in lieu of and in substitution for such lost or destroyed Bond; provided, however, that the Authority and the Bond Trustee shall so execute, authenticate and deliver such new Bond only if the holder has paid the reasonable expenses and charges of the Authority and the Bond Trustee in connection therewith and, in the case of a lost or destroyed Bond, (a) has filed with the Authority and the Bond Trustee evidence satisfactory to them that such Bond was lost or destroyed and that the holder was the owner thereof and (b) has furnished to the Authority and the Bond Trustee indemnity satisfactory to them. If any such Bond has matured, instead of issuing a new Bond the Bond Trustee may pay the same without surrender thereof, upon receipt of the evidence and indemnity described above.

Section 212. Cancellation and Disposition of Bonds.

All Bonds that have been paid (whether at maturity, upon acceleration or call for redemption or otherwise) or delivered to the Bond Trustee by the Borrower for cancellation shall not be reissued, and the Bond Trustee shall, unless otherwise directed by the Authority, cremate, shred or otherwise dispose of such Bonds in accordance with the standard procedures of the

Bond Trustee. The Bond Trustee shall deliver to the Authority a certificate of any such cremation, shredding or other disposition.

Section 213. Book Entry Provisions.

(a) The Bonds will be registered in the name of Cede & Co., a nominee of The Depository Trust Company, New York, New York (“DTC”), and immobilized in DTC’s custody. One Bond for the original principal amount of each maturity of each series 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”) and selection of Bonds to be redeemed in the case of a partial redemption. 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 Bond 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 BOND 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 Bond Trustee or the Authority has advised DTC of the Bond Trustee’s or 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 Bond 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 Bond Trustee shall authenticate and deliver to the Participants the Replacement Bonds (substantially in the form set forth in Exhibit 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 Bond 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.

ARTICLE III

REDEMPTION OF SERIES 2016 BONDS

Section 301. Redemption Dates and Prices.

The Series 2016 Bonds may not be called for redemption by the Authority except as provided below:

(a) Extraordinary Optional Redemption. The Series 2016 Bonds are subject to redemption, in whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to, but not including, the redemption date, without premium, on the earliest date for which notice of redemption can be given at the direction of the Borrower, to the extent the Borrower makes a prepayment on the Series 2016 Obligation under the circumstances permitted by Section 7.1 of the Agreement and Section 3.04 of the Master Indenture. In the circumstance contemplated by Section 7.1(c) of the Agreement, the Series 2016 Bonds shall be subject to extraordinary optional redemption in an amount that bears the same pro rata relationship to the aggregate principal amount of the Series 2016 Bonds then outstanding as that portion of the Mortgaged Premises financed or refinanced with the proceeds of the Series 2016 Bonds (the “Bond Financed Property”) with respect to which the Net Proceeds have been received bears to all Bond Financed Property. In the event of a partial extraordinary optional redemption, an Authorized Representative of the Borrower may direct the Bond Trustee to redeem as directed by the Borrower, the Series 2016 Bonds from each maturity then

outstanding, to the extent practicable, in the proportion that the principal amount of Series 2016 Bonds of such maturity bears to the total principal amount of all Series 2016 Bonds issued under this Indenture and then outstanding or in inverse order of maturity, and the Bond Trustee shall redeem in accordance with such instructions.

(b) Optional Redemption - Series 2016 Bonds. The Series 2016 Bonds maturing on or after ____, ____, will be subject to redemption by the Authority, at the direction of the Borrower, prior to maturity in whole, or in part by lot, at any time, on and after ____, ____, at a redemption price equal to 100% of the principal amount of the Series 2016 Bonds to be redeemed plus accrued interest thereon, if any, to the redemption date in the event the Borrower exercises its option to prepay all or a portion of the amounts available under the Series 2016 Obligation pursuant to Sections 7.2 or 7.3 of the Agreement.

(c) The Term Bonds are required to be redeemed in part pursuant to the terms of the sinking fund requirement provided in Section 303 at a redemption price of 100% of the principal amount thereof plus accrued interest thereon to the redemption date.

(d) Except as provided in paragraph (a), if less than all of the Series 2016 Bonds of any maturity are called for redemption, the Series 2016 Bonds to be redeemed shall be selected by DTC in accordance with its procedures, or if DTC is not the securities depository, then by lot in such manner as the Bond Trustee in its discretion may determine, each portion of \$5,000 principal amount being counted as one Bond for such purposes. If a portion of a Bond having a principal amount of more than \$5,000 shall be called for redemption, a new registered Bond in principal amount equal to the unredeemed portion thereof shall be issued to the registered owner upon the surrender thereof.

(e) If the Borrower exercises any option to prepay the Series 2016 Obligation under Article VIII of the Agreement or requests any redemption of Series 2016 Bonds permitted hereunder and sufficient amounts are in the funds created herein, the Bond Trustee shall, in the name of the Authority, redeem Series 2016 Bonds as then permitted or required at the earliest practicable date permitted hereunder.

Section 302. Notice of Redemption.

Series 2016 Bonds shall be called for redemption by the Bond Trustee as herein provided upon receipt by the Bond Trustee at least 45 days (or such lesser period to which the Bond Trustee may agree) prior to the redemption date of a certificate of the Borrower specifying the series and principal amount of Series 2016 Bonds to be called for redemption, the applicable redemption price or prices and the provision or provisions of this Bond Indenture pursuant to which such Series 2016 Bonds are to be called for redemption. The provisions of the preceding sentence shall not apply to the redemption of Series 2016 Bonds pursuant to the sinking funds provided in Section 303 hereof, and such Series 2016 Bonds shall be called for redemption by the Bond Trustee without the necessity of any action by the Borrower or the Authority. In case of every redemption, the Bond Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice of the call for any such redemption identifying the Bonds to be redeemed to be sent by facsimile or electronic transmission, registered or certified mail or overnight express delivery not less than 30 nor more than 60 days prior to the redemption date to

the owner of each Bond to be redeemed at his address as it appears on the registration books. Failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bond with respect to which no such failure or defect has occurred.

Any notice of redemption mailed as specified in this section shall be deemed to have been duly given when mailed by the Bond Trustee. Any such notice shall be given in the Authority's name, identify the Bonds to be redeemed by name, series, certificate number, CUSIP number, interest rate, maturity date and any other descriptive information determined by the Bond Trustee to be needed to identify the Bonds. All such notices shall also state that on the redemption date the Bonds called for redemption will be payable at the Bond Trustee's designated corporate trust office and that from that date interest will cease to accrue.

In the case of an optional redemption under Section 301(b), the notice may state that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Bond Trustee no later than the redemption date.

On or before the date fixed for redemption, funds shall be deposited with the Bond Trustee to pay the principal of and interest accrued thereon to the redemption date on the Bonds called for redemption. Upon the happening of the above conditions, the Bonds or portions thereof thus called for redemption shall cease to bear interest from and after the redemption date, shall no longer be entitled to the benefits provided by this Indenture and shall not be deemed to be Outstanding under the provisions of this Indenture.

Section 303. Mandatory Sinking Fund.

As a sinking fund, the Bond Trustee shall redeem Series 2016 Bonds maturing on ____, ____, in years and in principal amounts and at a price of 100% of the principal amount of the Series 2016 Bonds to be redeemed plus accrued interest thereon to the redemption date, as follows:

Year	Amount	Year	Amount
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* maturity

The Authority shall receive a credit against payments required to be made on any mandatory sinking fund redemption date specified by an Authorized Representative of the Borrower for the Term Bonds in an amount equal to the principal amount of such Term Bonds that have been redeemed (otherwise than by mandatory sinking fund redemption) before the mandatory sinking fund redemption date or purchased by the Authority or the Borrower and delivered to the Bond Trustee for cancellation at least sixty (60) days before the mandatory sinking fund redemption date, provided the principal amount of such Term Bonds have not previously been applied as a credit against any other mandatory sinking fund redemption payment.

ARTICLE IV

GENERAL COVENANTS AND PROVISIONS

Section 401. Payment of Bonds.

The Authority shall promptly pay when due the principal of (whether at maturity, upon acceleration or call for redemption or otherwise) and premium, if any, and interest on the Bonds at the places, on the dates and in the manner provided herein and in the Bonds; provided, however, that such obligations are not general obligations of the Authority but are limited obligations payable solely from the revenues and receipts derived from the trust estate granted in the granting clauses at the beginning of this Bond Indenture, which revenues and receipts are hereby specifically pledged to such purposes in the manner and to the extent provided herein. Neither the directors of the Authority nor any persons executing the Bonds shall be liable personally on the Bonds by reason of the issuance thereof. The Bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the City of Lexington, Virginia, the Commonwealth of Virginia or any political subdivision thereof. Neither the Commonwealth of Virginia nor any political subdivision thereof shall be liable for the Bonds or obligated to pay the principal, premium, if any, or the interest thereon or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any political subdivision thereof, including the Authority and the City of Lexington, Virginia, is pledged to the payment of the principal of or the premium, if any, or the interest on the Bonds or other costs incident thereto.

Section 402. Covenants and Representations of Authority.

The Authority shall observe and perform all covenants, conditions and agreements on its part contained in this Indenture, in every Bond executed, authenticated and delivered hereunder and in all its proceedings pertaining thereto; provided, however that the liability of the Authority under any such covenant, condition or agreement for any breach or default by the Authority thereof or thereunder shall be limited solely to the revenues and receipts derived from the trust estate. The Authority represents that it is duly authorized under the Constitution and laws of the Commonwealth of Virginia, including particularly and without limitation the Act, to issue the Series 2016 Bonds authorized hereby and to execute this Indenture, to execute and assign the Agreement, to assign the Series 2016 Obligation and to pledge the revenues, receipts and funds in the manner and to the extent herein set forth; that all action on its part for the issuance of the Series 2016 Bonds and the execution and delivery of this Indenture has been duly and effectively taken; and that the Series 2016 Bonds in the hands of the holders thereof are and will be valid and enforceable obligations of the Authority according to the terms thereof except as limited by bankruptcy laws and usual equity principles.

Section 403. Instruments of Further Assurance.

The Authority, at the expense of the Borrower, shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Bond Trustee may reasonably require for the better assuring, transferring, conveying, pledging and assigning to the

Bond Trustee of all the rights assigned hereby and the revenues and receipts pledged hereby to the payment of the principal of, premium, if any, and interest on the Bonds. The Authority, at the expense of the Borrower, shall cooperate with the Bond Trustee and with the Bondholders in protecting the rights and security of the Bondholders.

Section 404. Inspection of Books of Facilities.

All books and documents in the Authority's possession relating to the Agreement and the Bond Obligations and the revenues derived therefrom shall at all times upon reasonable prior notice to the Authority be open to inspection by such agents as the Bond Trustee or the holders of 25% in aggregate principal amount of Bonds then Outstanding may from time to time designate.

Section 405. Rights under Agreement, Bond Obligations and Deed of Trust.

The Bond Trustee in its own name or in the name of the Authority may enforce all rights of the Authority and all obligations of the Borrower under and pursuant to the Agreement, the Bond Obligations and the Deed of Trust for and on behalf of the Holders, whether or not the Authority is in default hereunder.

Section 406. Prohibited Activities, Arbitrage Covenant, Tax Covenant.

The Authority shall not knowingly engage in any activities or take any action that might result in the income of the Authority derived from the Borrower becoming taxable to it.

The Authority covenants for the benefit of the Holders of any Tax-Exempt Bonds that it will not knowingly take any action to cause the proceeds of any Tax-Exempt Bonds, the earnings on those proceeds or any moneys on deposit in any fund or account maintained with respect to such Tax-Exempt Bonds (whether such moneys were derived from the proceeds of the sale of the Tax-Exempt Bonds or from other sources) to be used in a manner that will cause the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code (including but not limited to ensuring compliance with the ongoing requirements of Section 148 of the Code concerning the rebate and non-purpose investment rules). This covenant shall survive the defeasance or payment in full of the Tax-Exempt Bonds, notwithstanding any other provision of this Indenture until requirements for payment of any rebate amounts pursuant to Section 148(f) of the Code have been satisfied.

The Authority covenants for the benefit of the Holders of the Tax-Exempt Bonds that it will not knowingly take any action or, to the extent within its control, permit any action to be taken, that would cause the interest on the Tax-Exempt Bonds to be includable in gross income for federal income tax purposes. This covenant shall survive the defeasance or payment in full of the Tax-Exempt Bonds notwithstanding any other provision of this Indenture until the requirements for payment of any rebate amounts pursuant to Section 148(f) of the Code have been fully satisfied.

Section 407. Reports by Bond Trustee.

The Bond Trustee shall make monthly reports to the Borrower of all moneys received and expended by it under this Indenture, and the Bond Trustee shall make annual reports no later than thirty days following the end of each Bond Year to the Authority of all moneys received and expended by it under this Indenture.

Section 408. Letter of Representations.

The Authority and the Bond 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 and select Bonds for redemption as set forth in the Letter of Representations.

ARTICLE V

COST OF ISSUANCE FUND

Section 501. Cost of Issuance Fund.

There is hereby established with the Bond Trustee a trust fund designated “Kendal at Lexington: Cost of Issuance Fund.” The Bond Trustee shall deposit \$_____ of the proceeds from the Series 2016 Bonds in the Cost of Issuance Fund.

(a) Before any payment shall be made from the Cost of Issuance Fund there shall be filed with the Bond Trustee:

(1) A requisition which may be submitted by facsimile, signed by an Authorized Representative of the Borrower, stating:

(A) the name of the person, firm or corporation to whom the payment is due;

(B) the amount to be paid; and

(C) the purpose, in reasonable detail, for which the obligation is to be paid was incurred.

(2) A certificate attached to the requisition, signed by an Authorized Representative of the Borrower, stating:

(A) that the obligation stated on the requisition constitutes a Cost of Issuance and that such item is a proper charge against the Cost of Issuance Fund and has not been the basis for a prior requisition that has been paid; and

(B) that as of the date of such 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 hereunder, under

the Master Indenture or the Agreement, or, if such an event or condition has happened or existed, or is happening or exists, the specific nature and date of the occurrence of such event or condition and describing the action the Borrower have taken, is taking or proposes to take with respect thereto.

Upon receipt of each such requisition and accompanying certificate the Bond Trustee shall within two Business Days, make payment from the Cost of Issuance Fund in accordance with such requisition; provided, however, that if such certificate states any Event of Default exists, the Bond Trustee shall not be required to make, but may make, such payment if it determines that such payment is in the interest of the holders of the Series 2016 Bonds. All such payments shall be made by check or draft payable either (i) directly to the person, firm or corporation to be paid, (ii) to both the Borrower and such person, firm or corporation, or (iii) upon receipt of evidence that the Borrower has previously paid such amount, to the Borrower.

(b) At the earlier of 90 days after the issuance of the Series 2016 Bonds or when the Bond Trustee shall have received a certificate of the Borrower signed by an Authorized Representative of the Borrower, stating that all Costs of Issuance have been paid, the balance of any moneys remaining in the Cost of Issuance Fund shall be transferred, at the direction of the Borrower, to the Interest Account in the Bond Fund.

ARTICLE VI

REVENUES AND FUNDS

Section 601. Establishment of the Bond Fund.

There is hereby established with the Bond Trustee the Kendal at Lexington Bond Fund, in which there shall be established two subaccounts: the Interest Account and the Principal Account.

Section 602. Funds Received.

(a) On the [tenth] day of the month, the Bond Trustee shall deposit all payments and receipts derived from the Series 2016 Obligation, the Agreement or the security therefor in the following order, subject to credits as provided in this Article VI:

(1) To the Interest Account of the Bond Fund commencing on _____, 2016, and continuing to _____, inclusive, an amount equal to one-___ of the amount remaining after the interest to become due on the Series 2016 Bonds on _____, is reduced by the sum of the amount deposited in the Interest Account representing funded interest allocable to such Interest Payment Date, if any, on the Series 2016 Bonds; and commencing on _____, and continuing thereafter, an amount equal to one-sixth of the amount of interest due on the Series 2016 Bonds on the next Interest Payment Date (after first applying as a credit any excess amounts transferred to the Interest Account pursuant to Sections 501, 603 or 703), or such lesser amount that, together with amounts already on deposit in the Interest Account, but subject to the provisions of Section 603(a), will be

sufficient to pay interest on the Series 2016 Bonds to become due on the following ____ or ____.

(2) To the Principal Account of the Bond Fund commencing on ____, and continuing to ____, inclusive, an amount equal to one-____ of the amount of principal that will become due on the Series 2016 Bonds on ____; and commencing on ____, and continuing thereafter an amount equal to one-twelfth of the amount of principal that will become due on the Series 2016 Bonds on the following ____ or will be payable on such ____ pursuant to Section 303 or such lesser amount that, together with amounts already on deposit in the Principal Account, will be sufficient to pay principal of the Series 2016 Bonds to become due or be paid at redemption on such ____.

(b) If on the [tenth] day of any month sufficient funds are not received by the Bond Trustee to make the deposits to the Bond Fund required on such date, the Bond Trustee shall within three Business Days notify the Borrower (with a copy to the Authority) of such deficit by telephone or facsimile with receipt confirmed in writing, by first class registered or certified mail. If by the 20th day of such month the Bond Fund still does not contain the required funds, the Bond Trustee shall immediately send notice to the Borrower (with a copy to the Authority) by facsimile with receipt confirmed by telephone that an Event of Default has occurred.

Section 603. Bond Fund.

(a) Interest Account. The Bond Trustee shall use moneys in the Interest Account solely to pay interest on the Bonds as the same becomes due. The Bond Trustee shall use amounts deposited in the Interest Account as funded interest on the Series 2016 Bonds to pay each interest payment thereon until such amount is depleted. If the Bond Trustee is purchasing Series 2016 Bonds pursuant to Section 603(b)(1), amounts in the Interest Account may be used to pay the portion of the purchase price consisting of accrued interest to the date of purchase.

In the event the balance in the Interest Account on the [tenth (10th)] day of the month next preceding an Interest Payment Date or date upon which the Series 2016 Bonds are to be redeemed is insufficient for the payment of interest becoming due on the Series 2016 Bonds on the next ensuing Interest Payment Date or date upon which the Series 2016 Bonds are to be redeemed, the Bond Trustee shall within three Business Days notify the Borrower of the amount of the deficiency. Upon notification, the Borrower shall immediately deliver to the Bond Trustee an amount sufficient to cure the same. If the amount so delivered is not sufficient to cure the deficiency in the Interest Account, the Bond Trustee shall, not later than the Business Day next preceding the Interest Payment Date, deposit into the Interest Account from the Reserve Fund the amount required to cure such deficiency.

(b) Principal Account. The Bond Trustee shall use moneys in the Principal Account solely to pay the principal of and premium, if any, on the Bonds whether at maturity, by acceleration, call for redemption or otherwise. The Bond Trustee shall provide for redemption of Series 2016 Bonds in accordance with the mandatory sinking fund redemption schedule set forth in Section 303; provided, however, that on or before the 70th day next preceding any such sinking fund payment date the Authority, or the Authorized Representative of the Borrower on behalf of the Authority, may:

(1) pay to the Bond Trustee for deposit in the Principal Account as an advance payment on the Series 2016 Obligation such amount as the Borrower may determine, accompanied by a certificate signed by an Authorized Representative of the Borrower directing the Bond Trustee to apply such amount on or before such 70th day to the purchase of Series 2016 Bonds required to be redeemed on such sinking fund payment date, and the Bond Trustee shall thereupon use all reasonable efforts to expend such funds as nearly as may be practicable in the purchase of such Bonds at a price (including accrued interest to the date of settlement) not exceeding the principal amount thereof plus accrued interest to such sinking fund redemption date;

(2) deliver to the Bond Trustee for cancellation Series 2016 Bonds required to be redeemed on such sinking fund payment date in any aggregate principal amount desired; or

(3) instruct the Bond Trustee to apply a credit against the Authority's sinking fund redemption obligation for any such Series 2016 Bonds that previously have been redeemed (other than through the operation of the sinking fund) and cancelled by the Bond Trustee and not previously applied as a credit against any sinking fund redemption obligation.

Each Series 2016 Bond so purchased, delivered or previously redeemed shall be credited by the Bond Trustee at 100% of the principal amount thereof against amounts required to be transferred to the Principal Account on account of such Series 2016 Bonds and the principal amount of Series 2016 Bonds to be redeemed on such sinking fund payment date shall be reduced by the amount of Series 2016 Bonds so purchased, delivered or previously redeemed. Any principal amount of such Series 2016 Bonds in excess of the principal amount required to be redeemed on such sinking fund payment date shall be similarly credited in chronological order against future transfers to the Principal Account and shall similarly reduce the principal amount of Series 2016 Bonds to be redeemed on the next sinking fund payment date.

In the event that the balance in the Principal Account on any ____ is insufficient for the payment of principal becoming due on the next ensuing ____, the Bond Trustee shall notify the Borrower of the amount of the deficiency. Upon notification, the Borrower shall immediately deliver to the Bond Trustee an amount sufficient to cure the same. If the amount so delivered is not sufficient to cure the deficiency in the Principal Account, the Bond Trustee shall, not later than the Business Day next preceding such ____, deposit into the Principal Account from the Reserve Fund the amount required to cure such deficiency.

(c) Investment earnings on amounts in the Interest Account shall be retained in the Interest Account. If the balance in the Interest Account on any Interest Payment Date (before the transfers to be made to such account on such date) shall exceed the amount payable on account of interest payable on the Bonds on such date, the excess shall be retained in the Interest Account and used as a credit against required transfers to the Interest Account during the following months preceding the next Interest Payment Date. Investment earnings on amounts in the Principal Account shall be credited thereto as earned. In the event the balance in the Principal Account on any ____ (prior to the transfers to be made to such account on such date) shall exceed the amount necessary on such date to pay principal of the Bonds at maturity, the excess

shall be retained therein and used to pay principal of the Bonds due and to the extent not so used, credited against required transfers thereto.

(d) When the balances in the Interest and Principal Accounts of the Bond Fund and the Reserve Fund are sufficient to redeem or pay at maturity all Bonds then Outstanding and to pay all interest to accrue thereon prior to redemption or maturity, at the request of the Borrower the balance in the Bond Fund shall be held for redemption or payment of the Bonds at the earliest practicable date and the payment of interest thereon and for no other purpose.

Section 604. Establishment of the Reserve Fund.

(a) There is hereby created and established with the Bond Trustee a trust fund designated as “Kendal at Lexington: Debt Service Reserve Fund” (the “Reserve Fund”).

(b) Moneys on deposit in the Reserve Fund shall be used to provide a reserve for the payment of the principal of and interest on the Bonds.

Section 605. Payments Into the Reserve Fund.

In addition to the deposit required by Section 206 hereof, there shall be deposited into the Reserve Fund any amounts delivered by the Borrower to the Bond Trustee pursuant to Section 4.1 of the Loan Agreement. In addition, there shall be deposited into the Reserve Fund all moneys required to be transferred thereto pursuant to Section 703 hereof, and all other moneys received by the Bond Trustee when accompanied by directions that such moneys are to be paid into the Reserve Fund. There shall also be retained in the Reserve Fund all interest and other income received on investments of Reserve Fund moneys to the extent provided in Section 703 hereof.

Section 606. Use of Moneys in the Reserve Fund.

(a) Except as provided herein and in Section 612 hereof, moneys in the Reserve Fund shall be used solely for the payment of the principal of and interest on the Bonds in the event moneys in the Bond Fund are insufficient to make such payments on the Bonds when due, whether on an interest payment date, redemption date, maturity date, acceleration date or otherwise.

(b) Upon the occurrence of an Event of Default of which the Bond Trustee is deemed to have notice hereunder and the election by the Bond Trustee of the remedy specified in Section 902 hereof, any amounts in the Reserve Fund shall be transferred by the Bond Trustee to the Principal Account and applied in accordance with Section 906 hereof. In the event of the redemption of any series of Bonds, any amounts on deposit in the Reserve Fund in excess of the Reserve Fund Requirement on the Bonds to be Outstanding immediately after such redemption shall be transferred to the Principal Account and applied to the payment of the principal of the series of Bonds to be redeemed. On ___ and ___ in each year, any amounts on deposit in the Reserve Fund that are in excess of the Reserve Fund Requirement shall be transferred into the Interest Account of the Bond Fund and used to pay interest on Bonds.

(c) On the final maturity date of any series of Bonds, any amounts in the Reserve Fund in excess of the Reserve Fund Requirement after giving effect to such maturity shall be used to pay the principal of and interest on such series of Bonds on such final maturity date.

(d) If at any time moneys in the Reserve Fund are sufficient to pay the principal or redemption price of all Bonds, the Bond Trustee shall use the moneys on deposit in the Reserve Fund to pay such principal or redemption price of the Bonds.

Section 607. Custody of the Reserve Fund.

The Reserve Fund shall be in the custody of the Bond Trustee but in the name of the Authority, and the Authority hereby authorizes and directs the Bond Trustee to transfer sufficient moneys from the Reserve Fund to the Bond Trustee for deposit to the Bond Fund to pay the principal of and interest on the Bonds for the purposes herein described, which authorization and direction the Bond Trustee hereby accepts. In the event there shall be a deficiency in the Principal Account or the Interest Account on any payment date for any series of Bonds, the Bond Trustee shall promptly make up such deficiency from the Reserve Fund.

Section 608. Accounts within Funds.

The Bond Trustee shall at the direction of the Borrower create accounts within any fund established by this Indenture and shall deposit amounts transferred to such fund in accounts therein and invest the same as directed by the Borrower. In making transfers from any such fund, the Bond Trustee shall draw on accounts therein as directed by the Borrower so long as required transfers can be made consistent with such directions.

Section 609. Non-Presentation of Bonds.

If any Bond is not presented for payment when the principal thereof becomes due (whether at maturity, upon acceleration or call for redemption or otherwise), all liability of the Authority to the holder thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged if funds sufficient to pay such Bond and interest due thereon shall be held by the Bond Trustee for the benefit of the holder thereof, and thereupon it shall be the duty of the Bond Trustee to hold such funds, without liability for interest thereon, for the benefit of the holder of such Bond, who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, such Bond.

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

Section 610. Bond Trustee’s and Authority’s Fees, Costs and Expenses.

The initial administrative and acceptance fees and expenses of the Bond Trustee relating to the Series 2016 Bonds shall be paid from the Cost of Issuance Fund as and when the same shall become due, unless such payment would, together with other Costs of Issuance paid from the proceeds of the Series 2016 Bonds, exceed 2% of the proceeds of the Series 2016 Bonds. In such case such fees and expenses shall be paid by the Borrower from its own funds. All other reasonable fees and expenses of the Bond Trustee (including such reasonable fees and expenses not incurred in the ordinary course of business) and the fees and reasonable costs and expenses of the Authority directly related to the issuance of the Series 2016 Bonds are to be paid by the Borrower from payments made under Section 4.1(b) of the Agreement.

Section 611. Moneys to Be Held in Trust.

All moneys required to be deposited with or paid to the Bond Trustee for the account of any of the funds created by this Indenture shall be held by the Bond Trustee in trust, and except for moneys deposited with or paid to the Bond Trustee for the redemption of Bonds, notice of the redemption of which has been duly given, shall, while held by the Bond Trustee, constitute part of the trust estate and be subject to the lien hereof.

Section 612. Repayment to the Borrower from Funds.

All amounts remaining in any of the funds created by this Indenture shall be paid to the Borrower after payment in full of the Bonds and the fees, charges and expenses of the Bond Trustee and its agents and counsel, any other paying agent and the Deed of Trust Trustee and other amounts required to be paid hereunder, and the fees, charges and expenses of the Authority and any other amounts required to be paid by the Borrower under the Bond Obligations or the Agreement.

ARTICLE VII

INVESTMENTS

Section 701. Investment of Funds.

The Bond Trustee shall separately invest and reinvest any moneys held in the funds at the written direction of an Authorized Representative of the Borrower in:

- (a) Government Obligations;
- (b) Obligations of the Federal National Mortgage Association, Governmental National Mortgage Association, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks and Federal Home Loan Banks;
- (c) Bonds, notes and other evidences of indebtedness unconditionally guaranteed as to payment of principal and interest by the Commonwealth of Virginia or any city, county or town therein;

(d) Savings accounts, time deposits and certificates of deposit in any bank, including the Bond Trustee, or any affiliate thereof, (1) within the Commonwealth of Virginia, provided that such funds are secured in the manner required by the Virginia Security for Public Deposits Act or any successor provision of law, or (2) within or without the Commonwealth of Virginia having a combined capital, surplus and undivided profits of not less than \$50,000,000;

(e) Savings accounts and certificates of

(1) savings and loan associations that are under supervision of the Commonwealth of Virginia; and

(2) Federal associations organized under the laws of the United States of America and under federal supervision, but only to the extent that such accounts and certificates are fully insured by the Federal Savings and Loan Insurance Company or any successor federal agency;

(f) "Prime quality" commercial paper, with a maturity of 270 days or less, of issuing corporations organized under the laws of the United States, or of any state thereof, including paper issued by banks and bank holding companies. "Prime quality" shall be as rated by Moody's within its ratings of P-1 or P-2 or by S&P within its ratings of A-1 or A-2;

(g) Bankers' acceptances guaranteed by any bank having a combined capital, surplus and undivided profits of not less than \$50,000,000;

(h) Investments in money market funds restricted to Government Obligations and funds rated in the highest rating category by either Moody's, S&P or Fitch including any such fund administered by the Bond Trustee or for which the Bond Trustee, its affiliates or subsidiaries provide investment advisory or other management services; and

(i) Investment Agreements with any bank, registered broker/dealer, insurance company or any other financial institution or corporation, or any subsidiary thereof, with a senior unsecured credit rating of, or claims paying ability of, at least "Aa3" by Moody's, "AA-" by S&P or "AA-" by Fitch. The credit rating may be at either the parent or subsidiary level.

Any bonds, notes or other evidences of indebtedness listed in subsections (a), (b) and (c) above may be purchased by the Bond Trustee pursuant to a repurchase agreement with any bank or investment bank, including an affiliate of the Bond Trustee, within or without the Commonwealth of Virginia having a combined capital, surplus and undivided profits of not less than \$50,000,000 and acceptable to the Bond Trustee, provided the obligation of the bank or investment bank to repurchase is within the time limitation established for investments as set forth below. A repurchase agreement for securities described in subsections (a), (b) and (c) above shall be considered a purchase of such securities even if title and/or possession of such securities is not transferred to the Bond Trustee so long as (i) the repurchase obligation of the bank or investment bank is collateralized by the securities themselves, (ii) the securities have on the date of the repurchase agreement a fair market value equal to at least 100% of the amount of the repurchase obligation of the bank or investment bank, (iii) the securities are held by a third party and segregated from securities owned generally by the bank or investment bank, (iv) a perfected security interest in such securities is created for the benefit of the holders of the Bonds,

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., and (v) if the repurchase agreement is with the bank serving as Bond Trustee or any related party, the third party holding such securities holds them as agent for the Bond Trustee as fiduciary for the holders of the Bonds and not as agent for the bank serving as Bond Trustee in its commercial capacity or any other party.

So long as all investment restrictions applicable to each fund or account created hereunder are complied with, the Bond Trustee may commingle the funds and accounts held by it hereunder for purposes of investing amounts held therein.

The Bond Trustee shall, to the extent consistent with other provisions of this section, make any investment requested by the Borrower. At the request of the Borrower, but no more than monthly, the Bond Trustee shall provide the Borrower with reports in reasonable detail regarding the investment of the funds held by the Bond Trustee.

Moneys held in the Bond Fund shall be invested in securities and obligations maturing not later than the dates on which such moneys will be needed to pay principal of (whether at maturity or by mandatory sinking fund redemption) or interest on the Bonds.

For the purposes of this section investments shall be considered as maturing on the date on which they are redeemable without penalty at the option of the holder or the date on which the Bond Trustee may require their repurchase, pursuant to a repurchase agreement qualifying as described above.

For the purpose of determining the amount on deposit to the credit of any such fund or account, as reflected by annual accounting statements, obligations purchased as an investment of moneys therein shall be valued at least annually at the cost or market price thereof, whichever is lower, inclusive of accrued interest. Except as provided in Sections 603(c) and 605 the Bond Trustee shall not be required to calculate the value of investments more frequently than annually.

Section 702. Investments through Bond Trustee's Bond Department.

The Bond Trustee may make investments permitted by Section 701 through its own bond department.

Section 703. Allocation and Transfer of Investment Income.

Any investments in any Fund shall be held by or under the control of the Bond Trustee and shall be deemed at all times a part of the Fund from which the investment was made. Any loss resulting from such investments shall be charged to such Fund. The Bond Trustee shall not be liable for any loss or penalty resulting from any investment made in accordance with Section 701 at the direction of the Borrower or for the Bonds becoming "arbitrage bonds" by reason of any such investment. Any interest or other gain from any fund from any investment or reinvestment pursuant to Section 701 hereof shall be allocated and transferred as follows:

(a) Any interest or other gain realized as a result of any investments or reinvestments of moneys in the Principal Account and the Interest Account of the Bond Fund shall be credited

at least semiannually to the Interest Account unless a deficiency exists in the Reserve Fund, in which case such interest or other gain shall be paid into the Reserve Fund forthwith.

(b) Any interest or other gain realized as a result of any investments or reinvestments of moneys in the Reserve Fund shall be credited to the Reserve Fund if a deficiency exists therein at that time. If a deficiency does not exist in the Reserve Fund at that time, such interest or other gain on other amounts paid into the Reserve Fund shall be paid into the Interest Account of the Bond Fund at least semiannually.

ARTICLE VIII

DISCHARGE OF INDENTURE

Section 801. Discharge of Indenture.

Bonds shall be deemed paid for all purposes of this Bond Indenture when (a) payment of the principal of and the maximum amount of interest that may become due on such Bonds to the due date of such principal and interest (whether at maturity, upon redemption, acceleration or otherwise) either (i) has been made in accordance with the terms of Article III or (ii) has been provided for by depositing with the Bond Trustee (A) moneys sufficient to make such payment which otherwise meet the definition of Defeasance Obligations or (B) noncallable Defeasance Obligations maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to make such payment without regard to the reinvestment thereof; and (b) all compensation and expenses of the Authority and the Bond Trustee (as well as the fees and expenses of their Counsel) pertaining to each such Bond in respect of which such payment or deposit is made have been paid or provided for to their respective satisfaction. When a Bond is deemed paid, it shall no longer be secured by or entitled to the benefits of this Bond Indenture, except for payment from moneys or Defeasance Obligations under subsection (a) above and except that it may be transferred, exchanged, registered, discharged from registration or replaced as provided in Article II.

Notwithstanding the foregoing, no deposit under subsection (a) above made for the purpose of paying the redemption price of such Bond (as opposed to the final payment thereof upon maturity) will be deemed a payment of such Bond as aforesaid until (x) notice of redemption of such Bond is given in accordance with Article III or, if such Bond is not to be redeemed within the next 60 days, until the Borrower has given the Bond Trustee, in form satisfactory to the Bond Trustee, irrevocable instructions to notify, as soon as practicable, the holder of such Bond, in accordance with Article III, that the deposit required by subsection (a) above has been made with the Bond Trustee and that such Bond is deemed to be paid under this Article and stating the redemption date upon which moneys are to be available for the payment of the principal of such Bond or (y) the maturity of such Bond. Additionally, and while the deposit under subsection (a) above made for the purpose of paying the final payment of a Bond upon its maturity shall be deemed a payment of such Bond as aforesaid, the Bond Trustee shall mail notice to the Owner of such Bond, as soon as practicable stating that the deposit required by subsection (a) above has been made with the Bond Trustee and that such Bond is deemed to be paid under this Article.

When Bonds are deemed paid under the foregoing provisions of this Section and other sums due hereunder and under the Loan Agreement are paid, the Bond Trustee shall, upon request, acknowledge the discharge of the Authority's obligations under this Bond Indenture with respect to such Bonds, except for obligations under Article II in respect of the transfer, exchange, registration, discharge from registration and replacement of Bonds, and obligations under Section 1002 hereof with respect to the Bond Trustee's compensation and indemnification. Bonds delivered to the Bond Trustee for payment shall be cancelled pursuant to Section 212.

An Authorized Representative shall direct the deposit, investment and use of the moneys and securities described in this Section such that no deposit will be made and no use made of any such deposit that would cause any Bonds (including Bonds deemed paid pursuant to this section) to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code. Before accepting or using any such deposit, the Bond Trustee may request an Opinion of Bond Counsel as to whether such use or acceptance would cause the Bonds (including Bonds deemed paid pursuant to this section) to be so treated and, that all conditions hereunder have been satisfied, and the Bond Trustee may conclusively rely on such Opinion with regard thereto.

The Bond Trustee may request and shall be fully protected in relying upon a certificate of an independent certified public accountant to the effect that a deposit will be sufficient to defease such Bonds as provided in this Section 801.

ARTICLE IX

DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND BONDHOLDERS

Section 901. Events of Default.

Each of the following events shall be an Event of Default:

- (a) Default in the due and punctual payment of any interest on any Bond;
- (b) Default in the due and punctual payment of the principal of any Bond (whether at maturity, upon acceleration or call for redemption or otherwise);
- (c) An "Event of Default" under the Agreement or the Master Indenture, and such "Event of Default" shall not have been remedied or waived; or
- (d) Subject to the provisions of Section 912, default in the observance or performance of any other covenant, condition or agreement on the part of the Authority under this Indenture or in the Bonds.

Section 902. Acceleration.

If an Event of Default occurs and is continuing, the Bond Trustee may, and if requested by the holders of 25% in aggregate principal amount of Bonds then Outstanding shall, by notice to the Authority, declare the entire unpaid principal of and interest on the Bonds due and payable and, thereupon, the entire unpaid principal of and interest on the Bonds shall forthwith become due and payable. Upon any such declaration the Authority shall forthwith pay to the holders of

the Bonds the entire unpaid principal of and accrued interest on the Bonds, but only from the revenues and receipts herein specifically pledged for such purpose. Upon the occurrence of an Event of Default and a declaration of acceleration hereunder the Bond Trustee as assignee of the Authority shall immediately exercise its option under Section 6.2(a) of the Agreement to declare all payments on the Bond Obligations to be immediately due and payable.

Section 903. Other Remedies; Rights of Bondholders.

Upon the occurrence of an Event of Default, the Bond Trustee may proceed to protect and enforce its rights as the holder of the Bond Obligations and the rights of the bondholders by mandamus or other action, suit or proceeding at law or in equity for specific performance of any agreement herein contained.

Upon the occurrence of an Event of Default, if requested to do so by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding and if indemnified as provided in Section 1001(k), the Bond Trustee shall exercise such one or more of the rights and powers conferred by this article as the Bond Trustee, upon being advised by counsel, shall deem most expedient in the interests of the bondholders.

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

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and 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 hereunder, whether by the Bond Trustee pursuant to Section 911 or by the bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence of an Event of Default under the Master Indenture, the Bond Trustee shall notify the Master Trustee and request that the Master Trustee direct all Members, as defined in the Master Indenture, to deliver to the Master Trustee all Pledged Assets as defined in the Master Indenture.

Section 904. Right of Bondholders To Direct Proceeding.

Anything in this Indenture to the contrary notwithstanding, the holders of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond 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 hereunder; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

Section 905. Reserved.

Section 906. Application of Moneys.

All moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of this article shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or made by the Bond Trustee and the Deed of Trust Trustee, the fees of the Bond Trustee and the Deed of Trust Trustee and the expenses of the Authority in carrying out this Indenture or the Agreement, be deposited in the Bond Fund and applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First - To the payment to the persons entitled thereto 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 shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

Second - To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are 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 therein from the respective dates on which they became due and, if the amount available shall not be 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 such principal due on such date, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

Third - To the extent permitted by law, to the payment to persons entitled thereto of the unpaid interest on overdue installments of interest ratably, according to the amount of such interest due on such date, 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 shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Bonds, including, to the extent permitted by law, interest on overdue installments of interest, 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 persons entitled thereto, 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 shall have been declared due and payable and if such declaration shall thereafter have 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 shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) of this section.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys shall be applied at such times and from time to time as the Bond Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) on which such application is to be made and on such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Trustee shall give such notice to the registered holders of the Bonds by first class mail as it may deem appropriate of the deposit with the Bond Trustee of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder of any Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

Section 907. Remedies Vested in Bond 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 Bond Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Bond Trustee may be brought in its name as Bond Trustee without the necessity of joining as plaintiffs or defendants any holders of the Bonds, and any recovery of judgment shall be for the equal benefit of the holders of the outstanding Bonds.

Section 908. Limitation on Suits.

Except to enforce the rights given under Sections 902 and 909, no holder of any Bond shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of this Indenture or for the execution of any trust thereof or any other remedy hereunder, unless (a) a default has occurred and is continuing of which the Bond Trustee has been notified as provided in Section 1001(h), or of which by such section it is deemed to have notice, (b) such default has become an Event of Default and the holders of at least 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Bond Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) they have offered to the Bond Trustee indemnity as provided in Section 1001(k), (d) the Bond Trustee has for 30 days after such notice failed or refused to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, his or their own name or names, (e) no direction inconsistent with such written request has been given to the Bond Trustee during such 30 day period by the holders of a majority in aggregate principal amount of Bonds then Outstanding,

and (f) notice of such action, suit or proceeding is given to the Bond Trustee; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided and for the equal benefit of the holders of all Bonds then Outstanding. The notification, request and offer of indemnity set forth above, at the option of the Bond Trustee, shall be 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 hereunder.

Section 909. Unconditional Right To Receive Principal, Premium and Interest.

Nothing in this Indenture shall, however, affect or impair the right of any bondholder to enforce, by action at law, payment of the principal of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or (subject to the provisions of Section 902) upon the same being declared due prior to maturity as herein provided, or the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time, place, from the source and in the manner expressed herein and in the Bonds.

Section 910. Termination of Proceedings.

In case the Bond Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee, then and in every such case the Authority, the Borrower and the Bond Trustee shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Bond Trustee shall continue as if no such proceedings had been taken.

Section 911. Waiver of Events of Default.

The Bond Trustee may in its discretion waive any Event of Default hereunder and its consequences and rescind any declaration of maturity of principal of and interest on the Bonds, and shall do so on the written request of the holders of (a) a majority in aggregate principal amount of Bonds then Outstanding in respect of which default in the payment of principal and/or interest exists, or (b) a majority in aggregate principal amount of Bonds then Outstanding in the case of any other default; provided, however, that

(1) there shall not be waived without the consent of the holders of all Bonds then Outstanding (A) any Event of Default in the payment of the principal of any Outstanding Bonds (whether at maturity or by sinking fund redemption) or (B) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission,

(i) there shall have been paid or provided for all arrears of interest with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest, all arrears of principal and all expenses of the Bond Trustee in connection with such default, and

(ii) in case of any such waiver or rescission or in case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Bond Trustee on account of any such default, the Authority, the Bond Trustee and the Bondholders shall be restored to their former positions and rights hereunder respectively, and

(2) no declaration of maturity under Section 902 made at the request of the holders of at least 25% in aggregate principal amount of Bonds then Outstanding shall be rescinded unless requested by the holders of a majority in aggregate principal amount of Bonds then Outstanding.

No such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

Section 912. Notice of Defaults; Opportunity of the Borrower To Cure Defaults.

Anything herein to the contrary notwithstanding, no default specified in Section 901(d) on the part of the Authority shall constitute an Event of Default until (a) notice of such default shall be given (1) by the Bond Trustee to the Authority and the Borrower or (2) by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding to the Bond Trustee, the Authority and the Borrower, and (b) the Authority and the Borrower shall have had 30 days after such notice to correct such default or cause such default to be corrected, and shall not have corrected such default or caused such default to be corrected within such period; provided, however, that if any default specified in Section 901(d) shall be such that it can be corrected but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority or the Borrower within such period and diligently pursued until such default is corrected, as long as such default is corrected within 90 days.

With regard to any alleged default concerning which notice is given to the Borrower under this section, the Borrower may perform any covenant, condition or agreement the nonperformance of which is alleged in such notice to constitute a default, in the name and stead of the Authority, with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts and with power of substitution.

ARTICLE X

THE BOND TRUSTEE

Section 1001. Acceptance of Trusts and Obligations.

The Bond Trustee hereby accepts the trusts and obligations imposed upon it by this Indenture and the Agreement 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 shall be read into this Indenture or the Agreement against the Bond Trustee:

(a) The Bond Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default that may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and the Agreement and as a

corporate Bond Trustee ordinarily would perform such duties under a corporate indenture. In case an Event of Default has occurred (which has not been cured or waived) the Bond Trustee shall exercise such rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man ordinarily would exercise and use under the circumstances in the conduct of his own affairs.

(b) The Bond Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to act on the opinion or advice of its counsel concerning all matters of trust hereof and the duties hereunder, and shall be fully protected in acting upon such advice and may in all cases pay reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. As a condition to the taking, suffering or omission of any action hereunder, the Bond Trustee may demand and act on an Opinion of Counsel and shall 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 Bond Trustee shall not be responsible for any recital herein or in the Bonds (except in respect to the certificate of the Bond Trustee endorsed on the Bonds) or for the recording, re-recording, other filing or re-filing of any financing or continuation statement or any other document or instrument, or for insuring the Facilities or collecting any insurance moneys, or for the validity of the execution by the Authority of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, or for the value of or title to the Mortgaged Premises or otherwise as to the maintenance of the security hereof; except that in the event the Bond Trustee takes possession of any part of the Mortgaged Premises pursuant to any provision of this Indenture, the Agreement or the Deed of Trust it shall use due diligence in preserving such part, and the Bond Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Authority or on the part of the Borrower under the Agreement or the Deed of Trust, except as hereinafter set forth. The Bond Trustee shall not be responsible or liable for any loss suffered in connection with any investment of moneys made by it in accordance with Section 701.

(d) The Bond Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The bank or trust company acting as Bond 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 Bond 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 Bond Trustee.

(e) The Bond Trustee shall 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 Bond Trustee pursuant to this Indenture on the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the

owner of any Bond shall be conclusive and binding on all future owners of the same Bond and on Bonds issued in exchange therefor or in place thereof.

(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 Bond Trustee shall be entitled to rely on a certificate signed 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, as sufficient evidence of the facts therein contained, and prior to the occurrence of a default of which the Bond Trustee has been notified as provided in subsection (h) of this section, or of which by said subsection it is deemed to have notice, 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 shall in no case be bound to secure the same. The Bond Trustee may accept a certificate of the Secretary or Assistant Secretary of the Authority under its seal to the effect that a resolution in the form therein set forth has been adopted by the Authority as conclusive evidence that such resolution has been duly adopted and is in full force and effect.

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

(h) The Bond Trustee shall not be required to take notice or be deemed to have notice of any default hereunder, except failure by the Authority to cause to be made any of the payments to the Bond Trustee required to be made by Article VI or failure by the Authority or the Borrower to file with the Bond Trustee any document required by this Indenture, the Agreement or the Deed of Trust to be so filed, unless the Bond Trustee shall be notified of such default by the Authority or by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding.

(i) The Bond Trustee shall not be required to give any bond or surety with respect to the execution of its rights and obligations hereunder.

(j) Notwithstanding any other provision of this Indenture, the Bond Trustee shall have the right, but shall not be required, to demand, as a condition of any action by the Bond 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 thereof, in addition to that required by the terms hereof.

(k) Before taking any action under this Indenture or the Agreement, the Bond 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 that is adjudicated to have resulted from its gross negligence or willful misconduct.

(l) All moneys received by the Bond Trustee shall, until used or applied or invested as herein provided, be held in trust in the manner and for the purposes for which they were

received but need not be segregated from other funds except to the extent required by this Indenture or law. The Bond Trustee shall not be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(m) The Bond Trustee shall cooperate with the Borrower in the contest, at the expense of the Borrower, of any condemnation proceeding or contest over title with respect to the Mortgaged Premises and shall, to the extent it may lawfully do so, permit the Borrower to litigate in any such proceeding or contest in the name and on behalf of the Bond Trustee. In no event shall the Bond Trustee voluntarily settle, or consent to the settlement of, any condemnation proceeding or contest over title with respect to the Mortgaged Premises without the consent of the Borrower.

(n) The Bond Trustee shall not be responsible for the tax-exempt status of the Tax-Exempt Bonds.

Section 1002. Fees, Charges and Expenses of Bond Trustee.

Absent a specific agreement as to payment of the Bond Trustee's fees, charges and expenses, the Bond Trustee and any payment agents shall be entitled to payment and reimbursement for reasonable fees for services rendered hereunder and all advances, counsel fees and disbursements and other expenses reasonably made or incurred by the Bond Trustee in connection with such services, provided that the trust estate shall not be liable for costs or expenses of the Bond Trustee other than reasonable costs and expenses. Upon an Event of Default, but only upon an Event of Default, the Bond Trustee shall have a first lien with right of payment prior to payment on account of principal of, or premium, if any, and interest on any Bond upon the trust estate created by this Indenture for the foregoing fees, charges and expenses incurred by the Bond Trustee. When the Bond Trustee incurs expenses or renders services after the occurrence of an Event of Default hereunder caused by the occurrence of an "Event of Default" specified in subsections 4.01(e) or 4.01(f) of the Master Indenture, the expenses and the 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 1003. Notice Required of Bond Trustee.

If the Borrower fails to make any payment on the Bond Obligations on the day such payment is due and payable, the Bond Trustee shall give notice thereof by telephone or facsimile to the Borrower on the next succeeding Business Day and shall confirm such notice in writing by first class registered or certified mail. In the event of (a) the continuance of any such failure to make payment for 30 days after such payment was due, (b) failure of the Authority to cause any of the payments to be made to the Bond Trustee as required by Article VI, or (c) notification to the Bond Trustee by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding, of any default hereunder, the Bond Trustee shall give notice thereof to the owner of each Bond then outstanding.

Section 1004. Intervention by Bond Trustee.

In any judicial proceeding to which the Authority is a party and which in the opinion of the Bond Trustee has a substantial bearing on the interests of the bondholders, the Bond Trustee may intervene on behalf of the bondholders and, subject to Section 1001(k), shall do so if requested by the holders of at least 25% in aggregate principal amount of Bonds then outstanding.

Section 1005. Merger or Consolidation of Bond Trustee.

Any corporation or association into which the Bond 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 shall be and become successor Bond Trustee hereunder 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 hereto, anything herein to the contrary notwithstanding.

Section 1006. Resignation by Bond Trustee.

The Bond Trustee may at any time resign from the trusts hereby created by giving 30 days' notice to the Authority and the Borrower and each registered owner of Bonds then Outstanding. Such resignation shall take effect upon the appointment of a successor or temporary Bond Trustee by the Bondholders or the Authority. In the event that no successor or temporary Bond Trustee is appointed within 30 days of the Bond Trustee's giving of notice of its resignation, the Bond Trustee shall have the right to petition any court of competent jurisdiction for such court's appointment of a temporary Bond Trustee provided, however, that nothing in this sentence shall be deemed to authorize appointment of any Bond Trustee other than in accordance with the requirements of Section 1008 hereof.

Section 1007. Removal of Bond Trustee.

The Bond Trustee may be removed at any time (i) by an instrument or concurrent instruments in writing delivered to the Bond Trustee and to the Authority and signed by the owners of a majority in aggregate principal amount of Bonds then Outstanding, or (ii) by any instrument signed by an Authorized Representative of the Borrower provided no Event of Default has occurred and is continuing. The removal shall take effect upon the appointment of a temporary or successor Bond Trustee by the Bondholders, the Borrower or a court of competent jurisdiction.

Section 1008. Appointment of Successor Bond Trustee; Temporary Bond Trustee.

In case the Bond Trustee hereunder shall resign, be removed, be dissolved, be in course of dissolution or liquidation or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers or of a receiver appointed by a court, a successor may be appointed by (a) 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 or (b) so long as no Event of Default has occurred and is continuing, the Borrower by an instrument signed by an Authorized Representative; provided, however, that in case of such vacancy the Authority by an instrument signed by its Chairman or Vice Chairman may appoint a temporary Bond Trustee to fill such vacancy until a successor Bond Trustee shall be appointed by the bondholders or the Borrower in the manner provided above; and any such temporary Bond Trustee so appointed shall immediately and without further act be superseded by the Bond Trustee so appointed by such Bondholders or the Borrower. Every such Bond Trustee appointed pursuant to this section shall be, if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms, (a) a bank or trust company, organized under the laws of the Commonwealth of Virginia or the United States of America, in good standing and having a combined capital, surplus and undivided profits of not less than \$50,000,000, or (b) 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 combined 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 \$50,000,000.

Section 1009. Concerning any Successor Bond Trustee.

Every successor Bond Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Authority an instrument in writing accepting such appointment hereunder, and thereafter such successor, without any further act, deed or conveyance, shall become fully vested with all the properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Authority or its successor, execute and deliver an instrument transferring to such successor Bond Trustee all the properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Bond Trustee shall deliver all securities and moneys held by it as Bond Trustee hereunder to its successor. Should any instrument in writing from the Authority be required by any successor Bond Trustee for more fully and certainly vesting in such successor the properties, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority at the expense of the Borrower. The resignation of any Bond Trustee and the instrument or instruments removing any Bond Trustee and appointing a successor hereunder, together with all other instruments provided for in this article, shall be filed and/or recorded by the successor Bond Trustee in each recording office where the Indenture may have been filed and/or recorded.

Section 1010. Right of Bond Trustee To Pay Taxes and Other Charges.

In case any tax, assessment or governmental or other charge on any part of the property conveyed pursuant to the Agreement is not paid as required herein, the Bond Trustee may pay such tax, assessment or governmental charge, without prejudice, however, to any rights of the Bond Trustee or the bondholders hereunder arising in consequence of such failure. Any amount at any time so paid under this section, with interest thereon from the date of payment at the Prime Rate, as defined in the Agreement, shall become additional indebtedness secured by this

Indenture, and such indebtedness shall be given a preference in payment over any of the Bonds, and shall be paid out of the proceeds of revenues and receipts collected from the property herein conveyed, if not otherwise caused to be paid; but the Bond Trustee shall be under no obligation to make any such payment unless it shall have been requested to do so by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding and shall have been provided with adequate funds for the purpose of such payment.

Section 1011. Bond Trustee Protected in Relying on Resolutions, Etc.

The resolutions, opinions, certificates and other instruments provided for in this Indenture may be accepted by the Bond Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Bond Trustee for the release of property, the withdrawal of cash hereunder or the taking of any other action by the Bond Trustee as provided hereunder.

Section 1012. Successor Bond Trustee as Bond Registrar, Custodian of Funds and Paying Agent.

In the event of a change in the office of Bond Trustee the predecessor Bond Trustee which has resigned or been removed shall cease to be Bond Registrar, custodian of the several funds created under this Indenture and paying agent for principal of and interest on the Bonds and the successor Bond Trustee shall become such Bond Registrar, custodian and paying agent.

ARTICLE XI

SUPPLEMENTAL INDENTURES

Section 1101. Supplemental Indentures Not Requiring Consent of Bondholders.

The Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to this Indenture as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in this Indenture:
- (b) To grant to or confer on the Bond 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 Bond 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 hereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or any state securities (Blue Sky) law, and, if they so determine, to add to this Indenture such other terms, conditions and provisions as may be required by said Trust Indenture Act of 1939, as amended, or similar federal statute or state securities law;

(e) To modify, amend or supplement this Indenture in such manner as required to prevent this Indenture or any fund, account or deposit created, established or made pursuant hereto from being deemed an “investment company” as such term is defined in Section 3 of the Investment Company Act of 1940, as amended, or otherwise subject to registration under Section 8 of such Act; or

(f) To make any other change herein that, in the opinion of the Bond Trustee, which may be based upon an Opinion of Counsel, shall not prejudice in any material respect the rights of the holders of the Bonds then Outstanding.

Section 1102. Supplemental Indentures Requiring Consent of Bondholders.

Exclusive of supplemental indentures covered by Section 1101 and subject to the terms and provisions contained in this section, the Holders of a majority in aggregate principal amount of Bonds then Outstanding shall 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 Bond Trustee of such other indenture or indentures supplemental hereto as shall 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 shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) an extension of time or a reduction in amount of any payment required by any sinking fund that may be applicable to any Bond, or (d) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental indenture.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes of this section, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be sent to each registered owner of Bonds then outstanding by registered or certified mail to the address of such bondholder as it appears on the registration books; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceedings pursuant hereto. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondholders. If, within 60 days or such longer period as shall be prescribed by the Authority following the giving of such notice, the Holders of a majority in aggregate principal amount of Bonds then Outstanding shall have consented to and approved the execution thereof as herein provided, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing such supplemental indenture or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as in this section permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith.

Bonds owned or held by or for the account of the Authority or the Borrower or any person controlling, controlled by or under common control with either of them shall not be deemed Outstanding for the purpose of consent or any calculation of Outstanding Bonds provided for in this Article XI or in Article XII. At the time of any such calculation, the Borrower shall furnish the Bond Trustee a certificate of an Authorized Representative of the Borrower, upon which the Bond Trustee may rely, describing all Bonds so to be excluded.

Section 1103. Consent of the Borrower Required.

Notwithstanding any other provision of this Indenture, a supplemental indenture under this article that affects any rights of the Borrower shall not become effective until the Borrower shall have consented to the execution and delivery of such supplemental indenture.

Section 1104. Amendment by Unanimous Consent.

Notwithstanding any other provision in this Indenture, the Authority and the Bond Trustee may enter into any indenture supplemental to this Indenture upon receipt of the consent of the Holders of all Bonds then outstanding, the Opinion of Counsel required by Section 1106 and, if required by Section 1103, the consent of the Borrower.

Section 1105. Amendment without Consent of Authority.

In the event the Authority is unwilling or unable to enter into any supplemental indenture permitted by this Article XI the Bond Trustee may, without the consent of the Authority, amend or supplement this Indenture in any manner otherwise permitted by this Article XI so long as such amendment or supplement does not adversely affect the rights and obligations of the Authority.

Section 1106. Opinion of Counsel Required.

Notwithstanding any other provision of this Indenture, the Bond Trustee (a) shall not execute any supplemental indenture to this Indenture unless there shall have been filed with the Bond Trustee an Opinion of Bond Counsel stating (i) that such supplemental indenture is authorized or permitted by this Indenture and complies with its terms and that upon execution it will be valid and binding on the Authority in accordance with its terms, and (ii) that such supplemental indenture will not have an adverse effect on the exemption of interest on the Bonds from gross income for Federal income tax purposes, and (b) shall not, without the consent of the Borrower, execute any supplemental indenture to this Indenture that will adversely affect any rights of the Borrower and shall in all events give the Borrower at least 15 days' prior notice (which may be waived) of any proposed supplemental indenture.

Section 1107. Bond Trustee's Obligation Regarding Supplemental Indentures and Amendments of the Bond Obligations, Agreement and Deed of Trust.

The Bond Trustee shall not unreasonably (a) refuse to enter into any supplemental indenture permitted by this Article or (b) withhold its consent to any amendment, change or modification of the Agreement, the Master Indenture, the Bond Obligations, or the Deed of Trust permitted by Article XII; provided, however, that any such refusal or withholding shall not be

unreasonable if the Bond Trustee reasonably believes that such supplemental indenture or amendment, change or modification does or may prejudice any right of the holders of Bonds then outstanding or affect adversely the rights and immunities of, or increase the duties of, the Bond Trustee.

ARTICLE XII

AMENDMENTS OF AGREEMENT, MASTER INDENTURE, OBLIGATIONS AND DEED OF TRUST

Section 1201. Amendments of Agreement, Master Indenture, Bond Obligations and Deed of Trust Not Requiring Consent of Bondholders.

The Authority and the Bond Trustee shall, without the consent of or notice to the Bondholders, consent to any amendment, change or modification of the Agreement, Master Indenture, the Bond Obligations, or the Deed of Trust as may be required

(a) by the provisions of the Agreement, Master Indenture, the Bond Obligations, the Deed of Trust, or this Indenture,

(b) for the purpose of curing any ambiguity or formal defect or omission therein,

(c) in connection with additional real estate, furnishings, machinery or equipment that is to become part of the Facilities pursuant to the Agreement so as to identify the same more precisely,

(d) in connection with any other change therein that, in the opinion of the Bond Trustee (which may be based in whole or in part upon an Opinion of Counsel), will not prejudice in any material respect the rights of the Holders of the Bonds then outstanding.

The Authority and the Bond Trustee shall, without the consent of or notice to the bondholders, consent to any such amendment, change or modification made in connection with any modification or amendment of, or supplement to, the Indenture pursuant to Section 1101(e).

Section 1202. Amendments of Agreement, Master Indenture, Bond Obligations and Deed of Trust Requiring Consent of Bondholders.

Except for amendments, changes or modifications as provided in Section 1201 and subject to Section 1206, neither the Authority nor the Bond Trustee shall consent to any amendment, change or modification of the Agreement, the Master Indenture, the Bond Obligations, or the Deed of Trust without the written approval or consent of the Holders of a majority in aggregate principal amount of Bonds then outstanding given and procured as provided in Section 1102. If at any time the Authority and the Borrower shall request the consent of the Bond Trustee to any such proposed amendment, change or modification, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided by Section 1102 with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that a copy of the

instrument embodying the same is on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondholders.

Section 1203. Limitation on Amendments.

No amendment, change or modification may decrease the obligation of the Borrower under the Agreement, the Master Indenture, the Bond Obligations and the Deed of Trust to pay amounts sufficient to pay principal of, premium, if any, and interest on the Bonds as the same become due.

Section 1204. Amendment by Unanimous Consent.

Notwithstanding any other provision of this Indenture, the Authority and the Bond Trustee may consent to any amendment, change or modification of the Agreement, the Master Indenture, the Bond Obligations, or the Deed of Trust upon receipt of the consent of the Holders of all Bonds then outstanding.

Section 1205. Opinion of Counsel Required.

The Bond Trustee shall not consent to any amendment, change or modification of the Agreement, the Master Indenture, the Bond Obligations or the Deed of Trust unless there shall have been filed with the Bond 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, and an Opinion of Bond Counsel stating that such amendment, change or modification will not have an adverse affect on the exemption of interest on the Bonds from gross income for federal income tax purposes.

Section 1206. Partial Consent to Amendment of Master Indenture.

Notwithstanding the provisions of Section 1202, if the Bond Trustee, as “Holder” of the Bond Obligations under the Master Indenture, is requested to make or give any request, direction or consent with respect to the Master Indenture that the Bond Trustee cannot make or give pursuant to Section 1201 above and the approval or consent of the Holders of a majority in aggregate principal amount of Bonds then outstanding is not obtained, then at the Borrower’s request the Bond Trustee shall inform the Master Trustee of the principal amount of Bonds held by Holders giving such approval or consent so that the provisions of Section 8.01 of the Master Indenture may be given effect.

ARTICLE XIII

MISCELLANEOUS

Section 1301. Consents of Bondholders.

(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 such bondholders in

person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument, or of the writing appointing any such agent shall be sufficient for any of the purposes of this Indenture, and shall be conclusive in favor of the Bond Trustee with regard to any action taken under such request or other instrument, if the fact and date of the execution by any person of any such writing is proved by the certification of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

For all purposes of this Indenture and of the proceedings for its enforcement, such person shall be deemed to continue to be the Holder of such Bond until the Bond Trustee shall have received notice in writing to the contrary.

(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 Series 2016 Bonds during any period that such broker, dealer or municipal securities dealer holds the 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 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 1302. Limitation of Rights.

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any person or company other than the parties hereto and the Holders of the Bonds any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and agreements herein contained; this Indenture and all of the covenants, conditions and agreements hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and the Holders of the Bonds as herein provided.

Section 1303. Limitation of Liability of Directors, etc. of Authority.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future director, officer, employee or agent of the Authority in his individual capacity, and neither the directors of the Authority nor any officer thereof executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No director, officer, employee, agent or adviser of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Indenture or the Act, provided such director, officer, employee, agent or adviser does not act in bad faith.

Section 1304. Notices.

Unless otherwise provided herein, all demands, notices, approvals, consents, requests, opinions and other communications hereunder shall be in writing and shall be deemed to have been given when delivered in person or mailed by first class mail, postage prepaid or by facsimile, and if sent by facsimile confirmed by telephone, addressed

(a) if to the Borrower, at Kendal at Lexington, 160 Kendal Drive, Lexington, Virginia 24450 (Attention: Executive Director);

(b) if to the Authority, at Lexington City Hall, 300 East Washington Street, Lexington Virginia 24450 (Attention: Chairman); and

(c) if to the Bond Trustee, at 1021 East Cary Street, Suite 1850, Richmond, Virginia 23219 (Attention: Corporate Trust Department).

A duplicate copy of each demand, notice, approval, request, consent, opinion or other communication given hereunder by either the Authority or the Bond Trustee to the other shall also be given to the Borrower. The Authority, the Borrower and the Bond Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent demands, notices, approvals, consents, requests, opinions or other communications shall be sent or persons to whose attention the same shall be directed. Until so changed, the address for the Bond Trustee provided above will be its designated corporate trust office.

Section 1305. Payments/Actions Due on Holidays, Etc.

If any date specified herein for the payment of the Bonds or the performance of any act shall not be a Business Day, such payment or performance shall be made on the next succeeding Business Day with the same effect as if made on such date, and in case any payment of the principal or redemption price of or interest on the Bonds shall be due on a date that is not a Business Day, interest on such principal amount shall cease to accrue on the date on which such payment was due if such payment is made on the immediately succeeding Business Day.

Section 1306. Successors and Assigns.

This Indenture shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 1307. Severability.

If any provision of this Indenture shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof.

Section 1308. Applicable Law.

This Indenture shall be governed by the applicable laws of the Commonwealth of Virginia.

Section 1309. Counterparts.

This Indenture may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

Section 1310. Freedom Act Requirements of the Bond 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 Bond 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 and existence as a legal entity. The Bond Trustee may also request identifying information to sufficiently verify the identities of individuals claiming authority to represent the entity or other relevant documentation.

IN WITNESS WHEREOF, the Authority and the Bond Trustee have caused this Indenture to be executed in their respective corporate names as of the date first above written.

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

By: _____
Chairman

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

By: _____
Authorized Agent

FORM OF SERIES 2016 BOND

No. _____

\$ _____

UNITED STATES OF AMERICA

COMMONWEALTH OF VIRGINIA

INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF LEXINGTON, VIRGINIA
Residential Care Facility Refunding Revenue Bond
(Kendal at Lexington)
Series 2016

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
_____ %	_____, ____	_____, 2016	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____

The **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA**, a political subdivision of the Commonwealth of Virginia (the "Authority"), for value received, hereby promises to pay, upon presentation and surrender hereof at the corporate trust office of U.S. Bank National Association, as trustee, or its successor in trust (the "Bond Trustee"), solely from the sources and as hereinafter provided, to the registered owner hereof, or registered assigns or legal representative, the principal sum set forth above on the maturity date set forth above, subject to prior redemption as described below, and to pay, solely from such sources, on ____, and on each ____ and ____ thereafter (each, an "Interest Payment Date"), interest hereon at the interest rate per year specified above, from the Interest Payment Date next preceding the date on which this Bond is authenticated, unless this Bond is (a) authenticated before the first Interest Payment Date following the initial delivery of the Bonds, in which case it shall bear interest from its date, or (b) authenticated upon an Interest Payment Date, in which case it shall bear interest from such Interest Payment Date (unless interest on this Bond is in default at the time of authentication, in which case this Bond shall bear interest from the date to which interest has been paid). Interest hereon shall be paid to the person in whose name this Bond is registered at the close of business on the fifteenth day (whether or not a business day) of the month next preceding an Interest Payment Date by check or draft mailed to such person at his address as it appears on the registration books kept by the Bond Trustee. Notwithstanding the foregoing, if and for so long as Cede & Co. or any other nominee of The Depository Trust Company, New York, New York, is registered owner of all of the Bonds, the principal of and premium, if any, on this Bond shall be paid to Cede & Co. or such

other nominee as provided under the Indenture. Principal, premium, if any, and interest are payable in lawful money of the United States of America.

This Bond and the issue of which it is a part and the premium, if any, and the interest thereon are limited obligations of the Authority and (except to the extent payment with respect to the Series 2016 Bonds shall be made from the proceeds from the sale of the Series 2016 Bonds or the income, if any, derived from the investment thereof) are payable from the revenues and receipts derived from the trust estate which has been pledged and assigned to the Bond Trustee to secure payment of the Series 2016 Bonds.

THE BONDS, THE PREMIUM, IF ANY, AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH OF VIRGINIA OR ANY SUBDIVISION THEREOF. NEITHER THE COMMONWEALTH OF VIRGINIA NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY AND THE CITY OF LEXINGTON, VIRGINIA, SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR OTHER COSTS INCIDENT THERETO EXCEPT FROM THE REVENUES AND MONIES PLEDGED THEREFOR, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF VIRGINIA OR ANY POLITICAL SUBDIVISION THEREOF, 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 THERETO.

This Bond is one of a series of \$_____ Industrial Development Authority of the City of Lexington, Virginia, Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the "Series 2016 Bonds"), of like date and tenor, except as to number, denomination, rate of interest, maturity and privilege of redemption, authorized and issued pursuant to the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended. The Series 2016 Bonds are issued under and are equally and ratably secured by a Bond Indenture dated as of October 1, 2016 (as supplemented and amended from time to time, the "Indenture"), between the Authority and the Bond Trustee.

The Authority will issue the Series 2016 Bonds and loan the proceeds of the Series 2016 Bonds to Lexington Retirement Community, Inc. d/b/a Kendal at Lexington, a not-for-profit Virginia nonstock corporation (the "Borrower"), pursuant to the terms of a Loan Agreement dated as of October 1, 2016 (the "Agreement"), between the Authority and the Borrower.

The Borrower will use the proceeds of the Series 2016 Bonds to (1) refund the outstanding principal amount of the Authority's Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A, (2) fund a debt service reserve fund for the Series 2016 Bonds, and (3) finance costs of issuing the Series 2016 Bonds.

Pursuant to the Indenture, the Authority has assigned to the Bond Trustee, as security for the Series 2016 Bonds, the promissory note of the Borrower constituting the Series 2016 Obligation in the principal amount of \$_____, dated October __, 2016 (the "Series 2016 Obligation"), and certain rights of the Authority under the Agreement. In the Agreement, the

Borrower agrees to pay amounts sufficient to pay the principal of and premium, if any, and interest on the Series 2016 Bonds as the same become due. The Series 2016 Obligation is issued as an obligation of the Obligated Group under a Master Trust Indenture dated as of October 1, 2016 (the “Master Indenture”), between the Borrower and U.S. Bank National Association, as the master trustee (the “Master Trustee”), as supplemented by a Supplemental Indenture for Series 2016 Obligation dated as of October 1, 2016, between the Borrower and the Master Trustee.

Reference is hereby made to the Indenture, the Agreement, the Master Indenture and the Deed of Trust, and to all amendments and supplements thereto, for a description of the provisions, among others, with respect to the terms on which the Series 2016 Bonds are issued, the nature and extent of the security for the Series 2016 Bonds, the rights, duties and obligations of the Authority, the Bond Trustee and the Master Trustee, the rights of the holders of the Series 2016 Bonds and the provisions for defeasance of such rights.

The Series 2016 Bonds may not be called for redemption by the Authority except as provided in the Indenture and as provided below.

As more fully described in the Indenture and the Agreement, the Series 2016 Bonds are required to be redeemed by the Authority in whole or in part at any time at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date in the event the Borrower exercises its option to prepay the Series 2016 Obligation, in whole or in part, upon damage to, condemnation of or failure of title to the Mortgaged Premises or certain other extraordinary events.

The Series 2016 Bonds maturing on or after _____, ____, will be subject to redemption by the Authority, at the direction of the Borrower, prior to maturity in whole, or in part by lot, at any time, on and after _____, _____, at a redemption price equal to 100% of the principal amount of the Series 2016 Bonds to be redeemed plus accrued interest thereon, if any, to the redemption date.

The Indenture provides for a credit against the sinking fund requirements of the Series 2016 Bonds maturing on _____, to the extent the Series 2016 Bonds of such maturities previously have been purchased or redeemed (other than through the operation of the sinking fund) and cancelled or surrendered for cancellation and have not been applied previously as such a credit.

If less than all the Series 2016 Bonds of any maturity are called for redemption, the Series 2016 Bonds to be redeemed shall be selected by lot in such manner as the Bond Trustee in its discretion shall determine, or if the Series 2016 Bonds are held in a book-entry system by The Depository Trust Company in accordance with its procedures, each portion of \$5,000 principal amount being counted as one Bond for this purpose. If a portion of this Bond shall be called for redemption, a new Bond in the principal amount equal to the unredeemed portion thereof will be authenticated and delivered to the registered owner upon the surrender hereof.

If any of the Series 2016 Bonds or portions thereof are called for redemption, the Bond Trustee shall send to the registered owner of each Bond to be redeemed notification thereof by

facsimile or electronic transmission, registered or certified mail or overnight express delivery not less than 30 nor more than 60 days prior to the redemption date, at his address as it appears on the registration books; provided, however, that failure to give any such notice, or any defect therein, shall 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. Provided funds for their redemption are on deposit at the place of payment on the redemption date, all Series 2016 Bonds or portions thereof so called for redemption shall cease to bear interest on such date, shall no longer be secured by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture.

The owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein or 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 thereto, 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 the Bonds issued under the Indenture and then outstanding may become or may be declared due and payable before their stated maturities, together with accrued interest thereon. Modifications or alterations of the Indenture, the Agreement or the Series 2016 Obligation or of any supplements thereto, may be made only to the extent and in the circumstances permitted by the Indenture.

The Series 2016 Bonds are issuable only as registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof. At the designated corporate trust office of the Bond Trustee, in the manner and subject to the limitations and conditions and upon payment of charges provided in the Indenture, Series 2016 Bonds may be exchanged for an equal aggregate principal amount of Series 2016 Bonds of different authorized denominations as requested by the owner hereof or his duly authorized attorney or legal representative.

The transfer of this Bond may be registered by the registered owner thereof in person or by his duly authorized attorney or legal representative at the designated corporate trust office of the Bond Trustee, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of the Bond. Upon any such registration of transfer the Authority shall execute and the Bond Trustee shall authenticate and deliver in exchange for this Bond a new Bond, registered in the name of the transferee, of authorized denominations. The Bond Trustee, the Authority and the Borrower shall, prior to due presentment for registration of transfer, 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 all payments of interest shall be made to the registered owner as of the fifteenth day of the month preceding each Interest Payment Date.

Any exchange or registration of transfer shall be without charge except that the Bond Trustee shall make a charge to any bondholder requesting such exchange or registration in the amount of any tax or other governmental charge required to be paid with respect thereto.

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

This Bond shall not become obligatory for any purpose or be entitled to any security or benefit under the Indenture, hereinafter defined, or be valid until the Bond Trustee shall have executed the Certificate of Authentication appearing hereon.

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

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

By: _____
Chairman

[SEAL]

ATTEST:

Secretary

(Form of Trustee's Certificate of Authentication)

Date of Authentication: _____

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Series 2016 Bonds described in the within-mentioned Indenture.

U.S. BANK NATIONAL ASSOCIATION,
as Bond Trustee

By: _____
Authorized Agent

(Form of Assignment)

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF TRANSFEREE

the within Bond and all rights thereunder, hereby irrevocably constituting and appointing _____, Attorney to transfer said Bond on the books kept for the registration thereof, with full power of substitution in the premises.

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 in every particular, without alternation or enlargement or any change whatsoever.

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by an Eligible Guarantor Institution such as a Commercial Bank, Trust Company, Securities Broker/Dealer, Credit Union or Savings Association, who is a member of a medallion program approved by the Securities Transfer Association, Inc.

REQUISITION NO. ____

Date: _____

U.S. Bank National Association,
as Bond Trustee
1021 East Cary Street, Suite 1850,
Richmond, Virginia 23219
(Attention: Corporate Trust Department)

**Industrial Development Authority of the City of Lexington, Virginia
Residential Care Facility Refunding Revenue Bonds
(Kendal at Lexington), Series 2016**

On behalf of Lexington Retirement Community, Inc. (the "Borrower"), I hereby requisition pursuant to the Bond Indenture dated as of October 1, 2016 (the "Indenture"), between the Industrial Development Authority of the City of Lexington, Virginia and U.S. Bank National Association, as bond trustee, the sum specified on the attached Schedule to be paid to the parties specified on the attached Schedule for the purposes specified on the attached Schedule, from the Cost of Issuance Fund.

Each obligation for which a disbursement is hereby requested is described in reasonable detail in Exhibit A hereto together with the name and address of the person, firm or corporation to whom payment is due. The bills, invoices or statements of account for each obligation referenced in Exhibit A are attached hereto.

The Borrower hereby certifies that:

(a) Each of the obligations stated on Exhibit A constitutes a Cost of Issuance and such items are proper charges against the Cost of Issuance Fund and have not been the basis for a prior requisition that has been paid; and

(b) 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 under the Bond Indenture, the Master Indenture or the Agreement.

LEXINGTON RETIREMENT COMMUNITY, INC.

By: _____
Authorized Representative

Approved by:

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Representative

LOAN AGREEMENT

between

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

and

**LEXINGTON RETIREMENT COMMUNITY, INC.,
d/b/a Kendal at Lexington**

October 1, 2016

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THIS **LOAN AGREEMENT**, dated as of October 1, 2016, between the **INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF LEXINGTON, VIRGINIA**, a political subdivision of the Commonwealth of Virginia (the “Authority”), and **LEXINGTON RETIREMENT COMMUNITY, INC., d/b/a Kendal at Lexington**, a not-for-profit Virginia nonstock corporation (the “Borrower”),

WITNESSETH:

WHEREAS, the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the “Act”), authorizes the creation of industrial development authorities in several counties, cities and towns in Virginia and empowers such authorities, among other things, to acquire, improve, maintain, equip, own and sell and make loans with respect to facilities for the residence and care of the aged to the end that the Authority shall protect and promote the health and welfare of the inhabitants of the Commonwealth of Virginia, and further authorizes such authorities to issue their bonds for the purpose of carrying out any of their powers, and to pledge the revenues and receipts from loans with respect thereto, or from any other source, to the payment of such bonds;

WHEREAS, in order to further the purposes of the Act, the Authority has determined to issue its Residential Care Facility Refunding Revenue Bonds (Kendal at Lexington), Series 2016 (the “Series 2016 Bonds”), pursuant to a Bond Indenture dated as of the date hereof (the “Bond Indenture”), between the Authority and U.S. Bank National Association, as bond trustee, in the aggregate principal amount of \$ _____ and use the proceeds thereof to make a loan to the Borrower;

WHEREAS, the Borrower will use the proceeds of the Series 2016 Bonds to (1) refund the outstanding principal amount of the Authority’s Residential Care Facilities Mortgage Revenue Bonds (Kendal at Lexington), Series 2007A, (2) fund a debt service reserve fund for the Series 2016 Bonds, and (3) finance costs of issuing the Series 2016 Bonds;

WHEREAS, the Authority proposes to loan the proceeds of the sale of the Series 2016 Bonds to the Borrower, and the Borrower agrees to repay such loan on the terms and conditions hereinafter set forth.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.1 Definitions.

Except as set forth below or unless the context otherwise requires, all undefined capitalized terms shall have the meanings assigned to them in the Master Indenture or the Bond Indenture. The following words and terms shall have the following meanings unless the context otherwise requires:

“Act” shall mean the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended.

“Authority” shall mean the Industrial Development Authority of the City of Lexington, Virginia, a political subdivision of the Commonwealth of Virginia, its successor and assigns.

“Basic Services Agreement” shall mean the Mutual Expectations, System Services and Financial Understandings, dated December 1, 2014, between The Kendal Corporation and the Borrower, as the same may be amended and supplemented from time to time.

“Bond Indenture” shall mean the Bond Indenture dated as of the date hereof between the Authority and U.S. Bank National Association, as Bond Trustee, as amended or supplemented from time to time.

“Bond Trustee” shall mean the bond trustee at the time serving as such under the Bond Indenture, whether the original or a successor trustee.

“Closing Date” shall mean October __, 2016.

“Continuing Disclosure Certificate” shall mean the Continuing Disclosure Certificate dated as of October 1, 2016, from the Borrower with respect to the Series 2016 Bonds.

“Exempt Organization” shall mean an organization exempt from taxation under Section 501(c)(3) of the Code.

“Financing Instruments” shall mean the Master Indenture, the Series 2016 Obligation, the Deed of Trust, the Continuing Disclosure Certificate and this Loan Agreement.

“Loan” shall mean the loan to the Borrower under this Loan Agreement.

“Monthly System Fees” shall mean the monthly fees payable by the Borrower to The Kendal Corporation under the Basic Services Agreement.

“Net Proceeds” shall mean the gross proceeds from any insurance recovery or condemnation award remaining after payment of reasonable attorneys’ fees, reasonable fees and expenses of the Bond Trustee and all other reasonable expenses incurred in the collection of such gross proceeds.

“Prime Rate” shall mean the rate per year announced from time to time by the Bond Trustee, as its prime rate, with any change in the Prime Rate being effective as of the date such announced prime rate is changed.

“Requesting Beneficial Owner” shall mean any person or entity who shall have established to the reasonable satisfaction of the Borrower that it is a beneficial owner of an Outstanding Bond and who shall have filed with the Borrower in the last 24 months a request for such disclosure in writing, setting forth the address to which such information is to be sent.

“Requesting Broker/Dealer” shall mean any registered municipal securities broker or dealer or a member in good standing of the National Association of Securities Dealers, Inc. who shall have filed with the Borrower in the last 24 months a request for such disclosure in writing, setting forth the address to which such information is to be sent.

“Series 2007A Project” shall mean the portion of the Existing Facilities financed with the proceeds of the Series 2007A Bonds, as more fully described in Exhibit A hereto.

“Underwriter” shall mean B.C. Ziegler and Company, as underwriter for the Series 2016 Bonds.

Section 1.2 Rules of Construction.

The following rules shall apply to the construction of this Loan Agreement unless the context otherwise requires:

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

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

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

(d) The headings and table of contents herein are solely for convenience of reference and shall not constitute a part of this Loan Agreement nor shall they affect its meaning, construction or effect.

ARTICLE II

REPRESENTATIONS

Section 2.1 Representations by Authority.

The Authority makes the following representations:

(a) The Authority is duly organized under the Act and has the power to (1) enter into this Loan Agreement and the Bond Indenture, (2) assign the Series 2016 Obligation to the Bond Trustee, (3) issue the Series 2016 Bonds to refund the Series 2007A Bonds and (4) carry out its other obligations in connection therewith pursuant to this Loan Agreement. The Existing Facilities to be refinanced with the proceeds of the Series 2016 Bonds constitute facilities authorized to be financed and refinanced under the Act and in furtherance of the purposes for which the Authority was organized.

(b) The Authority has duly authorized the execution and delivery of the Bond Indenture, this Loan Agreement, the assignment of the Series 2016 Obligation, the performance of its obligations hereunder and thereunder and the issuance of the Series 2016 Bonds and,

simultaneously with the execution and delivery of this Loan Agreement, has duly executed and delivered the Bond Indenture and issued and sold the Series 2016 Bonds.

(c) The Authority is not in default in the payment of the principal of or interest on any of its material indebtedness for borrowed money and is not in default under any instrument under or subject to which any material indebtedness for borrowed money has been incurred and no event has occurred and is continuing under the provisions of any such instrument that with the lapse of time or the giving of notice, or both, would constitute an event of default thereunder.

(d) The Authority, to its knowledge, is not (1) in violation of the Act or any other existing federal or Virginia law, rule or regulation applicable to it or (2) in default under any indenture, mortgage, deed of trust, lien, lease, contract, note, order, judgment, decree or other agreement, instrument or restriction of any kind to which any of its assets are subject; provided, however, that this representation does not include a default with respect to other financings in which the Authority has acted as “conduit” issuer for other public or private entities not affiliated with the Borrower, wherein a default by such public or private entity would not have a material effect on the credit of the Authority or of the Borrower. The execution and delivery by the Authority of the Bond Indenture, this Loan Agreement, the Series 2016 Bonds and the assignment of the Series 2016 Obligation and the compliance with the terms and conditions thereof will not conflict with or result in the breach of or constitute a default under any of the above described documents or other restrictions.

(e) No further approval, consent or withholding of objection on the part of any regulatory body, federal, state or local, is required in connection with (1) the issuance and delivery of the Series 2016 Bonds by the Authority, (2) the execution or delivery of or compliance by the Authority with the terms and conditions of this Loan Agreement, the Bond Indenture or the Series 2016 Bonds or (3) the assignment and pledge by the Authority pursuant to the Bond Indenture of its rights under this Loan Agreement and the Series 2016 Obligation and the payments thereon by the Borrower, as security for payment of the principal of and premium, if any, and interest on the Series 2016 Bonds. The consummation by the Authority of the transactions set forth in the manner and under the terms and conditions as provided herein will comply with all state, local or federal laws and any rules and regulations promulgated thereunder.

(f) Notwithstanding anything herein to the contrary, any obligation the Authority may incur hereunder in connection with the issuance of the Series 2016 Bonds shall not be deemed to constitute a general obligation of the Authority but shall be payable solely from the payments received hereunder and under the Series 2016 Obligation and the security therefor.

(g) No litigation, inquiry or investigation of any kind in or by any judicial or administrative court or agency is pending or, to its knowledge, threatened against the Authority with respect to (1) the organization and existence of the Authority, (2) its authority to execute or deliver this Loan Agreement, the Bond Indenture, the Series 2016 Bonds or the assignment of the Series 2016 Obligation or the refunding of the Series 2007A Bonds, (3) the validity or enforceability of any of such instruments or the transactions contemplated hereby or thereby, (4) the title of any officer of the Authority who executed such instruments, or (5) any authority or proceedings related to the execution and delivery of such instruments on behalf of the Authority.

No such authority or proceedings have been repealed, revoked, rescinded or amended and all are in full force and effect.

(h) The Authority hereby finds that the refunding of the Series 2007A Bonds is advisable and in furtherance of the purposes for which the Authority was organized and will serve the purposes of the Act.

Section 2.2 Representations by the Borrower.

The Borrower makes the following representations:

(a) The Borrower is a nonstock corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia. The Borrower has the power to enter into the Financing Instruments and the transactions contemplated thereunder and, by proper corporate action, has duly authorized the execution and delivery of the Financing Instruments and the performance of its obligations thereunder.

(b) The Borrower is an organization described in Section 501(c)(3) of the Code, which has received a determination letter from the Internal Revenue Service classifying it as an organization (1) described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code (except with respect to “unrelated business taxable income” within the meaning of Section 512(a) of the Code) and (2) which is not a “private foundation” as defined in Section 509(a) of the Code. Such determination letter has not been modified, limited, revoked or suspended. The Borrower has not received any indication or notice, written or oral, from representatives of the Internal Revenue Service to the effect that its exemption under Section 501(c)(3) of the Code has been modified, limited, revoked, or superseded, or that the Internal Revenue Service is considering modifying, limiting, revoking or superseding such exemption. The Borrower is in compliance with all of the terms, conditions and limitations, if any, contained in the determination letter. There has been no change in the facts and circumstances represented to the Internal Revenue Service as a basis for receiving, and which formed the basis on which the Internal Revenue Service issued, the determination letter relating to the status of the Borrower as an organization described in Section 501(c)(3) of the Code and as an organization which is not a “private foundation” as defined in Section 509 of the Code of a nature or to a degree as would warrant any action by the Internal Revenue Service to modify, limit, revoke or supersede such determination letter as it applies to the Borrower. No administrative or judicial proceedings are pending or threatened which may, in any way, adversely affect the classification of the Borrower as an organization (1) described in Section 501(c)(3) of the Code which is exempt from federal income taxation under Section 501(a) of the Code and (2) which is not a “private foundation” as defined in Section 509 of the Code. The Borrower has received no notice or communication of any kind from the Internal Revenue Service directly or indirectly questioning its status described in the first sentence of this subsection or the tax-exempt status of any bonds issued on its behalf, or indicating that the Borrower or any such bonds specifically are being or will be audited with respect to such status. The Borrower is an organization organized and operated exclusively for charitable purposes and not for pecuniary profit, within the meaning of the Securities Act of 1933, as amended, and no part of the net earnings of the Borrower inures to the benefit of any

person, private stockholder or individual, within the meaning of Section 3(a)(4) of the Securities Act of 1933, as amended.

(c) The Borrower is not in default in the payment of the principal of or interest on any of its indebtedness for borrowed money and is not in default under any instrument under and subject to which any indebtedness has been incurred, and no event has occurred and is continuing under the provisions of any such agreement that with the lapse of time or the giving of notice, or both, would constitute an event of default thereunder.

(d) There is no litigation at law or in equity or any proceeding before any governmental agency involving the Borrower pending or, to the knowledge of the Borrower, threatened in which any liability of the Borrower is not adequately covered by insurance or for which adequate reserves are not provided or for which any judgment or order would have a material adverse effect upon the business or assets of the Borrower or affect its existence or authority to do business, the operation of the Existing Facilities, the refunding of the Series 2007A Bonds, the validity of the Financing Instruments or the performance of the Borrower's obligations thereunder.

(e) The execution and delivery of the Financing Instruments, the performance by the Borrower of its obligations thereunder and the consummation of the transactions therein contemplated do not and will not conflict with, or constitute a breach or result in a violation of, articles of incorporation or bylaws of the Borrower, any agreement or other instrument to which the 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 the Borrower or its property.

(f) The Borrower has obtained all consents, approvals, authorizations and orders of any governmental or regulatory authority ("Consents") that are required to be obtained by the Borrower as a condition precedent to the issuance of the Series 2016 Bonds and the execution and delivery of the Financing Instruments. The Borrower has obtained all Consents obtainable to date for the performance by the Borrower of its obligations hereunder and thereunder, or required as of the date hereof to undertake the operation of the Existing Facilities. The Borrower will obtain when needed all other Consents required for the performance of its obligations under the Financing Instruments, and for the operation of the Existing Facilities and has no reason to believe that all such Consents cannot be promptly obtained when needed.

(g) The Borrower will operate the facilities financed or refinanced with the proceeds of the Series 2007A Bonds, or cause such facilities to be operated, as facilities for the residence and care of the aged until payment of the Series 2016 Obligation in full.

ARTICLE III

REFUNDING OF SERIES 2007A BONDS

Section 3.1 Loan by the Authority

(a) Upon the terms and conditions of this Loan Agreement and the Bond Indenture, the Authority shall lend to the Borrower the proceeds of the sale of the Series 2016 Bonds. The

Loan shall be made by depositing proceeds of such sale in accordance with Section 206 of the Bond Indenture. The Loan shall be disbursed to the Borrower as provided in Article V of the Bond Indenture.

(b) To the extent permitted by law and subject to the conditions set forth in subsection (c) below, the Authority shall at the request of the Borrower issue Additional Bonds pursuant to the terms of Section 207 of the Bond Indenture for any purpose permitted under the Act, including to refund bonds previously issued by the Authority or a similar entity, to finance and refinance improvements and additions to the Borrower's facilities qualifying under the Act and to pay qualifying related costs such as issuance expenses and the funding of reserve funds. The documentation for any such Additional Bonds shall provide for any funding required to provide in the Reserve Fund the full amount of the Reserve Fund Requirement for all Bonds Outstanding on the date of the issuance of such Additional Bonds and shall require that the Borrower shall have issued or amended an Obligation securing payment of all principal of and premium, if any, and interest on such Additional Bonds.

(c) The obligation of the Authority under subsection (b) above shall be subject to the Authority's good faith determination that the issuance of such Additional Bonds will serve one or more purposes of the Act and be in the best interests of the citizens of the City of Lexington and that such Additional Bonds and the documentation therefor will state the limited liability of the Authority as provided in the Act, will provide for the payment of the reasonable fees and expenses of the Authority and otherwise will comply with reasonable conditions imposed by the Authority, which shall include the approval of the City Council of the City of Lexington if required by state or federal law for the issuance of such Additional Bonds.

Section 3.2 Agreement To Complete the Refunding of the Series 2007A Bonds.

The Borrower shall use the proceeds of the Loan to refund the outstanding principal amount of the Series 2007A Bonds and for related uses.

Section 3.3 Repayment of Loan.

Prior to or simultaneously with the issuance of the Series 2016 Bonds, to evidence its obligations to repay the Loan, the Borrower shall deliver the Series 2016 Obligation to the Authority for assignment to the Bond Trustee as security for the payment of the Series 2016 Bonds.

Section 3.4 Borrower To Provide Funds To Complete the Refunding of the Series 2007A Bonds.

If the proceeds derived from the Loan are not sufficient to refund the outstanding principal amount of the Series 2007A Bonds, the Borrower shall pay such moneys as are necessary to provide for payment in full of such costs of refunding the Series 2007A Bonds. The Borrower shall not be entitled to any reimbursement therefor from the Authority or the Bond Trustee nor shall it be entitled to any abatement, diminution or postponement of its payments hereunder or under the Series 2016 Obligation.

Section 3.5 Limitation of Authority’s Liability.

Notwithstanding anything herein to the contrary, any obligation the Authority may incur hereunder in connection with the refunding of the Series 2007A Bonds shall not be deemed to constitute a general obligation of the Authority but shall be payable solely from the revenues and receipts derived by it from or in connection with this Loan Agreement, including payments received under the Series 2016 Obligation.

Section 3.6 Recordation and Filing.

The Borrower shall cause the Deed of Trust and all amendments and modifications thereto and financing statements with respect to the security interests granted under the Deed of Trust to be recorded and in effect, all as provided in the Deed of Trust.

Section 3.7 Mortgagee Title Policy.

At the incurrence of the Series 2016 Obligation, the Borrower shall deliver to the Master Trustee a mortgagee title insurance policy or endorsement thereto as required by the Master Indenture.

ARTICLE IV

PAYMENTS ON BOND OBLIGATIONS

Section 4.1 Amounts Payable.

(a) The Borrower shall make all payments required by the Bond Obligations, the Bond Indenture and the Master Indenture as and when they become due and shall promptly pay all other amounts necessary to enable the Bond Trustee to make the transfers required by Article VI of the Bond Indenture and all other payments required of the Authority pursuant to the Bond Indenture. On or before the tenth day of each month, the Borrower shall transfer to the Bond Trustee, for use pursuant to Section 602 of the Bond Indenture, the amount necessary to permit the Bond Trustee to provide in all funds held by the Bond Trustee the full amounts required by Section 602. The Borrower immediately shall pay to the Bond Trustee any amounts necessary pursuant to the Bond Indenture to provide (i) for payment of principal and interest on the Bonds when due at maturity or subject to mandatory sinking fund redemption and (ii) the full amount of the Reserve Fund Requirement in the Reserve Fund if such fund does not contain the full amount of the Reserve Fund Requirement.

(b) The Borrower shall also pay, or cause to be paid, upon demand if so specified, or otherwise as and when the same become due and payable:

(1) An amount equal to (a) the fees and charges of the Bond Trustee incurred in connection with the rendering of its ordinary and extraordinary services as Bond Trustee under the Bond Indenture, including the reasonable fees and expenses of its counsel, (b) the fees and expenses of the rating agencies, if any, for issuing and maintaining their securities rating on the Bonds, and (c) the reasonable costs, fees and expenses of the Authority directly related to the Series 2016 Bonds, including the fees of

its counsel, bond counsel and other advisors. The Borrower may, without constituting grounds for an Event of Default hereunder, withhold payment of any such fees and charges of the Bond Trustee, to contest in good faith the necessity for any extraordinary services of the Bond Trustee and the reasonableness of any extraordinary expenses of the Bond Trustee. If the Borrower should fail to make any of the payments required in this Section, the item or installment which the Borrower has failed to make shall continue as an obligation of the Borrower until the same shall have been fully paid, with interest thereon at the rate per annum borne by the Bonds until paid in full (provided that any amounts in this Section required to be paid by the Borrower shall not equal or exceed an amount that would cause the “yield” on a Bond Obligation or any other “acquired purpose obligation” to be “materially higher” than the “yield” on the series of Bonds secured by such Bond Obligation, as such terms are defined under Section 148 of the Code).

(2) Amounts described in Section 4.8.

(3) All other amounts that the Borrower agrees to pay under the terms of this Loan Agreement.

Section 4.2 Payments Assigned.

The Borrower consents to the assignment made by the Bond Indenture of the Bond Obligations and of rights of the Authority under this Loan Agreement to the Bond Trustee. The Borrower shall pay to the Bond Trustee all amounts payable by the Borrower pursuant to the Bond Obligations and this Loan Agreement, except for payments made to the Authority pursuant to Sections 4.1(b)(1), 5.6 and 6.5.

Section 4.3 Default in Payments.

If the Borrower fails to make any payments required by the Bond Obligations or this Loan Agreement when due, the Borrower shall pay to the Bond Trustee interest thereon until paid at the rate equal to the highest rate on any Bonds then Outstanding or, in case of the payment of any amounts not to be used to pay principal of or interest on Bonds at the rate equal to the Prime Rate plus one percent per year.

Section 4.4 Obligations of Borrower Unconditional.

The obligation of the Borrower to make the payments on the Bond Obligations and to observe and perform all other covenants, conditions and agreements hereunder shall be absolute and unconditional, irrespective of any rights of setoff, recoupment or counterclaim it might otherwise have against the Authority or the Bond Trustee. Subject to the prepayment of the Bond Obligations as provided therein, the Borrower shall not suspend or discontinue any payment on the Bond Obligations or hereunder or fail to observe and perform any of its other covenants, conditions or agreements hereunder for any cause, including without limitation, any acts or circumstances that may constitute an eviction or constructive eviction, failure of consideration, failure of title to any part or all of the Facilities or commercial frustration of purpose, or any damage to or destruction or condemnation of all or any part of the Facilities, or any change in the tax or other laws of the United States of America, Commonwealth of Virginia

or any political subdivision of either, or any failure of the Authority or the Bond Trustee to observe and perform any covenant, condition or agreement, whether express or implied, or any duty, liability or obligation arising out of or in connection with the Bond Indenture or this Loan Agreement. The Borrower may, after giving to the Authority and the Bond Trustee ten days' notice of its intention to do so, at its own expense and in its own name, or in the name of the Authority if procedurally required, prosecute or defend any action or proceeding or take any other action involving third persons that the Borrower reasonably deems necessary to secure or protect any of its rights hereunder. In the event the Borrower takes any such action, the Authority shall, solely at the Borrower's expense, reasonably cooperate with the Borrower and take necessary action to substitute the Borrower for the Authority in such action or proceeding if the Borrower shall reasonably request.

Section 4.5 Advances by Authority or Bond Trustee.

If the Borrower fails to make any payment or perform any act required of it hereunder, the Authority or the Bond Trustee, without prior notice or demand on the Borrower and without waiving or releasing any obligation or default, may (but shall be under no obligation to) make such payment or perform such act. All amounts so paid by the Authority or the Bond Trustee and all costs, fees and expenses so incurred shall be payable by the Borrower on demand as an additional obligation under the Bond Obligations, together with interest thereon at the Prime Rate plus one percent per year until paid.

Section 4.6 Agreement of Authority.

At the request and expense of the Borrower, the Authority shall (a) at any time moneys held pursuant to the Bond Indenture are sufficient to effect redemption of any Bonds and if the same are then redeemable under the Bond Indenture, take all steps that may be necessary to effect redemption thereunder and (b) take any other action required by the Bond Indenture or as directed by the Borrower pursuant to the provisions of the Bond Indenture or this Loan Agreement.

Section 4.7 Rebate Covenant.

The Authority covenants that it shall not knowingly take any action that would cause any Tax-Exempt Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. The Borrower covenants that no use of the proceeds of any Tax-Exempt Bonds or the earnings thereon will be made or directed, and no other action will be taken, that would cause any Tax-Exempt Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. The Borrower further covenants that (i) all actions with respect to the Tax-Exempt Bonds required by Section 148(f) of the Code shall be taken, (ii) it shall make the determinations required by Section 148(f) of the Code at its own expense and promptly notify the Authority of the same, together with supporting calculations, and (iii) it shall within forty-five (45) days after the final payment, whether upon redemption in whole or at maturity, of any series of Tax-Exempt Bonds, file with the Authority a statement signed by the Borrower to the effect that the Borrower is then in compliance with its covenants contained in clauses (i) and (ii) of this sentence, together with supporting calculations; provided, however, that if the Borrower shall furnish an Opinion of Bond Counsel to the Authority to the effect that no further action by the Borrower is required for

such compliance with respect to any series of Tax-Exempt Bonds, the Borrower shall not thereafter be required to deliver any such statements or calculations.

Section 4.8 Authority Rebate Report.

Within 30 months of the date of issuance of any series of Tax-Exempt Bonds (the “Issue Date”), the Borrower shall advise the Authority whether such series of Tax-Exempt Bonds has qualified for an exception to the rebate requirement. In the event that for any reason rebate is payable to the United States pursuant to Section 148 of the Code, the Borrower shall cause to be calculated by an expert in rebate calculations satisfactory to the Authority, the amount of rebate required to be paid pursuant to Section 148(f) of the Code (the “Rebate Amount”). The Borrower shall furnish a copy of each such rebate calculation to the Authority promptly upon its completion. The Borrower agrees to pay the amount so calculated to the United States on behalf of the Authority at the times required by the Code, and to provide a copy of such calculations and proof of such payment to the Authority. The Borrower shall maintain or cause to be maintained records of the determinations of the rebate, if any, pursuant to this Section until six years after the retirement of any series of Tax-Exempt Bonds. This Section shall be construed in accordance with Section 148(f) of the Code, including, without limitation, any applicable regulations promulgated under the Code. Nothing contained in this Loan Agreement shall be interpreted or construed to require the Authority to make (or cause to be made) any rebate calculation or to pay any applicable rebate with its own funds, such obligation being the sole responsibility of the Borrower. The Authority shall not be liable to the Borrower by way of contribution, indemnification, counterclaim, set-off or otherwise for any payment made or expense incurred by the Borrower pursuant to this section or the Bond Indenture.

ARTICLE V

SPECIAL COVENANTS

Section 5.1 Compliance with Covenants, Conditions and Agreements in Master Indenture.

So long as the Bonds are Outstanding, the Borrower shall comply with, and with respect to the other members of the Obligated Group (as defined in the Master Indenture), covenant to cause each such member to comply with, each and every covenant, condition and agreement in the Master Indenture. Each such covenant, condition and agreement in the Master Indenture is hereby incorporated by reference and made a part of this Loan Agreement with the same effect intended as though the text of each such covenant, condition and agreement were set forth in this Loan Agreement as express covenants, conditions and agreements of the Borrower.

Section 5.2 Merger, Sale and Transfer.

Except as provided in Section 3.09 of the Master Indenture, the Borrower shall not consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or to merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets and thereafter dissolve.

Section 5.3 Examination of Books and Records; Information to the Authority.

The Bond Trustee and the Authority shall be permitted, during normal business hours and upon reasonable notice, to examine the books and records (other than confidential resident records) of the Borrower with respect to the Borrower's financial standing or its compliance with its obligations hereunder and under the Master Indenture.

Section 5.4 Financial Statements and Other Information.

The Borrower shall furnish (a) to the Bond Trustee and the Underwriter the financial statements, certificate of no default and other information that the Borrower has covenanted to furnish the Master Trustee pursuant to Section 3.10 of the Master Indenture and (b) to the Underwriter and other parties such other information as may be required by law if the Bonds are to be recommended by the broker/dealers for purchase in the secondary market. Such information shall be furnished to such persons at the times and in the manner provided by Section 3.10 of the Master Indenture.

The Borrower shall file with the Bond Trustee and, for informational purposes, with the Underwriter, within ten days following its receipt thereof, a copy of any report and recommendations submitted by any consultant pursuant to Section 3.09 of the Master Indenture.

Section 5.5 Damage, Destruction, Condemnation and Loss of Title.

(a) The Borrower shall give prompt notice to the Bond Trustee and the Authority of (1) any material damage to or destruction of any part of the Facilities, (2) a taking of all or any part of the Facilities or any right therein under the exercise of the power of eminent domain, (3) any loss of any part of the Facilities because of failure of title thereto, or (4) the commencement of any proceedings or negotiations that might result in such a taking or loss. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceedings or negotiations.

(b) The Borrower shall apply any Net Proceeds consistent with the provisions of Section 3.04 of the Master Indenture. The Borrower shall simultaneously provide to the Bond Trustee the Officer's Certificates and consultant reports required to be delivered to the Master Trustee pursuant to Section 3.04 of the Master Indenture.

The Borrower shall not by reason of the payment of the cost of replacement, repair, rebuilding or restoration be entitled to any reimbursement from the Authority or the Bond Trustee or to any abatement or diminution of the amount payable under the Bond Obligations. All real and personal property acquired with Net Proceeds derived from Mortgaged Premises shall be free and clear of all liens and encumbrances of any kind except Permitted Liens and become part of the Mortgaged Premises and the Borrower shall take all steps necessary to subject such property to the lien and security interest of the Deed of Trust and to obtain an amendment to the mortgagee title policy to insure title to all such real property acquired. Prepayments of the Bond Obligations shall be used to redeem Bonds pursuant to Section 301 of the Bond Indenture.

Section 5.6 Indemnification.

(a) The Borrower shall at all times protect, indemnify and save harmless the Authority and the Bond Trustee (together, the “Indemnitees”) from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (hereinafter referred to as “Damages”), including without limitation (1) all amounts paid in settlement of any litigation commenced or threatened against the Indemnitees, if such settlement is effected with the written consent of the Borrower, (2) all expenses reasonably incurred in the investigation of, preparation for or defense of any litigation, proceeding or investigation of any nature whatsoever, commenced or threatened against the Borrower or the Indemnitees, (3) any judgments, penalties, fines, damages, assessments, indemnities or contributions, and (4) the reasonable fees of attorneys, auditors, and consultants, provided that the Damages arise out of:

(1) failure by the Borrower or its officers, employees or agents, to comply with the terms of the Financing Instruments or the Bond Indenture, and any agreements, covenants, obligations, or prohibitions set forth therein;

(2) any action, suit, claim or demand contesting or affecting the title of the Facilities;

(3) any breach of any representation or warranty set forth in the Financing Instruments or the Bond Indenture or any certificate delivered pursuant thereto, and any claim that any representation or warranty of the Borrower contains or contained any untrue or misleading statement of fact or omits or omitted to state any material facts necessary to make the statements made therein not misleading in light of the circumstances under which they were made;

(4) any action, suit, claim, proceeding or investigation of a judicial, legislative, administrative or regulatory nature arising from or in connection with the construction, acquisition, ownership, operation, occupation or use of the Facilities; or

(5) any suit, action, administrative proceeding, enforcement action, or governmental or private action of any kind whatsoever commenced against the Borrower, the Facilities or the Indemnitees that might adversely affect the validity or enforceability of any Bonds, the Financing Instruments or the Bond Indenture, or the tax-exempt status of any Tax-Exempt Bonds, or the performance by the Borrower or any Indemnitee of any of their respective obligations thereunder;

provided that such indemnity shall be effective only to the extent of any loss that may be sustained by the Indemnitees in excess of the proceeds net of any expenses of collection, received by them or from any insurance carried with respect to such loss and provided further that the benefits of this section shall not inure to any person other than the Indemnitees.

(b) If any action, suit or proceeding is brought against the Indemnitees for any loss or damage for which the Borrower is required to provide indemnification under this section, the Borrower, upon request, shall at its expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by the Borrower and approved by the Indemnitees, which approval shall not be unreasonably withheld, provided that such

approval shall not be required in the case of defense by counsel designated by any insurance company undertaking such defense pursuant to any applicable policy of insurance. The obligations of the Borrower under this section shall survive any termination of this Loan Agreement, including prepayment of the Bond Obligations.

(c) Nothing contained herein shall require the Borrower to indemnify the Authority for any claim or liability resulting from its willful wrongful acts or the Bond Trustee for any claim or liability resulting from its gross negligence (under the standard of care set forth in Article X of the Bond Indenture) or its willful, wrongful acts.

(d) All references in this section to the Authority and the Bond Trustee, including references to Indemnitees, shall include their directors, commissioners, officers, employees and agents.

Section 5.7 Maintenance of 501(c)(3) Status; Prohibited Activities.

The Borrower shall file all required reports and documents with the Internal Revenue Service so as to maintain its status as an Exempt Organization, and shall not operate the Facilities in any manner, engage in any activities or take any other action (or omit to take any action) that would result in the Borrower ceasing to be a “501(c)(3) organization” within the meaning of Section 145 of the Code. The Borrower shall promptly notify the Bond Trustee and the Authority of any loss of its status as a “501(c)(3) organization” or of any investigation, proceeding or ruling that might result in loss of such status.

The Borrower further covenants and agrees that, as long as the Series 2016 Bonds remain Outstanding, it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture will remain a Member of the Obligated Group.

Section 5.8 Tax Covenants.

(a) Use of Proceeds; Prohibited Uses of the Series 2007A Project, etc. The Borrower shall not, and the Authority shall not knowingly, cause any proceeds of the Tax-Exempt Bonds to be expended except in accordance with the provisions of this Loan Agreement. The Borrower shall not (i) permit the proceeds of the Tax-Exempt Bonds to be used in any way that would result in less than 95% of the proceeds of the Tax-Exempt Bonds 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) approve the use of the proceeds of any Tax-Exempt Bond or any other funds other than in accordance with this Loan Agreement, (iii) take or permit any action that would result in more than 5% of the proceeds of the Tax-Exempt Bonds being used directly or indirectly to make or finance loans to any person who is not a “501(c)(3) organization” within the meaning of Section 145 of the Code, (iv) permit the Series 2007A Project to be used or occupied by the United States or an agency or instrumentality thereof in any manner for compensation, including any entity with statutory authority to borrow from the United States (in any case within the meaning of Section 149(b) of the Code), including without limitation causing the Tax-Exempt Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code, (v) allow any of the property provided by the proceeds of the Tax-

Exempt Bonds to be owned by any person who is not a “501(c)(3) organization” within the meaning of Section 145 of the Code or (vi) permit the proceeds of the Tax-Exempt Bonds to be used, directly or indirectly, to provide residential real property for family units. The Borrower shall not take or omit, or permit to be taken or omitted, any other action, the taking or omission of which would cause the inclusion of interest on the Tax-Exempt Bonds in gross income for Federal income tax purposes.

(b) Test-Period Beneficiary. If 95% or more of the net proceeds of the Series 2016 Bonds are not used to refinance capital expenditures, the Borrower shall not take any action or allow any action to be taken that will cause the “aggregate authorized face amount” of the Series 2016 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 Authority and the Bond Trustee an Opinion of Bond Counsel stating that such action will not impair the exclusion of interest on the Series 2016 Bonds from gross income for federal income tax purposes.

(c) Economic Life of the Series 2007A Project. The Borrower hereby represents that the “average reasonably expected economic life” of the components comprising the Series 2007A Project, determined pursuant to Section 147(b) of the Code, is not less than the amount set forth in the certificates or letters of representation of the Borrower delivered on the Closing Date. The weighted average maturity of the Series 2016 Bonds does not exceed 120% of the “average reasonably expected economic life” of the components comprising the Series 2007A Project, determined pursuant to Section 147(b) of the Code, as set forth in the certificates or letters of representation of the Borrower delivered on the Closing Date. The Borrower agrees that it will not make any changes in the Series 2007A Project that would, at the time made, cause the “average reasonably expected economic life” of the components of the Series 2007A Project, determined pursuant to Section 147(b) of the Code, to be less than the “average reasonably expected economic life” of the components set forth in the certificates or letters of representation of the Borrower delivered on the Closing Date, unless the Borrower shall file with the Authority and the Bond Trustee an Opinion of Bond Counsel that such change to the Series 2007A Project will not impair exclusion of interest on the Series 2016 Bonds from gross income for Federal income tax purposes.

(d) Certificate of Information; 8038 Form. The Borrower hereby represents that the information contained in the certificates or letters of representation of the Borrower with respect to the compliance with the requirements of Section 149 of the Code, including the information in Form 8038 (excluding the employer identification number of the Authority), filed by the Authority with respect to the Series 2016 Bonds, is true and correct in all material respects.

Section 5.9 Investment and Use of Trust Funds.

An Authorized Representative of the Borrower shall provide instructions for the investment, in accordance with Article VII of the Bond Indenture, of all funds held by the Bond Trustee under the Bond Indenture.

Section 5.10 Payment of Monthly System Fees.

The Borrower shall pay the Monthly System Fees and shall cause The Kendal Corporation to rebate the Monthly System Fees only in accordance with the following provisions:

(a) If the Obligated Group's Long-Term Debt Service Coverage Ratio in any Fiscal Year is less than 1.20, the Borrower shall cause The Kendal Corporation to rebate to the Obligated Group the Monthly System Fees paid to The Kendal Corporation during such Fiscal Year in an amount equal to the lesser of (1) 50% of the total Monthly System Fees paid in such Fiscal Year, and (2) such amount that would have been necessary for the Obligated Group's Long-Term Debt Service Coverage Ratio for such Fiscal Year to equal at least 1.20. If any amounts have been so rebated and not subsequently repaid by the Borrower to The Kendal Corporation, at the completion of any subsequent Fiscal Year (the "Applicable Fiscal Year"), the Borrower may repay any such rebated amounts to the extent that, if such amount had been repaid in the Applicable Fiscal Year, the Obligated Group's Long-Term Debt Service Coverage Ratio would have been not less than 1.20.

(b) Notwithstanding the provisions of (a) above, the Borrower may pay the Monthly System Fees without restriction and shall not cause The Kendal Corporation to rebate any of the Monthly System Fees beginning on the earlier to occur of either (i) the Long-Term Debt Service Coverage Ratio has not been less than 1.20 for six consecutive calendar quarters or (ii) the Long-Term Debt Service Coverage Ratio has not been less than 1.20 for four consecutive calendar quarters.

Section 5.11 Additional Disclosure. [Ziegler to give comments]

(a) The Borrower shall, within 45 days after the end of each quarter of each Fiscal Year, commencing with the fiscal quarter ending _____, 2016, provide to the Bond Trustee, the Underwriter and EMMA (collectively, the "Required Information Recipients") the following information:

(1) The cumulative unaudited financial statements, including income statements, balance sheet and statement of cash flows, of the Obligated Group for the Fiscal Year to date, showing a comparison to the Obligated Group's current budget;

(2) Occupancy statistics for the Facilities for such Fiscal Quarter and year to date, which shall include (A) the average number of units available for the quarter, (B) the average number of units occupied for the quarter, (C) the percent of units occupied during the quarter, and (D) the number of independent living units vacated during the quarter, specifying the reason for turnover;

(3) Computations of the Long-Term Debt Service Coverage Ratio calculated on an annualized basis for the period beginning on the first day of such Fiscal Year and ending on the last day of such Fiscal Quarter then ended, the number of Days' Cash on Hand as of the end of such Fiscal Quarter; and

(4) an abbreviated narrative of the operating and financial environment of the Obligated Group for such Fiscal Quarter.

(b) In addition to the foregoing, the Borrower shall deliver to each Requesting Broker/Dealer and Requesting Beneficial Owner (1) the Obligated Group's annual budget when available and (2) any Consultant's report the Obligated Group is required to deliver to the Bond Trustee pursuant to this Loan Agreement.

(c) The failure of the Borrower to comply with the provisions of this Section shall not be deemed to constitute an Event of Default hereunder.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.1 Event of Default Defined.

Each of the following events shall be an Event of Default:

(a) Failure of the Borrower to make any payment on the Bond Obligations when the same becomes due and payable, whether at maturity, redemption, acceleration or otherwise pursuant to the terms thereof or this Loan Agreement.

(b) Failure of the Borrower to observe or perform any of its other covenants, conditions or agreements hereunder, including covenants applicable to other Members of the Obligated Group pursuant to Section 5.1, for a period of 30 days after notice in writing (unless the Borrower and the Bond Trustee shall agree in writing to an extension of such time prior to its expiration), specifying such failure and requesting that it be remedied, given by the Authority or the Bond Trustee to the Borrower, or in the case of any default which can be cured, but cannot with due diligence be cured within such 30 day period, failure by the Borrower to proceed promptly to prosecute the curing of the same with due diligence and to cure such within 90 days.

(c) An Event of Default under the Master Indenture, the Deed of Trust or the Bond Indenture.

(d) The Master Trustee shall have declared the aggregate principal amount of any Obligation issued under the Master Indenture and all interest due thereon immediately due and payable in accordance with Section 4.02(a) of the Master Indenture.

Section 6.2 Remedies on Default.

Whenever an Event of Default shall have happened and be continuing, the Bond Trustee as the assignee of the Authority may:

(a) Declare all amounts due under this Loan Agreement and the Bond Obligations to be immediately due and payable, whereupon all such payments shall become and shall be immediately due and payable; and

(b) Take any action at law or in equity necessary or desirable to collect the amounts then due and thereafter to become due or to enforce observance or performance of any covenant, condition or agreement of the Borrower under the Bond Obligations or this Loan Agreement.

Notwithstanding any other provision of this Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Bond Trustee shall not under any circumstances declare the entire unpaid aggregate amount of the Bond Obligations to be immediately due and payable except in accordance with the provisions of the Master Indenture or at the direction of the Master Trustee in the event the Master Trustee shall have declared the aggregate principal amount of the Bond Obligations issued under the Master Indenture and all interest due thereon immediately due and payable in accordance with the Master Indenture.

If the Bond Trustee exercises any of its rights or remedies under this section, it shall give notice of such exercise to the Borrower (1) in writing in the manner provided in Section 8.2 and (2) by telephone or telegram, provided that failure to give such notice by telephone or telegram shall not affect the validity of the exercise of any right or remedy under this section.

Section 6.3 Application of Amounts Realized in Enforcement of Remedies.

Any amounts collected pursuant to action taken under Section 6.2 hereof shall be applied in accordance with the provisions of the Bond Indenture or, if payment of the Bonds shall have been made, shall be applied according to the provisions of Section 609 of the Bond Indenture.

Section 6.4 No Remedy Exclusive.

No remedy herein conferred on or reserved to the Authority or the Bond Trustee is intended to be exclusive of any other remedy, and every remedy shall be cumulative and in addition to every other remedy herein or now or hereafter existing at law, in equity or by statute. No delay or failure to exercise any right or power accruing upon an Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, and any such right or power may be exercised from time to time and as often as may be deemed expedient.

Section 6.5 Attorneys' Fees and Other Expenses.

Upon an Event of Default, the Borrower shall on demand pay to the Authority and the Bond Trustee the reasonable fees and expenses of attorneys and other reasonable expenses incurred by them in the collection of payments due on the Bond Obligations or the enforcement of performance of any other obligations of the Borrower.

Section 6.6 No Additional Waiver Implied by One Waiver.

If either party or its assignee waives a default by the other party under any covenant, condition or agreement herein, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other default hereunder.

ARTICLE VII

PREPAYMENT OF BOND OBLIGATIONS

Section 7.1 Option To Prepay Note.

(a) The Borrower shall have the option to prepay the Bond Obligations in full without premium and terminate this Agreement at any time if one of the following has occurred:

(1) Damage or destruction of the Mortgaged Premises by fire or other casualty, or loss of title to or use of substantially all of the Mortgaged Premises as a result of the exercise of the power of eminent domain or failure of title to the extent that, in the opinion of both the Borrower's Board of Directors (expressed in a resolution) and an independent architect or engineer, both filed with the Bond Trustee, (i) the Mortgaged Premises cannot be reasonably repaired, rebuilt or restored within a period of 12 months to their condition immediately preceding such damage or destruction, or (ii) the Borrower is prevented from carrying on its normal operations at the Mortgaged Premises for a period of 12 months, or (iii) the cost of repairs, rebuilding or restoration would exceed, by more than one percent of Book Value, the Net Proceeds of insurance (including self-insurance) plus the amounts for which the Borrower is self-insured with respect to deductible amounts.

(2) A change in the Constitution of Virginia or of the United States of America or a legislative or administrative action (whether local, state or federal) or a final decree, judgment or order of any court or administrative body (whether local, state or federal) contested by the Borrower in good faith which causes this Loan Agreement or the Bond Obligations to become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed herein or unreasonable burdens or excessive liabilities to be imposed on the Authority or the Borrower.

(b) The Borrower shall have the option to prepay the Bond Obligations in part without premium following loss of title to or use of a portion of the Mortgaged Premises as a result of the exercise of the power of eminent domain or failure of title, or damage to or destruction of the Mortgaged Premises if the Borrower shall have furnished to the Bond Trustee:

(1) an Officer's Certificate certifying that the projected Obligated Group Long-Term Debt Service Coverage Ratio for each of the next two full Fiscal Years is not less than 1.30, as shown by projected financial statements for such period, accompanied by a statement of the relevant assumptions upon which such projected financial statements are based; or

(2) a written forecast, projection or other report of a consultant to the effect that, for each of the next two full Fiscal Years, the projected Obligated Group Long-Term Debt Service Coverage Ratio is not less than 1.20.

The principal amount of the Bond Obligations that may be prepaid in part may not exceed the principal amount of the Bonds permitted to be redeemed as determined in accordance with Section 301(a) of the Bond Indenture.

(c) To exercise any of the above options, the Borrower shall within 120 days after the event permitting their exercise file the required resolutions, certificates, reports and opinions with the Authority and the Bond Trustee and specify a date not more than 60 days thereafter for making such prepayment. In such case the Authority shall cause the Bond Trustee to redeem the Bonds as provided in Section 301(a) of the Bond Indenture.

Section 7.2 Option to Prepay Series 2016 Obligation in Whole.

The Borrower shall have the option to prepay the Series 2016 Obligation in whole, with any applicable premium, before payment of the Series 2016 Bonds so long as any such payment allocable to principal of the Series 2016 Obligation shall be used contemporaneously to discharge a like amount of Series 2016 Bonds; provided, however, that the covenants in Sections 5.7 and 5.8 shall continue until the final maturity date of all Bonds or the earlier date on which provision for payment for all Bonds has been made and the covenants in Sections 4.7 and 4.8 shall continue for six years thereafter. In such case the Authority shall cause the Bond Trustee to redeem the Series 2016 Bonds as provided in Section 301 of the Bond Indenture.

Section 7.3 Option To Prepay Series 2016 Obligation in Part.

The Borrower shall have the option to prepay the Series 2016 Obligation in part, with any applicable premium, so long as any such payment allocable to principal of the Series 2016 Obligation shall be used contemporaneously to discharge a like amount of Series 2016 Bonds. The amount so prepaid shall, so long as all payments then due under the Series 2016 Obligation have been made (a) if Series 2016 Bonds are then redeemable as provided in Section 301 of the Bond Indenture, be used to redeem Series 2016 Bonds to the extent possible under such section, and (b) if Series 2016 Bonds are not then redeemable, be transferred to the Bond Fund.

Section 7.4 Amount Required for Prepayment.

To prepay the Series 2016 Obligation in whole or in part under Sections 5.5, 7.1, 7.2 or 7.3, the Borrower shall pay to the Bond Trustee, for deposit in the Bond Fund of the Bond Indenture, an amount of cash and Defeasance Obligations, as defined in the Bond Indenture, that will be sufficient (a) in the case of prepayment in whole, to discharge the lien of the Bond Indenture pursuant to Section 801 thereof, and (b) in the case of prepayment in part, to cause any Series 2016 Bonds that will be paid with the prepayment to be no longer Outstanding under the Bond Indenture. If the Borrower has prepaid the Series 2016 Obligation, as provided above, the Borrower shall not direct the expenditure of any funds from such prepayment in the Bond Fund for any purpose other than the payment of principal of or premium, if any, or interest on the Series 2016 Bonds to be paid. The Borrower shall instruct the Bond Trustee to give the notice of redemption required by Section 302 of the Bond Indenture if any of the Series 2016 Bonds are to be paid other than at maturity.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Term of Loan Agreement.

This Loan Agreement shall be effective upon its execution and delivery and, subject to earlier termination upon prepayment in full of the Bond Obligations and other amounts described in Articles IV, VI and VII, shall expire on the first date upon which Bonds are no longer Outstanding; provided, however, that the covenants in Section 5.6 shall survive any termination of this Loan Agreement including prepayment of the Bond Obligations, the covenants in Sections 5.7 and 5.8 shall continue until the final maturity date of all Bonds or the earlier redemption date on which provision for payment for all Bonds has been made, and the covenants in Sections 4.7 and 4.8 shall continue for six years thereafter. In such case the Authority shall cause the Bond Trustee to redeem the Bonds as provided in Section 301 of the Bond Indenture.

Section 8.2 Notices.

Unless otherwise provided herein all demands, notices, approvals, consents, requests, opinions and other communications hereunder shall be in writing and shall be deemed to have been given when delivered in person or mailed by first class registered or certified mail, postage prepaid or, by facsimile, and if sent by facsimile confirmed by telephone, addressed:

(a) if to the Borrower, at Kendal at Lexington, 160 Kendal Drive, Lexington, Virginia 24450 (Attention: Executive Director).

(b) if to the Bond Trustee, at 1021 East Cary Street, Suite 1850, Richmond, Virginia 23219 (Attention: Corporate Trust Department).

(c) if to the Authority, at Lexington City Hall, 300 East Washington Street, Lexington Virginia 24450 (Attention: Chairman).

(d) if to the Underwriter, at B.C. Ziegler and Company, 4801 Cox Road, Suite 103, Richmond, Virginia 23230 (Attention: _____).

A duplicate copy of each demand, notice, approval, consent, request, opinion or other communication given hereunder by either the Authority or the Borrower to the other shall also be given to the Bond Trustee and, for information purposes only, the Underwriter. The Borrower, the Bond Trustee, the Authority or the Underwriter may, by notice given hereunder, designate any further or different addresses to which subsequent demands, notices, approvals, consents, requests, opinions or other communications shall be sent or persons to whose attention they shall be directed.

Section 8.3 Amendments to Loan Agreement and Bond Obligations.

Neither this Loan Agreement nor the Bond Obligations shall be amended or supplemented and no substitution shall be made for a Bond Obligation before payment of the Bonds secured thereby without the consent of the Bond Trustee and the Authority (except as

described in Sections 4.7 and 4.8), given in accordance with and subject to Article XII of the Bond Indenture.

Section 8.4 Successors and Assigns.

This Loan Agreement shall be binding on, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.5 Severability.

If any provision of this Loan Agreement shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof.

Section 8.6 Applicable Law; Entire Understanding.

This Loan Agreement and the Bond Obligations shall be governed by the applicable laws of the Commonwealth of Virginia. This Loan Agreement and the Bond Obligations (including the applicable provisions of the Bond Indenture, the Master Indenture and the Tax Compliance Agreement) express the entire understanding and all agreements between the parties and may not be modified except in writing signed by the parties.

Section 8.7 Limitation of Liability of Directors of Authority.

No covenant, agreement or obligation contained in any of the Financing Instruments or the Bond Indenture shall 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 individual capacity, and neither the directors of the Authority nor any officer, employee or agent thereof executing any Financing Instrument or the Bond Indenture shall be liable personally on such Financing Instrument or Bond Indenture or be subject to any personal liability or accountability by reason of the issuance thereof. No director, officer, employee or agent of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to a Financing Instrument, the Bond Indenture or the Act or any of the transactions contemplated thereby provided he does not act in bad faith.

Section 8.8 Counterparts.

This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument, except that to the extent, if any, that this Loan Agreement shall constitute personal property under the Uniform Commercial Code of Virginia, no security interest in this Loan Agreement may be created or perfected through the transfer or possession of any counterpart of this Loan Agreement other than the original counterpart, which shall be the counterpart containing the receipt therefor executed by the Bond Trustee following the signatures to this Loan Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Authority and the Borrower have caused this Loan Agreement to be executed in their respective corporate names.

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

By: _____
Chairman

**LEXINGTON RETIREMENT COMMUNITY,
INC., d/b/a Kendal at Lexington**

By: _____
Executive Director

RECEIPT

Receipt of the foregoing original counterpart of the Loan Agreement dated as of October 1, 2016, between the Industrial Development Authority of the City of Lexington, Virginia and Lexington Retirement Community, Inc., d/b/a Kendal at Lexington is hereby acknowledged.

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

By: _____
Authorized Agent

THE SERIES 2007A PROJECT

[Borrower to confirm]

The Series 2007A Project consisted of the renovation and expansion of the residential and health care facility for the aged known as Kendal at Lexington and located in both Rockbridge County, Virginia, and the City of Lexington, Virginia, including, but not limited to, (1) 14 new independent living apartments totaling 27,500 square feet, (2) 32 new independent living cottages totaling 79,000 square feet and consisting of 26 single-family homes and 6 duplex homes, (3) a new 8,100 square-foot wellness center with an indoor swimming pool, a fitness room, a massage center, changing rooms and an aerobics studio, (4) a new 4,500 square-foot auditorium with seating for 125 people, and (5) renovation of (a) existing dining facilities to create two separate dining venues, which renovation will add 4,500 square feet of space to the Facility and (b) certain of the Facility's common areas.

APPENDIX A

KENDAL AT LEXINGTON

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KENDAL AT LEXINGTON

Lexington Retirement Community, Inc. d/b/a Kendal at Lexington ("KaLex") is a non-profit, non-stock Virginia corporation. It is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

History and Structure

KaLex is in Lexington, located in the Shenandoah Valley of Virginia and home to two colleges, Washington and Lee University and the Virginia Military Institute. In the fall of 1994, residents from two local churches gathered to investigate the possibility of building a retirement community in the area and hired an independent firm to conduct a market feasibility study. The group incorporated as Lexington Retirement Community, Inc., for the purpose of developing, marketing and managing a continuing care retirement community ("CCRC"). A local resident donated approximately 84 acres of land located partly in the City of Lexington and partly in Rockbridge County, including a home and farm buildings for the retirement community. The land is located within a mile and a quarter radius of downtown Lexington, Washington and Lee University, Virginia Military Institute, and Carilion Stonewall Jackson Hospital.

In 1997, KaLex amended its by-laws to affiliate with The Kendal Corporation ("Kendal"), a Pennsylvania non-profit organization. Kendal has no ownership interest in KaLex, but has certain specific reserve powers. See "Relationship with The Kendal Corporation." In April 1999, KaLex broke ground on a community (the "Facilities") which consisted of 70 independent living units residences and 20 assisted living apartments. The Facilities were completed and available for occupancy in July 2000. In 2004 and 2005, five new independent living cottages were built. In 2006, KaLex demolished four independent living cottages in order to prepare for expansion. The "Phase II" expansion consisted of 35 cottages, a 14-apartment addition, a fitness center with pool, expansions and renovations to the dining room and common building. Construction was completed in Spring 2009.

The Facilities originally contained no nursing care beds. In 2001, KaLex became the sole member of Lexington Health Investors, LLC (LHI), which was previously known as Stonewall Jackson Health Investors, LLC. In 2001, LH Investors received approximately two acres of land from KaLex and loans from SunTrust Bank and Carilion Stonewall Jackson Hospital to construct a 60-bed skilled nursing center, known as the Benjamin Borden Health Center (the "Borden Center"). LHI was dissolved on December 31, 2009, and all assets, liabilities and net assets were transferred to KaLex.

Board of Directors

KaLex is governed by a volunteer board of directors (the "Board"), consisting of not fewer than 10 nor more than 20 directors. The Board shall have all powers and authority necessary for the management of the business of Kendal at Lexington, provided that is solely responsible for all decisions affecting KaLex and the Facilities. At least two members of the Board, but not more than 20%, shall be residents of the Facilities.

Under KaLex’s bylaws, The Kendal Corporation must approve the following actions by KaLex:

- 1) Any change in corporate purposes;
- 2) Incurring of indebtedness with a principal amount higher than that specified in the Affiliation Agreement;
- 3) The manner in which KaLex uses the name Kendal;
- 4) Any material change in the contract which Kendal at Lexington executes with its residents;
- 5) The purchase, sale, lease, encumbrance, or other disposition of any real estate or improvements thereon, with a value greater than that specified in the Affiliation Agreement;
- 6) Dissolution, acquisition by another entity (whether by merger, asset sale, change of control, or otherwise);
- 7) The selection of any new member of the Board of Directors of KaLex; and
- 8) Amendments to the Articles of Incorporation or fundatmental sections of the Bylaws of KaLex.

Directors are elected by the Board for staggered three-year terms and approved by the board of directors of The Kendal Corporation. Board members may serve up to three terms consecutively. The Board will fill any vacancy occurring during a term by the election of a successor for the unexpired term.

Listed below are current directors:

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>	<u>Committees</u>
James Adams (Jim)	2018	Retired Professor, Virginia Military Institute	Strategic Planning (Chair); Finance
Marylin Alexander	2019	Apartment Manager; Lexington City Council Member	Board Development; Audit & Oversight
Harlan Beckley	2017	Retired Professor, Washington & Lee University	Philanthropy; Strategic Planning
Charles Brower (Casey)	2018	Retired Brigadier General, US Army; Retired Professor, Virginia Military Institute	Board Development (Chair); Executive
Frank Friedman	2018	Financial Advisor and Business Development Officer; Lexington City Council Member	Finance (Chair)
Robert Glidden (Chair) (Bob)	2018	President Emeritus, Ohio University	Executive (Chair)
Pamela Luecke (Secretary) (Pam)	2017	Professor of Journalism and Mass Communications, Washington and Lee University	Executive; Audit & Oversight (Chair)
J. Hardin Marion	2019	Retired Attorney	Finance; Philanthropy (Chair)
John Page (Jack)	2019	Retired Professor of Civil Engineering, Virginia Military	Audit & Oversight; Strategic Planning

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>	<u>Committees</u>
		Institute	
Joan Robins	2017	Retired Nurse ; former director Hillel House, Washington and Lee University	Board Development; Strategic Planning
Beatrix Rumford (Treasurer) (Trix)	2019	Retired, Colonial Williamsburg Foundation	Executive Committee; Philanthropy
Kimberley Ruscio (Kim)	2017	Community Organizer and Volunteer	Finance; Audit & Oversight
Christopher Russell (Chris)	2019	Commonwealth Attorney, Buena Vista	Board Development; Audit & Oversight
William Russell (Bill)	2017	Retired Investment Manager	Finance; Philanthropy
Carol Wheeler	2019	Retired CFO, Marshall Foundation	Board Development; Finance
Sarah Wiant (Sally)	2018	Law Librarian and Professor, Washington & Lee Law School	Audit & Oversight; Strategic Planning
Linda Wilder (Vice Chair)	2017	Retired, Human Resources Consultant	Executive; Finance

The Executive Management Staff of KaLex

Mina Tepper has been the Executive Director of Kendal at Lexington since December 2012. Ms. Tepper received a Bachelor of Science from McGill University and a Master of Science in Business from the University of Wisconsin-Milwaukee. She is licensed as a Nursing Home Administrator in Virginia. Ms. Tepper is an executive health care professional with 30 years of progressive health care management experience, having devoted the last 13 years to operational leadership roles in the field of senior housing and care. Prior to joining Kendal at Lexington, Ms. Tepper was President of Operations for three senior communities in Wisconsin where she was responsible for the opening of a new senior community and the renovation of two existing communities, including the transformation of a traditional 1970's nursing home into one based on a person-centered, household care model. Ms. Tepper serves on the Advisory Council for the Valley Program for Aging Services (VPAS).

Felicia DiPronio Bush has been the Finance Manager of Kendal at Lexington since August 2006. She is a certified public accountant with nearly 12 years of experience with the Lexington CPA firm of Raetz & Hawkins, P.C. She also serves as the Endowment Chairman of St. Patrick's Catholic Church and Treasurer of the Kerrs Creek Ruritan Club. Ms. Bush has a Bachelor of Business Arts from the University of Wisconsin-Milwaukee with a concentration in Accounting.

Charlotte Sibold has worked at Kendal at Lexington since September 2002 and has been employed as the Health Services Administrator since October 2012. In this role, she oversees the Webster Center Assisted Living, Benjamin Borden Health Center and clinic services for the community. Ms. Sibold received a Bachelor of Science in Professional Communications and Master of Science in Community Health/Health Care Management from Old Dominion University. In addition to being licensed as a Nursing Home Administrator, she is also a Nursing Home and Assisted Living Facility Preceptor. Prior to serving as Administrator at KaLex, Ms. Sibold served as KaLex's Director of Marketing from 2007-2012. She served in that role during the Phase II expansion in which the community added 49 apartment and cottage homes. Ms. Sibold serves on the Board for Meals for Shut Ins and is a member of the Lexington Rotary Club.

Jessica Buhler has been the Director of Marketing at Kendal at Lexington since September 2014. She holds a Master's degree in Management and Organizational Leadership from Antioch University and a Bachelor's degree in Public Policy from Goddard College. Prior to joining KaLex, Ms. Buhler held roles in public and government relations, communications, public policy and management for public agencies, and large and small non-profit organizations throughout New England. She also served as Founding Director of the Senior Agenda Coalition, a non-profit organization dedicated to elder advocacy and best practices for aging in Rhode Island. Ms. Buhler serves on the Board of Main Street Lexington and as a liaison for Kendal to many local non-profit organizations.

The Kendal Corporation and its Relationship to Kendal at Lexington

The Kendal Corporation, a Pennsylvania non-profit corporation, which developed the Facility, is headquartered in Kennett Square, Pennsylvania, and was founded in 1971. The Kendal Corporation is one of the largest and most successful non-profit developers of continuing care retirement communities (“CCRCs”) in the United States and is nationally recognized for a variety of initiatives that have transformed the long-term care industry.

The Kendal Corporation and its affiliates consist of:

- The Kendal Corporation, a non-profit entity that provides leadership and support services to its constituent organizations
- Affiliates, which are separate non-profit entities for each community or group of communities, each with its own governing board
- Kendal Outreach, a limited liability company whose sole member is The Kendal Corporation, which provides education and support services
- Kendal Charitable Funds, an organization that raises funds and provides grants in support of all Affiliate activities

The Internal Revenue Service has issued letters of determination that The Kendal Corporation and each of its affiliated entities is a charitable organization described in Section 501(c)(3) of the Code and, except for certain limited types of income, is exempt from federal taxation under Section 501(a) of the Code.

Pursuant to its bylaws, a majority of the members of The Kendal Corporation’s Board of Directors are members of the Religious Society of Friends (Quakers). Every organization within the Kendal system has adopted a common set of “Values and Practices.” These collective guidelines help ensure that all residents and staff of Kendal affiliates (the “Affiliates”) share the spirit of community and collaboration and the respect for each individual that flow from Quaker principles. Under this federal-type model, Affiliates are governed by local boards of volunteer directors made up of both residents and community members. This structure encourages sensitivity to local issues while also providing Affiliates access to the collective resources and experience of the Kendal system.

Affiliates work together within the Kendal system to transform cultural views of aging and of older persons, stressing the potential for fulfillment and continuing contribution during the later stages of life. The Kendal Corporation offers its Affiliates advice, leadership and support and access to several types of services, including development services, planning, marketing, finance and regulatory guidance, design and construction and operational start-up.

The Kendal Corporation is recognized nationally for developing and educating the long-term care field as to the importance of restraint-free care for residents in nursing facilities and other initiatives designed to provide benefit to all aging services organizations. The Kendal Corporation provided development and marketing services during the planning, construction and initial operating period of the Facility and Phase II.

Kendal at Lexington currently maintains a system and affiliation agreement with The Kendal Corporation to provide certain administrative and other support services (the “Affiliation Agreement”). The Kendal Corporation provides advice, expertise and support in the areas of human resources, finance, food service, information systems, public relations and marketing, education and training, fund raising and legal assistance. In addition, The Kendal Corporation is reimbursed for certain expenses incurred on behalf of KaLex. Expenses incurred on behalf of KaLex include participation in pension plans for KaLex’s employees and other Kendal affiliates, printing, postage, and advertising costs related to public relations and marketing, IT shared expenses, director’s and officer’s liability insurance and some miscellaneous legal expenses.

Kendal System Affiliates

The Kendal Corporation has developed and is affiliated with the following communities that provide a variety of housing, health care, and social services to residents. Set forth below is a brief description of these other projects developed by The Kendal Corporation that have service and affiliation agreements:

Kendal Affiliate Unit Configurations

Community	Location	Residential	Assisted Living	Skilled Nursing
Coniston	Pennsylvania	18		
Cartmel	Pennsylvania	56		
Barclay Friends	Pennsylvania		50	96
Kendal at Longwood	Pennsylvania	260	62	53
Crosslands	Pennsylvania	266	51	60
Chandler Hall*	Pennsylvania	10	136	67
Kendal at Hanover**	New Hampshire	250	82	3
Kendal at Home***	Ohio			
Kendal at Oberlin	Ohio	223	37	42
Kendal at Ithaca	New York	236	36	48
Kendal at Lexington	Virginia	120	20	60
Kendal on Hudson	New York	222	47	26
Kendal at Granville	Ohio	134	19	32
Lathrop Communities	Massachusetts	193		
Collington	Maryland	342	65	44
Admiral at the Lake	Illinois	200	56	36
Total		2,530	661	567

*Includes 14 hospice care beds

**Kendal at Hanover has 107 licensed assisted living beds in 82 units (rooms), including 18 memory care beds in 15 units, and 5 licensed skilled nursing beds in 3 units, for a total of 112 licensed beds in 85 units.

***Kendal at Home has 233 participants

Additional Description of Kendal Affiliates:

Kendal at Longwood and Crosslands. These continuing care retirement communities are located in Chester County in southeastern Pennsylvania. Kendal at Longwood opened in 1973; it has 260 residential living units and a 115-bed health center. Sharing a common boundary with

Kendal at Longwood, Crosslands has 266 residential living units and a 111-bed health center. Crosslands opened in 1977. As of June 30, 2016, the residential living units at Longwood had an occupancy rate of approximately 85%, and Crosslands had an occupancy rate of approximately 85%. The waiting list among the two communities consists of approximately 470 potential residents for the units. Kendal at Longwood and Crosslands are accredited by CARF's Continuing Care Accreditation Commission.

Kendal at Hanover. Kendal at Hanover is located in Hanover, New Hampshire, in proximity to the campus of Dartmouth College. Kendal at Hanover is comprised of 250 independent living units, 3 nursing care beds and 82 assisted living beds. The facility opened in July, 1991, and as of June 30, 2016, had a 96% occupancy rate. Kendal at Hanover is accredited by the CARF-CCAS and its bonds are rated BBB+ by Fitch.

Kendal at Oberlin. Kendal at Oberlin is a continuing care retirement community located in Oberlin, Ohio, which is in close proximity to the campus of Oberlin College. It consists of 223 residential living units, 37 assisted living beds, and 42 skilled nursing beds (in Ohio, licensed as a residential care facility.) The facility opened in October 1993 and was 92% occupied as of June 30, 2016. Kendal at Oberlin is accredited by CARF's Continuing Care Accreditation Commission. Its Series 2013A Health Care Facilities Revenue Bonds are currently rated A- by Standard & Poor's.

Kendal at Ithaca. Kendal at Ithaca, the first life care community in New York State, opened in December 1995. The 103-acre campus is located close to Cornell University. It consists of 236 independent living units, 36 enhanced assisted living units, and 48 skilled nursing units. The facility was 83% occupied as of June 30, 2016, with a wait list of 365 prospective residents. Kendal at Ithaca is accredited by CARF's Continuing Care Accreditation Commission. Its Series 2014 bonds are currently rated BBB by Standard & Poor's.

Coniston and Cartmel. These two independent living facilities of 18 units and 56 units, respectively, are located near Kendal at Longwood and Crosslands. These facilities were opened in 1981 and 1988, respectively. As of June 30, 2016, Coniston was 94% occupied, while Cartmel was 91% occupied.

Barclay Friends. This facility opened in December 1997 and is located on 10 acres in the Borough of West Chester, Pennsylvania. It is an adult care and nursing facility that accommodates 146 residents: 96 in nursing care and 50 in assisted living. As of June 30, 2016, 84% of the nursing beds and 90% of the assisted living units were occupied. Barclay Friends is accredited by the Joint Commission on Accreditation of Health Care Organizations.

Kendal on Hudson. This continuing care retirement community consists of 222 independent living units, 34 enriched housing units, 13 memory care and 26 skilled nursing beds and common areas that are located on a 21-acre site in the village of Sleepy Hollow, Westchester County, New York, overlooking the Hudson River. The facility opened in May 2005 and was 81% occupied as of June 30, 2016. Kendal on Hudson has a BBB rating by Fitch.

Kendal at Granville. Granville is located 30 miles east of Columbus and is the home of Denison University. The Kendal at Granville facility is located on an approximately 93-acre site that opened in April 2005. The facility consists of 135 residential units, 19 assisted living beds and 32 skilled nursing beds. As of June 30, 2016, the occupancy for independent living was 82%.

The Lathrop Communities. This facility joined the Kendal system in July 2004. It provides retirement living at two locations, Northampton and Easthampton, Massachusetts. The Northampton community, opened in 1988, offers 79 townhome style independent living units and a “clubhouse” or community center. The first townhomes at the Easthampton community opened in 1996 and The Inn opened in 1998. There are 60 townhomes. The Inn includes 54 studio, one-bedroom and two-bedroom apartments, a dining room, library and other common areas. As of June 30, 2016, the townhome style independent living apartments were 91% occupied and The Inn was 52% occupied.

Collington. This facility is located in Prince Georges County, Maryland, and has 332 residential apartments and cottages, 65 assisted living residences, and 44 skilled beds. In June of 2011, The Kendal Corporation entered into an affiliation agreement with Collington Episcopal Life Care Community (dba Collington). Collington is accredited by CARF-CCAC. As of June 30, 2016, the occupancy for Collington’s independent residential apartments was 90%.

The Admiral at the Lake. This 31-story Illinois Life Care/Continuing Care Retirement Community opened in July 2012 at the corner of Foster Avenue and Marine Drive, on Chicago’s lakefront. The community is situated just 400 steps from a sand beach in Lincoln Park, which allows many residents in The Admiral at the Lake unobstructed views of Lake Michigan and of Chicago’s skyline. In addition to 200 residential apartments ranging in size from one-bedroom to three-bedroom homes, the community provides 39 assisted living and 17 memory support accommodations, as well as 36 private skilled nursing rooms. As of June 30, 2016, 94% of the independent living units were occupied.

Chandler Hall. This facility is located in Newtown, Pennsylvania, and has 10 residential apartments, 136 assisted living residences, and 67 skilled beds, of which 14 are hospice beds. In July of 2013, The Kendal Corporation entered into an affiliation agreement with Chandler Hall. Chandler Hall is accredited by CARF-CCAC. As of June 30, 2016, residential accommodations were 100% occupied, 71% of the AL was occupied and 95% of the skilled was occupied.

Kendal at Home. A Continuing Care Retirement Community “without walls” where members continue to live in their own homes. Kendal provides coordinated wellness and health care services, as well as supporting a member network that arranges social and cultural events and opportunities. At June 30, 2016, there were 233 members.

NEITHER THE KENDAL CORPORATION, NOR ANY OF ITS AFFILIATES, NOR ANY OF THEIR ASSETS WILL SECURE, OR BE PLEDGED IN ANY WAY TO THE REPAYMENT OF THE SERIES 2016 BONDS.

The Executive Management Staff of The Kendal Corporation

The Kendal Corporation staff consists of 32 individuals whose work supports the 13 affiliated organizations in the Kendal System, as well as exploring new opportunities and projects.

Brief resumes of key members of the executive staff of The Kendal Corporation are included below:

Sean M. Kelly, President & CEO, succeeded John Diffey as Kendal's President and CEO on January 1, 2016. He had served as Kendal's Director for New Business Development since 2008. While at Kendal, he has been responsible for leading and managing organizational efforts aimed at fostering new opportunities for growth, while supporting planning and development initiatives for existing Kendal communities. He is well-known in the aging services field and has been a frequent speaker around the country, and beyond, on numerous topics. He joined The Kendal Corporation after 11 years with Connecticut-based Retirement Living Services, a development, finance, marketing and operations consultant to senior housing and service providers throughout the United States. He graduated from Ursinus College in Collegeville, Pennsylvania with a bachelor's degree in international relations, and in 2014 he completed an Advanced Management Program at the Wharton School at the University of Pennsylvania in Philadelphia.

Judith Braun, COO, joined The Kendal Corporation in 2001. She works in close cooperation with Executive Directors, Affiliate Boards of Directors and Kendal staff, serving as coach and facilitator to improve the performance of the entire system. Prior to joining The Kendal Corporation, Ms. Braun was the Executive Director and the President/Chief Executive Officer of The Washington House, Alexandria, Virginia, from 1993 to 2001. She holds a Ph.D. in Geriatric/Mental Health Nursing, is a former Commissioner of CARF Continuing Care Accreditation Commission, and is a fellow and past president of the National Gerontological Nursing Association. She received a BS degree in Nursing from Carlow College, Pittsburgh, PA, and a Master of Science degree in Nursing and Gerontological Nursing and Doctor of Philosophy, Geriatric Mental Health Nursing, both from Case Western Reserve University, Cleveland, OH.

David G. Jones, Project Director for The Kendal Corporation. Mr. Jones joined the organization in 1992, and has served as Project Manager for new construction and major renovation projects including work at Kendal on Hudson, Barclay Friends, Kendal at Granville, Kendal at Hanover, Kendal at Longwood, Crosslands, The Admiral and Kendal at Lexington. As Project Director, he works closely with the Executive Director and the Board of Directors and has overall responsibility for coordinating all aspects of the development effort. David also leads the environmental sustainability initiatives for the Kendal System of communities. Prior to Kendal, David worked as a geologist and manager for Exxon Co, USA for 13 years. David also serves as a trustee for Westtown School and Earlham College. He has a bachelor's degree from Earlham College and a master's degree in Geology from the University of Wisconsin.

Colleen Ryan Mallon, Chief Marketing Officer. Colleen joined Kendal in 2016 after 13 years leading the marketing and sales operations, along with other evolutionary initiatives, at Goodwin

House, a well-respected and successful not-for-profit organization that has grown to provide an array of services, communities and programs for older adults in northern Virginia. Under her leadership, Goodwin House Bailey's Crossroads successfully filled a 106-apartment new tower, as part of a \$143 million expansion. Colleen leads Kendal's marketing and communications team and develops marketing, sales, communication and public relation programs and systems to support Kendal's strategic direction and align each affiliate's marketing and sales plan and activities with Kendal's short- and long-term objectives. She also promotes and protects Kendal's brand, oversees the planning, development and execution of national marketing, sales and advertising initiatives for the Kendal System as a whole and helps affiliates conduct market research and develop sales strategies specific to their markets and specific needs. Colleen earned a bachelor's degree in sociology/gerontology, with additional concentrations in women's studies and biomedical ethics, from Trinity College in Washington, D.C. She also has done master's level coursework in long-term care administration at the State University of New York in Utica and has been licensed as a nursing home administrator in Virginia since 1995.

Amy Harrison, Chief Financial Officer. Amy took the reins as Kendal's CFO in 2016. She has been a part of the Kendal family since 2011 as CFO for Collington, a Kendal-affiliated continuing care retirement community (CCRC) in suburban Washington, D.C. A certified public accountant and experienced finance executive, Amy holds a master's degree in Business Administration from Nova Southeastern University, Ft. Lauderdale, Florida, and a bachelor's degree in Business Administration in Accounting, from Northwood University, West Palm Beach, Florida. She also has earned the newest international accounting credential, that of a Chartered Global Management Accountant. Before joining Collington as CFO in December 2011, Harrison served as the Director of Finance at Columbia Vantage House Corporation, a not-for-profit CCRC located in Columbia, Maryland. Before that she served for 12 years as Director of Accounting at Bishop Gray Inns, two faith-based CCRCs in Lake Worth, Florida.

Wanda Whitted-Smith, Director for Human Resources, is a Certified Compensation Professional (CCP), a member of the Society for Human Resource Management and a certified Senior Professional in Human Resources (SPHR). She also serves on the board of the Women's Law Project in Philadelphia. Ms. Whitted-Smith began her career in human resources as manager of staff relations at the University of Pennsylvania, where she graduated with a Bachelor of Arts degree in psychology and biology. In 1993, she was named Vice President for Human Resources and Development at Germantown Hospital & Medical Center, Germantown, Maryland and from 1996 through 1999 she served as Vice President for Human Resources for Health Partners, a health maintenance organization. From 2000 to 2013, she worked for Schnader Harrison Segal & Lewis, LLP, a Philadelphia-based law firm with seven offices nationwide. As Chief Human Resources Officer/National Director, she developed and implemented firm-wide human resources policies and procedures, assisted the firm with diversity initiatives and oversaw the conversion to a new human resources information system, payroll and attendance system, and a benefits enrollment system.

THE FACILITIES

Overview

Kendal at Lexington constitutes housing and care facilities located on an 83+ acre campus setting in Lexington and Rockbridge County, Virginia. The Facilities consist of a mix of 120 residential living apartments and cottages, ("IL units") 20 assisted living apartments ("AL units") located in the Webster Health Center, 60 skilled nursing care beds in the Borden Health Center, a community center, a fitness center with an indoor pool, and an historic farmhouse.

The Residential Living Units are comprised of two apartment buildings (55 units), six cottage clusters (29 units), 21 single-family cottages, and three duplex cottages (6 units).

Sunnyside House ("Sunnyside"), a local historic landmark, was deeded to KaLex prior to construction of the Facilities and was completely renovated, primarily with funds received from an anonymous donor. Renovation was completed in the fall of 2006. The building serves as a combination guest house for visitors of KaLex residents and an activities and meeting space. As described in the definition of "Excluded Property" in "DEFINITIONS OF CERTAIN TERMS" in Appendix C, the Sunnyside property may be released from the lien created by the Deed of Trust upon compliance with certain conditions.

Several buildings existed on the Facilities' site when the property was originally acquired, including Sunnyside, Isabel's Cottage and five farm buildings. Isabel's Cottage formerly served as a guest house and marketing office, but was converted to a residential cottage in September 2011. In 2013 two 1-bedroom apartments were combined into one large apartment, once again resulting in a total of 120 residential living units. The five farm buildings were removed. The Facilities offer the following amenities to residents, in exchange for an initial entry fee and monthly fee:

- Resident gardens
- Dining room
- Library
- Arts and crafts studio
- Recreational activities
- 24-hour security systems
- Therapy pool
- Therapy/exercise room
- Fitness Center
- White tablecloth restaurant
- Lighted parking areas
- Utilities, excluding phone & internet
- Scheduled transportation
- Bi-weekly housekeeping
- All maintenance and groundskeeping
- Postal services
- Outdoor fitness trail
- Diet and nutritional counseling
- Indoor Pool

Licenses and Affiliations

The Facilities are operated as a CCRC registered with the State Corporation Commission under the Virginia Continuing Care Provider Registration and Disclosure Act. In addition to registration as a CCRC, the Borden Health Center is licensed as a skilled nursing facility by the Virginia Department of Health. The Borden Health Center also participates in the state Medicaid and federal Medicare programs. The assisted living apartments in the Webster Health Center are

licensed as Adult Care Residences by the Virginia Department of Social Services. KaLex is a member of Leading Age and its Virginia affiliate, Leading Age Virginia. Other memberships include the Lexington/Rockbridge Chamber of Commerce. Kendal at Lexington is accredited by CARF-CCAC, the Commission on Accreditation of Rehabilitation Facilities/ Continuing Care Accreditation Commission.

Continuing Care Concept

KaLex operates the Facilities as a life care retirement community, which recognizes older adults as having varying needs along a continuum from independent residence to increasing health care needs. Under the terms of the care contracts and in return for an initial entry fee and monthly fees, a comprehensive range of services is provided to each resident at one location.

Residents who cannot live independently but do not need skilled nursing care can move into the assisted living apartments in the Webster Health Center. KaLex provides the same services in these apartments as provided for residents of the independent living residences, including dining, recreational and social activities, utilities, and weekly housekeeping and linen service, which are all geared to residents who may not be fully independent. In addition, staff will help assisted living residents with activities essential to daily living. A resident requiring skilled nursing services can move into the Borden Health Center, either on a temporary or permanent basis, and such nursing services are provided. Physical therapy and minor outpatient medical treatments not requiring the resident to stay in the Borden Health Center are available to residents at an additional charge.

Admission

Admission to independent living residences is open to any person, 65 years of age or older (in the case of a couple, only one must meet this age requirement) who is able to live independently in a residential apartment or cottage and is in satisfactory health, as demonstrated by a physical examination. Persons may enter directly into the Webster Health Center assisted living program or the Borden Health Center. The admission policies are non-discriminatory (except as to age and acuity of care required) and the resident list includes both married and single men and women, members of different races and varied religious denominations. The average age of current IL residents is 83.

As of June 30, 2016, KaLex's waiting list for admission to the current independent living residences consists of approximately 145 applicants, each of whom have submitted a \$1,000 deposit and a \$250 non-refundable application processing fee to gain status on the waiting list.

Fee Structure

On entry to KaLex as an independent resident, individuals pay an entry fee based on the type of residence, refund option, and contract selected. If two people occupy a residence, the entry fee is higher than the fee for an individual moving into the same type of residence. In addition to an entry fee, residents pay a monthly fee. The amount of the monthly fee is determined by the type

of residence and the number of persons (one or two) living in that residence. In the case of two people living in one residence, the first person pays the standard rate for one person, and the second person pays an additional entry and monthly fee.

Upon admission, residents enter into a Residence and Care Agreement ("Residence Agreement"), selecting a care plan and a refund option. Residents of the Facilities may choose from several health care options. All include the right of occupancy in the apartment or cottage for the resident's lifetime, as long as the resident can safely occupy it, and a package of services, amenities and health care. All options include unlimited assisted living care in the Webster Health Center, as needed, and skilled nursing care in the Borden Health Center. The differing care options are listed below:

Extensive Life Care. The resident receives an unlimited number of lifetime days in the Borden Health Center at the same monthly fee as they would pay in their apartment or cottage.

365-Day Modified Health Care. The resident receives 365 lifetime days in the Borden Health Center at the same monthly fee as they would pay in their apartment or cottage. After 365 days, the resident pays the per diem rate of nursing care.

90-Day Modified Health Care. The resident receives 90 lifetime days of nursing care at the same monthly fee as they would pay in their apartment or cottage. After 90 days, the resident pays the per diem rate of nursing care. As of April 2002, the 90-Day Modified Health Care contract is no longer offered to new residents.

60-Day Modified Health Care. The resident receives 60 lifetime days of nursing care at the same monthly fee as they would pay in their apartment or cottage. After 60 days, the resident pays the per diem rate of nursing care.

As of June 30, 2016, approximately 66% of current residents have selected the Extensive Life Care Contract, which entitles the resident to lifetime use of the Facilities. This plan assures the resident of the availability of the accommodations and services of the Borden Health Center with no increase in the monthly fee. The current selection of Residence and Care Agreements is summarized below:

Current Selection of Contract Options as of June 30, 2016

	Existing Residents
Lifecare	66%
365-Day Modified	3%
90-Day Modified*	10%
60-Day Modified	21%

* No longer offered to new residents.

Entry fees and monthly fees for the Extended Life Care options are summarized below:

Fees for the Extended Life Care Option – 2% Declining*

	Sq. Feet	# of Units	Entry Fee		Monthly Fee	
			Single	Double	Single	Double
Apartments:						
Studio (A)	550	4	\$149,000	-	\$2,996	-
One BR (B)	750	5	\$224,000	\$302,000	\$3,277	\$4,757
One BR/Den (C)	886	10	\$278,500	\$356,500	\$3,575	\$5,055
Two BR (D&E)	1170	12	\$346,500	\$424,500	\$3,843	\$5,323
Two BR/Den (F)	1320	8	\$392,500	\$470,500	\$4,055	\$5,535
One BR/Den (G)	1000	3	\$312,000	\$390,000	\$3,754	\$5,234
One BR/Den (H)	1180	1	\$351,000	\$429,000	\$3,823	\$5,303
Two BR (I)	1300	5	\$392,500	\$470,500	\$4,038	\$5,518
Two BR/Den (J)	1500	3	\$454,000	\$532,000	\$4,320	\$5,800
Two BR/Den Deluxe (K)	1725	4	\$517,500	\$595,500	\$4,533	\$6,013
Cottages:						
One BR (L)	795	3	\$233,000	\$311,000	\$3,277	\$4,757
One BR/Den (M)	950	5	\$295,500	\$373,500	\$3,575	\$5,055
Two BR (N)	1240	4	\$364,000	\$442,000	\$3,843	\$5,323
Two BR/Den (O)	1375	4	\$411,500	\$489,500	\$4,055	\$5,535
Two BR/Den (P)	1420	3	\$442,000	\$520,000	\$4,196	\$5,676
Two BR/Den (Q)	1460	4	\$442,000	\$520,000	\$4,196	\$5,676
Two BR/Den (R)	1600	7	\$479,500	\$557,500	\$4,337	\$5,817
One BR/Den (S) **	1300	6	\$393,500	\$471,500	\$4,038	\$5,518
Two BR (T) **	1500	13	\$466,500	\$544,500	\$4,320	\$5,800
Two BR/Den (U) **	2000	16	\$556,000	\$634,000	\$4,533	\$6,013

*For residences with an enclosed patio, there is a \$8,000 additional charge.

**There is an additional charge for cottages with basements - \$4,000 for 1500 sf cottages and \$42,500 for 2,000 sf cottages.

Entry fees and monthly fees are reduced for residents choosing the 365-day, 60-day and 90-day modified options, as summarized below:

**Fee Reduction for the
365-Day, 60-Day and 90-Day Modified Options**

	<u>Entry Fee</u>	<u>Monthly Fee</u>
365-Day Nursing Care	-\$ 5,000 per person	-\$169 per person
60-Day Nursing Care	-\$25,500 per person	-\$169 per person
90-Day Nursing Care	N/A	-\$169 per person

Rate Increases

The Board reviews its entry and monthly fee options annually, raising fees when appropriate for reasons ranging from inflation to covering certain identifiable expenses necessary to successfully operate the Facilities. The following table illustrates KaLex’s historical rate increases for the Facilities’ independent living units for fiscal years 2013 through 2016.

History of Rate Increases

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Entry Fees	4.00%	4.00%	4.00%	4.00%
Monthly Fees	2.75%	3.25%	3.50%	3.75%

Occupancy

The following table shows historical occupancy and turnover data for the Facilities for each of the past three fiscal years.

Independent Living Unit Turnover

	Fiscal Years Ended December 31		
	2015	2014	2013
Beginning ILUs Occupied	108	113	108
Transfers	(3)	(8)	(2)
Deaths	(1)	(3)	(1)
Move-Outs	(1)	-	-
Move-Ins	14	6	8
Ending ILUs Occupied	117	108	113
Entry Fees Received, Net of Refunds	3,019,220	2,192,169	2,615,354

Termination and Refunds

Before occupancy, applicants execute a Residence Agreement and pay a deposit equal to 10% of the applicable entry fee. The balance of the entry fee is due upon occupancy. For seven days after the execution of a Residence Agreement, the applicant may rescind his Residence Agreement without legal consequence and any amount paid toward the entry fee shall be refunded.

Termination of the Residence Agreement can occur only (1) by the resident at any time before death upon 30 days' written notice, (2) by KaLex for cause upon 30 days' written notice to the resident, subject to the resident's opportunity to cure, or (3) at the death of the resident. For residents electing the 2% declining option, the entry fee is refundable in an amount equal to the entry fee paid less 2% of the original entry fee for each month the resident has occupied a unit. After 50 months of residency, there is no refund. For residents who have selected 50% or 90% options, reimbursement declines at 2% per month until either the 50% or 90% level is attained.

Except for rescission during the seven-day rescission period, KaLex is not obligated to make any refund to a resident until another Residence Agreement has been entered into with respect to the resident's unit and KaLex has received a full entry fee. KaLex may, however, choose to make a refund before receipt of a new entry fee. No interest earned will be paid to the resident on the refund.

Financial Assistance to Residents

Although KaLex has the legal right to terminate the Residency Agreement for non-payment of fees, the Facility's policy is that if the sole reason for non-payment of a resident's financial obligations to KaLex is insufficient funds, beyond the resident's control, KaLex will review the matter with the resident. If the resident presents facts which, in the opinion of KaLex, justify special financial consideration, KaLex may partly or wholly subsidize the monthly fee and/or entry fee, provided that such subsidy can be granted or continued without impairing the ability of KaLex to attain its objectives while operating on a sound financial basis. All determinations KaLex makes concerning the granting or continuing of special financial considerations are final and binding on the resident, and any such determination shall be regarded as a confidential transaction between KaLex and the residents, except for reports required to be made to lenders to KaLex or to regulatory or other governmental bodies. As of June 30, 2016, approximately \$1,057,700 was on deposit in the financial assistance fund. There were no requests for financial assistance in 2013. Subsidies to residents for the calendar years 2014 and 2015 were \$3,800, and \$12,150, respectively.

It shall be a condition of receiving a subsidy that the resident shall represent that he or she has not made any gift or other transfer of money or personal property in contemplation of the execution of the Residency Agreement, or subsequently, which would impair the resident's ability or the resident's estate's ability to satisfy the financial obligations under the Residency Agreement. If the resident's entry fee or monthly fee is subsidized wholly or partly by KaLex, the resident may not make a gift of his/her property without KaLex's written consent. KaLex may require the resident to downsize to a smaller accommodation if the resident is receiving a

subsidy and a smaller accommodation is feasible. If the resident elects not to move, the resident's subsidy may be reduced accordingly. If the resident's monthly service fee or entry fee is subsidized wholly or partly by KaLex, from time to time at KaLex's request, the resident will supply KaLex with financial statements and copies of tax returns to determine future subsidy requirements for the Facility.

If a resident receives a subsidy, the resident's estate, if any, shall be liable for the full amount of the subsidy.

Borden Health Center and Webster Health Center Sources of Revenue

Residents of the Facilities who transfer to either the Borden Health Center or the Webster Health Center incur health care room and board fees according to the terms of their Residence and Care Agreement and are additionally responsible for charges resulting from pharmacy, medical supplies, special treatments, physical, occupational and speech therapies and physician/dental services. In situations in which only one person in a double occupied residence is transferred permanently or temporarily to either the Borden Health Center or the Webster Health Center, the nontransferred party continues to live in the residence and continues to pay the same monthly fee.

The Borden Health Center and Webster Health Center revenue includes fees from direct admissions to nursing care or assisted living apartments from the outside community. The per diem charge is currently \$240-\$268 per day for skilled nursing care and \$166-\$205 per day (basic to moderate care) for assisted living care. As of June 30, 2016, there were 21 per diem residents in the Borden Health Center and five per diem residents in the Webster Health Center. All Webster Health Center per diem residents are private pay residents. Other revenue sources for the Borden Health Center are Medicare reimbursements for skilled nursing care (roughly \$416 per diem) for residents and non-residents who have been hospitalized at an outside facility for three or more days, and Medicaid reimbursements (approximately \$183 per diem) for skilled nursing care when a resident qualifies for such assistance. The table below lists the percentage of revenue from each payor source during the fiscal years 2013, 2014, and 2015:

Borden Center Payor Mix

	Fiscal Year		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Private Pay	47%	43%	41%
Medicare	29%	31%	32%
Medicaid	24%	26%	27%

Actuarially Based Pricing

Since the Facilities' inception, KaLex has carefully addressed the matter of its financial stability. Historically the Board has retained an actuarial consultant with experience in the life care industry to conduct a study of the Facilities' resident population and long-term liabilities. The scope of the study includes formulation of demographic and economic assumptions, actuarial forecast of residents' mortality rates and rates of transfer to the Borden Health Center, actuarial valuation of KaLex's assets and liabilities, analysis of the adequacy of the new entrant fee structure, and a cash flow projection to determine if positive cash and investment balances will be maintained. KaLex was in satisfactory actuarial balance as defined by Actuarial Standards of Practice No. 3 as of December 31, 2015.

MARKETING PROGRAM

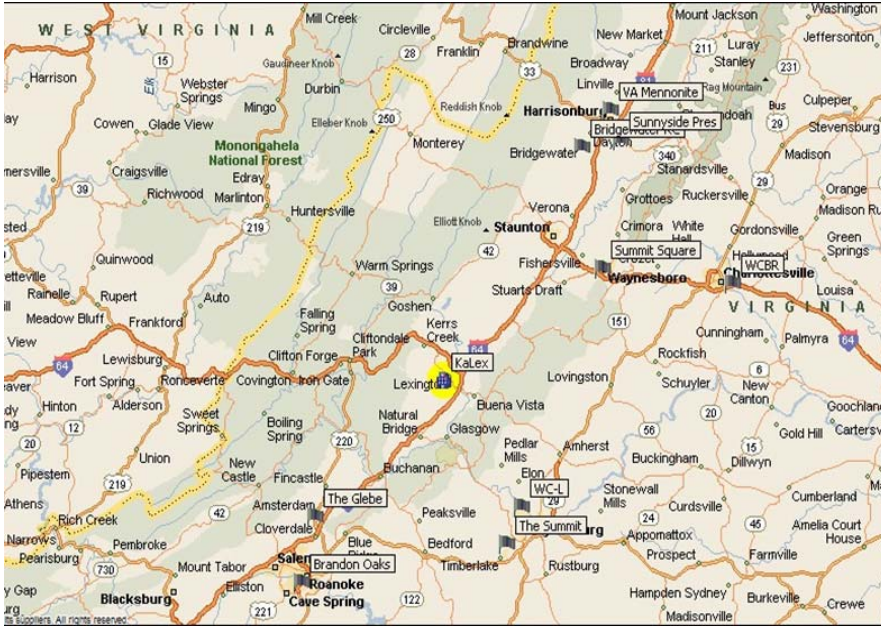
The KaLex Marketing personnel conduct an active and interactive marketing program aimed at addressing both short term and long term marketing opportunities and challenges. The experienced and engaged marketing team has a strong commitment to serving the senior living community.

Competitive Landscape

Kendal at Lexington, located in the beautiful Blue Ridge Mountains of Virginia, has some distinct marketing advantages.

There are no Continuing Care Retirement Communities (CCRCs) in the primary market area. And although there are nine CCRCs within a 60 mile radius, with the closest located at a distance of 27 miles in Lynchburg, Virginia, each is in a distinct market area.

Map of KaLex' Market Area Competition



An analysis of the origin of current KaLex residents reveals the following:

- 45% from within the primary Lexington market area
- 17% from other Virginia
- 38% from Out of State

KaLex is priced competitively with other CCRC communities. Monthly fees are reviewed annually and have increased by 4%, 3.75%, 3.5%, 3.25%, and 2.75% during 2012, 2013, 2014, 2015, and 2016, respectively. These increases have been at or below competitor increases.

KaLex experiences stable occupancy. Independent Living occupancy has exceeded 90% during the five years prior to 2016 and is at 97.1 % for the first 6 months of 2016. The following table provides additional data.

Historic and Current Independent Living Occupancy

Independent Living			
Fiscal Year	Avg. Units Available	Avg. Units Occupied	% of Units Occupied
2011	120.3	110.5	91.9%
2012	121.0	110.1	91.0%
2013	120.5	111.5	92.5%
2014	120.0	113.3	94.4%
2015	120.0	111.3	92.8%
YTD 2016 ⁽¹⁾	120.0	116.5	97.1%

⁽¹⁾ For the six months ended June 30, 2016.

KaLex is affiliated with the Kendal System. Kendal’s reputation is respected in the senior living community. KaLex, as the Kendal campus that is located the farthest south with the mildest climate, is favorably viewed by residents seeking a more favorable climate during their retirement years.

KaLex has been blessed with unique location. The campus offers an easy, pastoral living environment with mountain vistas within walking distance to charming, historic Lexington. Residents do not have to deal with excessive traffic or congestion and are able to maintain their independence.

Current and future KaLex residents have associations with the two universities located in Lexington: Virginia Military Institute and Washington and Lee University. KaLex residents may have been students or professors at one of the universities. Some residents have sons and daughters who are employed by the universities. And still others are attracted by KaLex’ focus on life-long learning and the ability to audit classes at W & L.

KaLex residents have the ability to participate in campus governance and program development. KaLex’ by-laws require that residents constitute 10% of the membership of the Board of Directors. The president of the KaLex Resident Council attends all Board meetings. Residents participate on Board Committees such as the Finance, Audit and Oversight, Strategic Planning, and Philanthropy committees, along with Board members and members from the community at large. Residents assume leadership roles on campus committees, such as the sustainability, horticulture, facilities, and programming committees.

Overview of Marketing Program Initiatives

The KaLex marketing program continually conducts research initiatives to evaluate the current and future needs of the residents that KaLex serves. The staff attends key seminars provided by Leading Age and similar organizations to stay abreast of industry expectations, opportunities, and challenges. The staff diligently works to maintain one-on-one contact with identified future

prospects and to cultivate new relationships with individuals seeking information about KaLex for the first time with the objective of continually growing the waitlist. The number of households on the current wait list KaLex exceeds 145.

The staff conduct competitor analyses to determine the appropriateness of services offered, fees charged, and contract types, comparing KaLex to geographic competitors as well as our friendly competitors among the Kendal System affiliates. The staff stays particularly mindful of changing demographics and origin of new residents. The staff has conducted focus groups and surveys to determine preferences and needs of prospects.

As previously stated, prior to moving to KaLex, residents resided both locally and afar. Staff reaches out to local residents offering opportunities to use the KaLex fitness center and pool, participate in Kendal College and other programming, and join current residents in celebrating special events. KaLex supports initiatives of local community organizations, sponsors community events and, when appropriate, partners with others for the benefit of the community.

For more distantly located prospects, KaLex has an active “Experience us” (an overnight stay) program, holds recruitment events in various locations, and advertises in publications known to attract the Kendal demographic, such as the Smithsonian. Regular newsletters and special publications, highlighting the occasional vacancy, are routinely mailed to the KaLex wait list as well as the much more extensive prospect list.

One of the more successful marketing initiatives has been the deliberate optimization of the KaLex Web page and the use of social media and other forms of digital advertising. Current photos of residents experiencing KaLex and Lexington life, access to the current fee schedule, information about campus events, and captivating, personalized vignettes are among the highlights.

Regional Data

The median house in Lexington is listing at \$199,000, but more importantly, 42% of owner occupied homes are assessed at \$300,000 or more.

The largest employers in the City of Lexington are Washington and Lee University, Virginia Military Institute, the city and county governmental agencies, and KaLex.

FINANCIAL INFORMATION

Historical Financial Performance

Historical Long-Term Debt Service Coverage Ratio. The following table sets forth the historical Long-Term Debt Service Coverage Ratios for KaLex for the fiscal years ended December 31, 2015, 2014 and 2013. The financial information regarding Income Available for

Debt Service is derived from the audited financial statements, and has been calculated in accordance with the terms of the Series 2007 Master Trust Indenture.

Historical Long-Term Debt Service Coverage Ratio

	Fiscal Years Ended December 31,		
	2015	2014	2013
Change in unrestricted net assets	\$942,902	\$1,539,129	\$1,128,077
Less:			
Amortization of deferred revenue	(2,746,629)	(2,751,320)	(2,202,541)
Unrealized gain	-	(142,097)	(433,526)
Plus:			
Depreciation and amortization	2,027,587	1,992,375	2,011,162
Interest expense	1,688,392	1,726,192	1,761,792
First generation entry fees received in excess of entry fee fund requirement	—	54,669	25,500
Entry fees and deposits received from attrition, net of refunds	3,019,220	2,137,500	2,589,854
Loss on disposal of assets	3,816	2,518	7,763
Unrealized loss on investments	422,684	-	—
Income Available for Debt Service (A)	\$5,357,972	\$4,558,966	\$4,888,081
Maximum Annual Debt Service, as defined (B)	\$2,386,156	\$2,386,156	\$2,386,156
Maximum annual Debt Service Coverage Ratio (A/B)	2.25	1.91	2.05

Reserve Ratio; Days' Cash on Hand. The following tables set forth the Historical Reserve Ratio and Days' Cash on Hand for KaLex for the fiscal years ended December 31, 2015, 2014 and 2013. The financial information has been derived from KaLex's audited financial statements and has been calculated in accordance with the terms of the Series 2007 Master Trust Indenture.

Historical Reserve Ratio

Reserve Ratio	Fiscal Years Ended December 31,		
	2015	2014	2013
Cash and cash equivalents	\$529,335	\$382,528	\$397,340
Unrestricted investments	14,886,536	13,377,036	12,099,893
Debt service reserve fund	2,429,014	2,429,265	2,429,307
Restricted by board	763,654	755,483	719,563
Total available reserves (A)	18,608,539	16,944,322	15,646,103
Reserve Ratio (A/B)	60.33%	53.76%	48.65%

Historical Days' Cash on Hand

	Fiscal Years Ended December 31,		
	2015	2014	2013
Cash and cash equivalents	529,335	382,538	397,340
Unrestricted investments	14,886,536	13,377,036	12,099,893
Restricted by board	763,654	755,483	719,563
Total cash and investments	16,179,525	14,515,057	13,216,796
Expenses	14,413,127	14,060,856	13,671,801
Less: depreciation and amortization	(2,027,587)	(1,992,375)	(2,011,162)
Net	\$12,385,540	\$12,068,481	\$11,660,639
Daily cash operating expenses	\$33,933	\$33,064	\$31,947
Total	477	439	414

Summary of Financial Information

The following table sets forth a summary of the Historical Statements of Operations and Changes in Net Assets (Deficit) of KaLex for fiscal years ended December 31, 2015, 2014, and 2013 and for the six-month period ended June 30, 2016. This information has been derived from KaLex's audited financial statements, and should be read in conjunction with the audited financial statements of KaLex, including the notes thereto, for fiscal years December 31, 2015 and 2014 contained in Appendix B of this Official Statement. The table also summarizes the internally prepared, unaudited revenues and expenses of KaLex for the six-month period ended June 30, 2016. The results of the six-month period ended June 30, 2016, will not necessarily be indicative of year-end results.

Historical Statement of Operations and Changes in Net Assets (Deficit)

Revenue:	Six-Month Period Ended June 30, 2016	Fiscal Years Ended December 31,		
		2015	2014	2013
Net residential services revenue	3,130,709	5,866,717	5,795,003	5,488,626
Health Center fees	3,023,345	6,117,878	6,087,352	5,861,311
Amortization of deferred entry fees	1,049,188	2,746,629	2,751,320	2,202,541
Investment income	473,152	635,642	489,482	507,761
Contributions	170	520	2,428	915
Other Income	154,224	346,109	309,717	295,163
Net assets released from restrictions	20,136	33,312	8,982	12,370
Total revenues	7,850,924	15,746,807	15,444,284	14,368,687
Expenses:				
General and administrative	794,124	1,511,442	1,533,235	1,350,081
Housekeeping	157,463	302,601	287,863	268,760
Maintenance	435,358	784,447	708,197	777,360
Food service	762,454	1,492,551	1,454,264	1,317,531
Health service	1,947,383	3,951,838	3,914,751	4,000,755
Employee benefits	671,529	1,173,290	1,114,149	823,306
Utilities	293,591	619,382	581,865	582,390
Affiliation and service fee	244,680	204,236	208,111	193,718
Real estate taxes	108,291	479,904	470,491	533,609
Interest expense	826,002	1,688,392	1,726,192	1,761,792
Depreciation and amortization	1,027,585	2,027,587	1,992,375	2,011,162
Provision for bad debt	1,906	177,457	69,363	51,337

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Total expenses	7,270,366	14,413,127	14,060,856	13,671,801
Non-operating loss:				
Loss on disposal of property and equipment	-	(3,816)	(2,518)	(7,763)
Excess of revenues over expenses	580,558	1,329,864	1,380,910	689,123
Other changes in unrestricted net assets:				
Unrealized gain (loss) investments	(6,186)	(422,684)	142,097	433,526
Net assets released from restrictions used for purchase of property and equipment	2,203	35,722	16,122	5,428
Increase (decrease) in unrestricted net assets	576,575	942,902	1,539,129	1,128,077
Net assets at end of year	1,023,151	(24,277)	(1,693,030)	

Management's Discussion of Operations and Financial Performance

Fiscal Year 2013:

For the fiscal year ended December 31, 2013, average residential living occupancy for the year was 92.7%. Webster Health Center had an average occupancy of 89.8% and the Borden Health Center had an average census of 90.5% with a payer mix of 31.6% private pay, 17.5% Medicare and 41.3% Medicaid. Income from operations was approximately \$697,000 and net assets increased by \$1,240,562.

Fiscal Year 2014:

For the fiscal year ended December 31, 2014, average residential living occupancy for the year was 94.4%. Webster Health Center had an average occupancy of 89.3% and the Borden Health Center had an average census of 93.5% with a payer mix of 37.5% private pay, 17.0% Medicare and 39.0% Medicaid. Beginning November 2014 the Virginia Department of Medicaid Services reimbursement began moving from an average per diem rate to an acuity-based system. Effective January 1, 2014, KaLex elected to participate in a self-insured medical and prescription plan established by The Kendal Corporation. In addition, KaLex began participating in an insurance risk retention group to cover basic professional and general liability insurance on a claims-made basis. Entrance into the captive required a capital stock purchase of \$51,000. Income from operations exceeded \$1.3 million and net assets increased by \$1,668,753.

Fiscal Year 2015:

For the fiscal year ended December 31, 2015, average residential living occupancy for the year was 92.8%, marked by lower occupancy at the start of the year. Webster Health Center had an average occupancy of 93.9% and the Borden Health Center had an average census of 91.9% with a payer mix of 40.3% private pay, 16.6% Medicare and 35.0% Medicaid. Kendal at Lexington participates in The Kendal Corporation Pension Plan, a noncontributory defined benefit pension. This plan was frozen effective December 31, 2014. KaLex also participates in a defined contribution plan which contains an employer grant and a match opportunity for eligible employees. Income from operations was approximately \$1,334,000 and net assets increased by \$1,047,428. Unrestricted cash and investments totaled \$15,415,871, an increase of over \$1.6 million from the previous year.

Six-Month Period Ended June 30, 2016:

For the first six months of fiscal year 2016, average residential living occupancy for the year was 97.1%. Webster Health Center had an average occupancy of 90.2% and the Borden Health Center had an average census of 92.4% with a payer mix of 36.7% private pay, 13.9% Medicare and 41.8% Medicaid. Revenue is above budget in all revenue sources except amortization of deferred entry fees. Cash collected from entry fees through June was \$1,287,269. Year-to-date income from operations was \$580,558 and the increase in net assets was \$607,043. Unrestricted cash and investment was \$16,005,195 at June 30.

Investment Policy

The Finance Committee, with recommendations from the Investment Sub-Committee, sets the investment policy and monitors performance on a regular basis. KaLex's cash position is managed on a daily basis by the Finance Manager. At June 30, 2016, KaLex was in the process of transferring funds and, as a result, there was approximately \$5.5 million in money market funds. The funds have since been invested in Vanguard and with targeted ranges as follows:

- Equity 45-65%
- Fixed Income 25-50%
- Real Assets 0-20%
- Cash 0-10%

Budgeting

KaLex's budget process begins in August and is the responsibility of the Finance Manager and Executive Director. Department directors are given budget worksheets to complete including an explanation and justification for amounts requested. The department worksheets are reviewed by the department director, executive director, finance manager and human resource director for

reasonableness, necessity and alignment to both departmental and organizational goals. Revenue and occupancy assumptions, proposed by management and reviewed by the finance committee, are based on historical data, actuarial analysis of fee structure, trending anticipated reimbursement and programmatic changes, and economic and societal trends. A draft budget is compiled and key financial ratios are projected. Capital requests collected from staff, residents, and the strategic planning committee are prioritized by management. The draft operating and capital budgets are presented to the finance committee for review and approval for recommendation to the Board. The budgets are presented to the Board of Directors in November for final approval. After implementation of the budget, management meets monthly to monitor significant variances and review financial statements, department expense reports, and key ratios. Corrective action is taken as necessary.

Employees and Benefits

As of June 30, 2016, KaLex had a total of 170 employees representing approximately 130 full-time equivalents. Employees are not represented by any labor union and KaLex believes its relationship with its employees is good. Wages and benefits are competitive for the area.

KaLex participates in a self-insured medical and prescription plan established by The Kendal Corporation. The plan is administered by an insurance carrier and backed by a letter of credit. The Plan is responsible for funding employer liability losses to a maximum of \$125,000 per participant and \$1,000,000 in the aggregate per policy year. Third party stop-loss insurance coverage is in place for losses that exceed these amounts.

Kendal at Lexington participates in The Kendal Corporation Pension Plan, a noncontributory defined benefit plan along with other Kendal affiliates. At January 1, 2015, the Plan was frozen. KaLex also participates in a defined contribution retirement plan under Internal Revenue Code Section 401(a) and 403(b) through The Kendal Corporation. The plan contains an employer grant and a match opportunity.

Insurance

KaLex has a comprehensive property and casualty insurance program that is reviewed annually. KaLex participates in an insurance risk retention group, the Peace Church Risk Retention Group ("PCRRG"), a group insurance captive corporation licensed by the State of Vermont, to cover basic professional and general liability insurance on a claims-made basis. Entrance into the captive insurance corporation required a capital purchase of stock of approximately \$51,000. The investment is accounted by the cost method.

Litigation

To the knowledge of KaLex, there is no litigation pending or threatened against Kendal at Lexington which, if determined adversely to KaLex, is reasonably expected to have a material adverse effect on the business, operations, or financial position of KaLex.

Recent Developments

Proposed Major Construction Projects under Review

Spectrum Design, an architectural and engineering firm, was engaged to work with KaLex to identify campus needs and develop a Master Plan for future development. The following projects have been identified:

1. Renovation of the Borden Health Center, a sixty bed skilled nursing facility built in 2002, including a redesign to incorporate neighborhoods and provide model services for individuals with cognitive and rehabilitation needs.
2. Renovation of the Webster Health Center, a 20 apartment assisted living facility built in 2000, including a redesign to accommodate frailer residents with mixed care needs and augment quality of life.
3. The addition of independent living residences to increase revenue flow and address the growing wait list and anticipated demand of the Baby Boomer generation.
4. The construction of a road to provide emergency egress/ingress.
5. The re-imagining of the current dining opportunities, including a redesign of the current main dining room and the addition of an alternate dining venue.
6. The construction of a maintenance facility to house larger equipment and provide additional work space.

KaLex has entered into an agreement with Spectrum Design to provide architectural renderings of possible solutions for the identified campus needs. Schematic designs have been developed for evaluation. Nielsen Construction has been engaged to provide initial cost estimates. KaLex, working with Kendal Corporation, has begun to investigate financial modeling options.

KaLex would have to request rezoning from both the City of Lexington and Rockbridge County before any new construction could be undertaken. It is unlikely that construction would begin prior to Q1 2018.

Opportunity for Land Exchange

Kendal at Lexington is contemplating a land exchange with the family who owns the farmland bordering the KaLex property on its western border. Twelve acres of essentially unbuildable KaLex property traversed by a stream which floods during heavy rainstorms would be exchanged for 12 acres of buildable farmland. Although the farmland is assessed at \$2000 per acre less than the land currently owned by KaLex, the farmland backs up to our Phase II cottages and provides future expansion opportunities. Kendal would receive an additional \$24,000 and recreational easement rights to the KaLex land being exchanged in addition to the 12 acres of farmland if the transaction occurs. The exchange is likely to occur in October 2016.

BYLAWS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF LEXINGTON, VIRGINIA

I. INTRODUCTION

A. **Name.** The name of this body shall be the “Industrial Development Authority of the City of Lexington, Virginia” and is sometimes hereinafter referred to as the “Authority.”

B. **Purpose.** The Authority shall have all purposes now or hereafter set forth in the Industrial Development and Revenue Bond Act, Chapter 49 of Title 15 .2 of the Code of Virginia, as amended (the "Act").

C. **Powers.** The Authority shall be vested with and may exercise all powers now or hereafter enumerated in the Act, along with that may be incidental thereto or necessary or appropriate to enable it to accomplish its purposes.

D. **Separate Entity.** The Authority shall be a political subdivision of the Commonwealth of Virginia, as provided by the Act, and as such shall be a separate and distinct legal entity from the City of Lexington, Virginia (“Lexington” or the “City”).

E. **Gender-neutral interpretation.** Any references to gender-based nouns or pronouns in these Bylaws shall be construed to refer generally to members of either sex.

II. BOARD OF DIRECTORS AND OFFICERS

A. **Board of Directors.** The Authority shall be governed by a Board of Directors in which all powers of the Authority shall be vested.

B. **Default to the Act.** All provisions contained in Article II are derived from Section 4904 Title 15.2 of the Code of Virginia. Any conflict between a provision in Article II and Section 4904 shall be resolved in favor of Section 4904.

C. **Number, Appointment, and Terms of Directors.**

(1) There shall be seven Directors of the Authority who shall be appointed by the City Council of Lexington (the “City Council”).

(2) All appointments shall be for a term of four (4) years, except appointments to fill the remainder of an unexpired term created by a vacancy on the Board of Directors.

(3) All terms of office shall be deemed to commence upon the date of the initial appointment to the authority, and thereafter, in accordance with the provisions of Subsection B(2).

(4) If at the end of any term of office of any director a successor thereto has not been appointed, then the director whose term of office has expired shall continue to hold office until his successor is appointed and qualified.

D. **Oath.** Each Director, before entering upon his duties, shall take and subscribe the oath prescribed by Section 49-1 of the Code of Virginia, as amended.

E. **Employment; Residence.** No Director shall be an officer or employee of Lexington. Every Director shall, at the time of his appointment and thereafter, reside in Lexington. When a

Director ceases to be a resident of Lexington, such Director's office shall be vacant and a new Director shall be appointed pursuant to the Act and Section II.F of these Bylaws.

F. **Vacancies.** The City Council shall make any appointments necessary to fill any vacancies upon the Board of Directors, such appointment being for the unexpired term of any Director who shall have resigned or otherwise vacated his office. The City Manager of Lexington shall promptly notify the City Council of any vacancy which may occur on the Board of Directors.

G. **Compensation for Directors.** The Directors shall receive no salary, but the Directors may be compensated such amount per regular, special or committee meeting as may be approved by the City Council not to exceed two hundred dollars (\$200) per meeting, and shall be reimbursed for necessary travel and other expenses incurred in the performance of their duties.

H. **Officers of the Authority.** The Directors shall elect a Chairman, a Vice-Chairman, a Secretary, and a Treasurer of the Authority (collectively, the "Officers"). All officers shall be elected annually at the regular meeting held in September of each year. They shall commence their duties immediately upon election and shall continue in office thereafter until a successor is elected and qualified. The Directors may elect at any regular or special meeting such Officers as may be necessary to fill any vacancy created by resignation, expiration of a term of appointment as a Director, or otherwise, which Officers shall serve for the remaining portion of such Officer's unexpired term.

(1) The Chairman and Vice-Chairman shall be elected from the membership of the Board. They shall remain full voting members of the Board of Directors after their election.

(2) The Directors shall elect Lexington's City Manager as Secretary and Lexington's Finance Director as Treasurer. Both the Secretary and the Treasurer shall be ex-officio members without the authority to vote on any business before the Board of Directors.

I. **Duties of Officers.** The duties of Officers of the Authority shall include, but shall not be limited to, the following:

(1) The Chairman shall preside at all meetings of the Authority; shall be responsible for all correspondence; shall make committee appointments; may appoint members of the Authority as liaison to any other governmental agencies, authorities, and commissions; shall act as a signatory when authorized; and shall have overall responsibility for accomplishment of the Authority's goals and purposes.

(2) The Vice Chairman shall, in the absence of the Chairman, exercise all of the Chairman's powers and duties. In the event the office of Chairman shall become vacant, the Vice Chairman shall immediately become the Chairman.

(3) The Secretary shall be responsible for taking detailed minutes of every meeting of the Authority, for providing appropriate notice of meetings to the Directors and Officers of the Authority and all other pertinent parties under Article III, and for preparing and distributing such minutes to all persons as directed by the Board of Directors. The Secretary shall maintain copies of all reports, correspondence, contracts, agreements, indentures, documents, audits, rules and regulations and any other records as may be directed by the Board of Directors. The Secretary also shall be responsible for

- preparing and filing all statements, reports and similar matters from time to time required by law to be filed by the Authority with any federal, state or local official.
- (4) The Treasurer shall be custodian of all funds of the Authority; shall keep and maintain suitable financial records as may be directed by the Board of Directors; shall arrange for an annual audit of the accounts of the Authority by an independent Certified Public Accountant, subject to the prior approval of the Board of Directors; and shall report to the Directors the results of such annual audit.
- (5) In addition to the foregoing powers and duties, each Officer of the Authority may exercise any powers conferred upon such officer by the Act, and all other powers as are customarily exercised by such officer in similar organizations or authorities as may be expedient, necessary or proper to further the lawful purposes of the Authority. During the absence of any Officer, the Board of Directors may designate any member of the Authority to perform the duties of the absent Officer until such Officer's return.

J. **Quorum.** Four members of the Board of Directors shall constitute a quorum of the Board for the purposes of conducting its business and exercising its powers and for all other purposes, except that no facilities owned by the Authority shall be leased or disposed of in any manner without a majority vote of the members of the Board of Directors (as described in Article III, Section A). No vacancy in the membership of the Board of Directors shall impair the right of a quorum to exercise all the powers and perform all the duties of the Board of Directors.

K. **Employees and Agents.** The Board of Directors shall have the power to employ and pay compensation to such employees and agents, including attorneys, consultants, and bond counsel, as the Board of Directors shall deem necessary in carrying on the business of the Authority.

III. MEETINGS AND HEARINGS

A. **Voting.** Except as otherwise required in these Bylaws or by the Act, voting shall be by a simple majority of those present at any meeting of the board of directors that has been called and conducted in accordance with this Article. No Director shall be allowed to vote by proxy at any meeting of the Authority. If the absence or recusal of any member of the Board of Directors causes a vote to result in a tie, the matter shall be tabled. The same member of the Board who raised the tabled issue can raise the issue again at the same meeting or a subsequent meeting when he or she believes that the matter can be resolved by calling for another vote. However, a raised and tabled issue can only be re-raised once per meeting.

B. **Meetings and Notices.** Except as set forth below, regular meetings of the Board of Directors shall be held at the call of the Chairman **when needed** ~~at 5:00 P.M. on the third Wednesday of the month;~~ at Lexington City Hall. Special meetings of the Board of Directors may be called by the Chairman or a majority of the Board of Directors. Notice specifying the time and place of any special meeting shall be given to each Director and Officer of the Authority at least 24 hours before such meeting by personally delivering such notice to him or her or by telephoning or mailing such notice to him or her at least 24 hours before the meeting. The presence of any Officer or Director at a special meeting shall be deemed an acknowledgement of the timely receipt of notice thereof or a waiver of any such notice. Special meetings may be held without notice if all of the Directors are present or those not present sign a

written waiver of notice before or after the meeting. All meetings at which formal action is taken shall be open to the public.

C. Public Hearing and Approval; Transmission of Fiscal Impact Statement.

- (1) Whenever federal law requires public hearings and public approval as a prerequisite to obtaining federal tax exemption for the interest paid on industrial development bonds, unless otherwise specified by federal law or regulation, the public hearing shall be conducted by the Authority either at its offices or in the General District Court Room of Lexington on a date and at a time selected by the Chairman of the Authority.
- (2) Notice of the hearing shall be given by the Secretary by (1) publishing once a week for two successive weeks in a newspaper published or having general circulation in the locality in which the facility to be financed is to be located and (2) advertising the meeting on the City's website. The notice shall specify the time and place of the hearing and also shall contain (a) the name and address of the Authority; (b) the name and address (principal place of business, if any) of the party seeking financing; (c) maximum dollar amount of financing sought; and (d) the type of business and purpose and specific location, if known, of the facility to be financed. Notwithstanding anything to the contrary contained herein, the hearing shall be scheduled and held not less than six (6) nor more than twenty-one (21) days after the second notice has appeared in the relevant local newspaper.
- (3) If, after the public hearing has been held, the Authority approves the financing, the Chairman shall convey promptly to the City Council a reasonably detailed summary of the comments expressed at the hearing, together with the Authority's recommendation. Such summary and recommendation shall be accompanied by a fiscal impact statement concerning the facility and financing therefor for which approval is sought in the form found in Appendix A of these Bylaws.
- (4) The Chairman shall use his best efforts to transmit said fiscal impact statement, summary and recommendation to the City Council within such time as will permit said City Council to either approve or disapprove the financing within sixty (60) calendar days from the public hearing.

D. Minutes. The Secretary of the Authority shall keep detailed minutes of all meetings and proceedings and all such minutes shall be open to public inspection at all times at the office of the Authority.

E. Closed Sessions. When addressing Authority business not required by law to be discussed in a public forum, any member of the Board of Directors may move to address said business in a closed session. To enter into a closed session, the motion must be seconded and approved by a majority of the Board of Directors. Business discussed in a closed session shall not be included on the minutes of the Authority. Any motion for a closed session shall be made according to the form exhibited in Appendix C.

F. Financial Transactions, Records and Fiscal Year. The Treasurer of the Authority shall keep suitable records of all financial transactions of the Authority and shall arrange to have the same audited following the end of each fiscal year, subject to the approval of the Board of

Directors. Copies of each audit shall be further furnished to the City Council and all such other persons as the Board of Directors may deem appropriate, and shall be open to public inspection at the office of the Industrial Development Authority, at City Hall, 300 East Washington Street, Lexington, Virginia 24450. The fiscal year of the Authority shall begin on July 1 and end on the last day of June next following.

G. **Agenda of Meetings.** The format of all regular meetings of the Board of Directors shall be as follows:

- a. Call to Order.
- b. Reading (if requested by any member), approval and correction of the minutes of the last regular meeting and any special meetings held subsequent to the last regular meeting.
- c. Treasurer's Report.
- d. Chairman's Report.
- e. Committee Reports: Executive Committee, Industrial Advisory Committee, and Special Committees.
- f. Old Business.
- g. New Business.
- h. Adjournment.

IV. **COMMITTEES**

A. **Executive Committee.** The Board of Directors may designate, by resolution adopted by a majority of the Directors, any two or more of the Directors to constitute an Executive Committee. The Executive Committee shall consider on behalf of the Board of Directors, all matters brought to its attention when the Board of Directors is not in session during either a regular or a special meeting. The Executive Committee may act solely in an advisory capacity and shall not exercise any of the powers granted to the Authority of its officers pursuant to these Bylaws or the Act. The Executive Committee shall report to the members of the Authority at the Authority's next regularly scheduled meeting all matters discussed by the Executive Committee.

B. **Special Committees.** The Board of Directors may appoint, from time to time, committees as it may deem necessary and expedient to promote the purposes of the Authority. Such committees shall be advisory only and shall not be empowered to act by or on behalf of the Authority. Members of any special committee shall not be compensated for their services but may be reimbursed for necessary traveling and other expenses incurred while on the business of the Authority.

V. **SEAL OF THE AUTHORITY**

The seal of the Authority shall be a flat faced circular die with the name of the Authority engraved thereon and such other words and figures as may appear thereon, as evidenced by a sample of such seal which appears on the margin of these Bylaws opposite this Section.

VI. CHECKS , NOTES , DRAFTS AND OTHER LEGAL DOCUMENTS

Checks, notes, drafts, and other legal documents shall be signed by such Directors or Officers as specified in the Act, these Bylaws, or as the Board of Directors may, from time to time, authorize. The signature of any such person may be electronic when authorized by the Board of Directors or the Act.

VII. RULES AND REGULATIONS

A. **Rules of Order.** Roberts Rules of Order, newly revised or any subsequent edition thereof, shall govern all matters of procedure not specifically set forth in these Bylaws or the Act.

B. **Rules and Regulations.** The Board of Directors may adopt, amend and alter, from time to time, such rules, regulations, or forms which it may deem necessary or expedient for the management of the affairs of the Authority and which shall not be inconsistent with the Act. The Secretary of the Authority shall maintain current copies of all rules, regulations, and forms adopted by the Authority, which shall be available for public inspection at all times at the office of the Authority.

VIII. AMENDMENT OF THE BYLAWS

These Bylaws may be amended by a majority of the Board of Directors present at any duly constituted meeting, provided written ~~or oral~~ notice of such amendment shall have been given to the Directors and Officers at least **four business days** ~~24 hours~~ prior to any such meeting.

APPENDIX A: FISCAL IMPACT STATEMENT FORM

_____ Date: _____

(Name of Applicant)

(Facility)

1. Maximum amount of financing sought	\$
2. Estimated taxable value of the facility's real property to be constructed in the locality	\$
3. Estimated real property tax per year using present tax rates	\$
4. Estimated personal property tax per year using present tax rates	\$
5. Estimated merchants' capital tax per year using present tax rates	\$
6.(a) Estimated dollar value per year of goods that will be purchased from Virginia companies within the locality	\$
6.(b) Estimated dollar value per year of goods that will be purchased from non-Virginia companies within the locality	\$
6.(c) Estimated dollar value per year of services that will be purchased from Virginia companies within the locality	\$
6.(d) Estimated dollar value per year of services that will be purchased from non-Virginia companies within the locality	\$
7. Estimated number of regular employees on year round basis	\$
8. Average annual salary per employee	\$
TOTAL	\$

Signature

Authority Chairman

APPENDIX B: PROCEDURES FOR FINANCIAL ASSISTANCE REQUESTS

1. Prior to consideration of any request for financing assistance, the Authority shall require submission of the following documentation by all applicants:

- a. Cover letter soliciting an Authority Resolution of Inducement for the use of industrial revenue bonds.
- b. Background information on the applicant, including but not limited to: a brief history of the applicant; the names of the applicant's chief officers and principal owners; a description of the applicant's market and products or services; records of past sales growth and projected sales; financial statements for the previous three years of operation and current year estimates; and a statement of the relationship of this project to the organization and to its marketing and sales strategy.
- c. Detailed project outline, including but not limited to; a description of the facilities to be constructed and/or utilized; a schedule of the estimated cost of the project as it relates to the financing sought; an economic valuation analysis; and a detailed explanation of how the bonds will be sold, including all cost connected therewith.
- d. Statement of benefits to the State of Virginia and to the City of Lexington, including but not limited to: a projection of new employment opportunities created as a result of the project; an estimate of all taxes projected to be paid to the City of Lexington as a result of the facility; and an estimate of all taxes projected to be paid to the State of Virginia as a result of the facility; and a statement of other potential benefits which might accrue to the local economy, including non-monetary benefits.

2. All documentation referred to in Paragraph 1 shall be addressed to the Chairman, Industrial Development Authority of Lexington, Virginia.

3. At the time the application is received, a non-refundable filing fee of \$5,000 is due. A non-refundable closing fee of \$20,000 or 1 percent of the total issuance amount is due at the time the applicant's project is financed through the Authority. The applicant shall be responsible for the cost of advertising legal notices of public hearings, and other costs related to the public hearing as determined by the Authority. The applicant shall also be responsible for the payment of an annual fee. For affordable housing transactions where the Authority or the City is required to conduct ongoing monitoring of the project, the annual fee shall be based on the lesser of: 1) staff's estimate of the costs to be incurred each year in monitoring the project; or 2) one-eighth of one percent of the outstanding principal amount of the bonds. For all other transactions, the annual fee shall be the lesser of: 1) \$5,000 or 2) one-eighth of one percent of the outstanding principal amount of the bonds. Fees shall be made payable to the Industrial Development Authority of the City of Lexington, Virginia. The Authority shall retain the right to waive all or part of the closing and/or annual fee if the applicant demonstrates to the Authority that financial hardship would result from payment of all or part of the closing fee.

4. Upon receipt of an application for financing assistance, the Authority shall forward all relevant materials to the City Council staff for review. The Authority shall meet to make a recommendation upon an application only after review by the City Council staff has been completed. The Authority shall hold a public meeting to allow for public comment prior to the adoption of an inducement resolution authorizing a proposed project or projects. Notice of this meeting shall be advertised in a newspaper of general circulation in the County fourteen days and again seven days before the public hearing is held. The notice must include the name and address of the Authority, the time and place of the hearing, the name and address of the party seeking financing, the maximum dollar amount of financing sought, the type of business and the proposed location of the facility to be financed. The Authority's recommendation along with accompanying documentation and a detailed summary of the public hearing shall then be forwarded to the City Council for consideration. Final action shall be taken by the Authority only after receipt of a recommendation from the City Council.

5. The Authority shall take into consideration the following factors in reviewing any request for financing assistance:

- a. General Land Use Plan.
- b. Existing Zoning.
- c. Efficient Land Utilization.
- d. Other County Board-adopted Goals, Policies, and Objectives.

6. The Authority shall include in its bond documents and require the applicant to include in its Official Statement the following certifications:

- a. The Official Statement shall meet current financial disclosure guidelines as promulgated by the Government Finance Officers Association; and,
- b. The applicant shall provide ongoing, timely disclosure of annual financial information (including an annual financial audit prepared by an independent auditor using generally accepted accounting principles) and notices of material events to the Authority and to the Municipal Securities Rulemaking Board. The applicant shall bear the burden of compliance with Securities Exchange Commission (SEC) mandates regarding ongoing compliance and reporting obligations, and shall be indemnified to the Authority for any fines resulting from failure to comply with SEC rules.

APPENDIX C: MOTION FOR A CLOSED SESSION

MOTION FOR CLOSED MEETING

I move that Industrial Development Authority of Lexington, Virginia convene in Closed Session in accordance with Section 2.2-3712, of the Code of Virginia, as amended, in order to discuss matters identified as exempt pursuant to Section 2.2-3711, Subsection A, Paragraph [fill in paragraph number(s)]. The subject to be addressed shall be [fill in description from paragraph(s) cited]

VOTE:

Don Burks	Aye	Nay
Homer "Buddy" Derrick	Aye	Nay
John DeVogt	Aye	Nay
Anna-Lisa Fitzgerald	Aye	Nay
Richard Halseth	Aye	Nay
James Joyner	Aye	Nay

RESOLUTION

WHEREAS, the Industrial Development Authority of the City of Lexington has convened a closed session on this date pursuant to an affirmative vote in accordance with the provisions of the Virginia Freedom of Information Act, specifically Section 2.2-3711, Paragraph [fill in paragraph number(s)], to discuss [fill in description from paragraph(s) cited]; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by this Authority that such executive meeting was conducted in conformity with Virginia law;

NOW THEREFORE BE IT RESOLVED by the Members of the Board of the Industrial Development Authority of Lexington, Virginia, that the Members hereby certify that, to the best of each member's knowledge, (1) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the executive meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the executive meeting were, heard, discussed or considered by the Authority.

VOTE:

Don Burks	Aye	Nay
Homer "Buddy" Derrick	Aye	Nay
John DeVogt	Aye	Nay
Anna-Lisa Fitzgerald	Aye	Nay
Richard Halseth	Aye	Nay
James Joyner	Aye	Nay

ABSENT DURING VOTE: _____

ABSENT DURING MEETING: _____

Resolved: _____

John DeVogt, Chairman

Clerk

BYLAWS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF LEXINGTON, VIRGINIA

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(2) All appointments shall be for a term of four (4) years, except appointments to fill the remainder of an unexpired term created by a vacancy on the Board of Directors.

(3) All terms of office shall be deemed to commence upon the date of the initial appointment to the authority, and thereafter, in accordance with the provisions of Subsection B(2).

(4) If at the end of any term of office of any director a successor thereto has not been appointed, then the director whose term of office has expired shall continue to hold office until his successor is appointed and qualified.

D. **Oath.** Each Director, before entering upon his duties, shall take and subscribe the oath prescribed by Section 49-1 of the Code of Virginia, as amended.

E. **Employment; Residence.** No Director shall be an officer or employee of Lexington. Every Director shall, at the time of his appointment and thereafter, reside in Lexington. When a

Director ceases to be a resident of Lexington, such Director's office shall be vacant and a new Director shall be appointed pursuant to the Act and Section II.F of these Bylaws.

F. **Vacancies.** The City Council shall make any appointments necessary to fill any vacancies upon the Board of Directors, such appointment being for the unexpired term of any Director who shall have resigned or otherwise vacated his office. The City Manager of Lexington shall promptly notify the City Council of any vacancy which may occur on the Board of Directors.

G. **Compensation for Directors.** The Directors shall receive no salary, but the Directors may be compensated such amount per regular, special or committee meeting as may be approved by the City Council not to exceed two hundred dollars (\$200) per meeting, and shall be reimbursed for necessary travel and other expenses incurred in the performance of their duties.

H. **Officers of the Authority.** The Directors shall elect a Chairman, a Vice-Chairman, a Secretary, and a Treasurer of the Authority (collectively, the "Officers"). All officers shall be elected annually at the regular meeting held in September of each year. They shall commence their duties immediately upon election and shall continue in office thereafter until a successor is elected and qualified. The Directors may elect at any regular or special meeting such Officers as may be necessary to fill any vacancy created by resignation, expiration of a term of appointment as a Director, or otherwise, which Officers shall serve for the remaining portion of such Officer's unexpired term.

(1) The Chairman and Vice-Chairman shall be elected from the membership of the Board. They shall remain full voting members of the Board of Directors after their election.

(2) The Directors shall elect Lexington's City Manager as Secretary and Lexington's Finance Director as Treasurer. Both the Secretary and the Treasurer shall be ex-officio members without the authority to vote on any business before the Board of Directors.

I. **Duties of Officers.** The duties of Officers of the Authority shall include, but shall not be limited to, the following:

(1) The Chairman shall preside at all meetings of the Authority; shall be responsible for all correspondence; shall make committee appointments; may appoint members of the Authority as liaison to any other governmental agencies, authorities, and commissions; shall act as a signatory when authorized; and shall have overall responsibility for accomplishment of the Authority's goals and purposes.

(2) The Vice Chairman shall, in the absence of the Chairman, exercise all of the Chairman's powers and duties. In the event the office of Chairman shall become vacant, the Vice Chairman shall immediately become the Chairman.

(3) The Secretary shall be responsible for taking detailed minutes of every meeting of the Authority, for providing appropriate notice of meetings to the Directors and Officers of the Authority and all other pertinent parties under Article III, and for preparing and distributing such minutes to all persons as directed by the Board of Directors. The Secretary shall maintain copies of all reports, correspondence, contracts, agreements, indentures, documents, audits, rules and regulations and any other records as may be directed by the Board of Directors. The Secretary also shall be responsible for

- preparing and filing all statements, reports and similar matters from time to time required by law to be filed by the Authority with any federal, state or local official.
- (4) The Treasurer shall be custodian of all funds of the Authority; shall keep and maintain suitable financial records as may be directed by the Board of Directors; shall arrange for an annual audit of the accounts of the Authority by an independent Certified Public Accountant, subject to the prior approval of the Board of Directors; and shall report to the Directors the results of such annual audit.
- (5) In addition to the foregoing powers and duties, each Officer of the Authority may exercise any powers conferred upon such officer by the Act, and all other powers as are customarily exercised by such officer in similar organizations or authorities as may be expedient, necessary or proper to further the lawful purposes of the Authority. During the absence of any Officer, the Board of Directors may designate any member of the Authority to perform the duties of the absent Officer until such Officer's return.

J. **Quorum.** Four members of the Board of Directors shall constitute a quorum of the Board for the purposes of conducting its business and exercising its powers and for all other purposes, except that no facilities owned by the Authority shall be leased or disposed of in any manner without a majority vote of the members of the Board of Directors (as described in Article III, Section A). No vacancy in the membership of the Board of Directors shall impair the right of a quorum to exercise all the powers and perform all the duties of the Board of Directors.

K. **Employees and Agents.** The Board of Directors shall have the power to employ and pay compensation to such employees and agents, including attorneys, consultants, and bond counsel, as the Board of Directors shall deem necessary in carrying on the business of the Authority.

III. MEETINGS AND HEARINGS

A. **Voting.** Except as otherwise required in these Bylaws or by the Act, voting shall be by a simple majority of those present at any meeting of the board of directors that has been called and conducted in accordance with this Article. No Director shall be allowed to vote by proxy at any meeting of the Authority. If the absence or recusal of any member of the Board of Directors causes a vote to result in a tie, the matter shall be tabled. The same member of the Board who raised the tabled issue can raise the issue again at the same meeting or a subsequent meeting when he or she believes that the matter can be resolved by calling for another vote. However, a raised and tabled issue can only be re-raised once per meeting.

B. **Meetings and Notices.** Except as set forth below, regular meetings of the Board of Directors shall be held at the call of the Chairman when needed at Lexington City Hall. Special meetings of the Board of Directors may be called by the Chairman or a majority of the Board of Directors. Notice specifying the time and place of any special meeting shall be given to each Director and Officer of the Authority at least 24 hours before such meeting by personally delivering such notice to him or her or by telephoning or mailing such notice to him or her at least 24 hours before the meeting. The presence of any Officer or Director at a special meeting shall be deemed an acknowledgement of the timely receipt of notice thereof or a waiver of any such notice. Special meetings may be held without notice if all of the Directors are present or

those not present sign a written waiver of notice before or after the meeting. All meetings at which formal action is taken shall be open to the public.

C. Public Hearing and Approval; Transmission of Fiscal Impact Statement.

- (1) Whenever federal law requires public hearings and public approval as a prerequisite to obtaining federal tax exemption for the interest paid on industrial development bonds, unless otherwise specified by federal law or regulation, the public hearing shall be conducted by the Authority either at its offices or in the General District Court Room of Lexington on a date and at a time selected by the Chairman of the Authority.
- (2) Notice of the hearing shall be given by the Secretary by (1) publishing once a week for two successive weeks in a newspaper published or having general circulation in the locality in which the facility to be financed is to be located and (2) advertising the meeting on the City's website. The notice shall specify the time and place of the hearing and also shall contain (a) the name and address of the Authority; (b) the name and address (principal place of business, if any) of the party seeking financing; (c) maximum dollar amount of financing sought; and (d) the type of business and purpose and specific location, if known, of the facility to be financed. Notwithstanding anything to the contrary contained herein, the hearing shall be scheduled and held not less than six (6) nor more than twenty-one (21) days after the second notice has appeared in the relevant local newspaper.
- (3) If, after the public hearing has been held, the Authority approves the financing, the Chairman shall convey promptly to the City Council a reasonably detailed summary of the comments expressed at the hearing, together with the Authority's recommendation. Such summary and recommendation shall be accompanied by a fiscal impact statement concerning the facility and financing therefor for which approval is sought in the form found in Appendix A of these Bylaws.
- (4) The Chairman shall use his best efforts to transmit said fiscal impact statement, summary and recommendation to the City Council within such time as will permit said City Council to either approve or disapprove the financing within sixty (60) calendar days from the public hearing.

D. Minutes. The Secretary of the Authority shall keep detailed minutes of all meetings and proceedings and all such minutes shall be open to public inspection at all times at the office of the Authority.

E. Closed Sessions. When addressing Authority business not required by law to be discussed in a public forum, any member of the Board of Directors may move to address said business in a closed session. To enter into a closed session, the motion must be seconded and approved by a majority of the Board of Directors. Business discussed in a closed session shall not be included on the minutes of the Authority. Any motion for a closed session shall be made according to the form exhibited in Appendix C.

F. Financial Transactions, Records and Fiscal Year. The Treasurer of the Authority shall keep suitable records of all financial transactions of the Authority and shall arrange to have the same audited following the end of each fiscal year, subject to the approval of the Board of

Directors. Copies of each audit shall be further furnished to the City Council and all such other persons as the Board of Directors may deem appropriate, and shall be open to public inspection at the office of the Industrial Development Authority, at City Hall, 300 East Washington Street, Lexington, Virginia 24450. The fiscal year of the Authority shall begin on July 1 and end on the last day of June next following.

G. **Agenda of Meetings.** The format of all regular meetings of the Board of Directors shall be as follows:

- a. Call to Order.
- b. Reading (if requested by any member), approval and correction of the minutes of the last regular meeting and any special meetings held subsequent to the last regular meeting.
- c. Treasurer's Report.
- d. Chairman's Report.
- e. Committee Reports: Executive Committee, Industrial Advisory Committee, and Special Committees.
- f. Old Business.
- g. New Business.
- h. Adjournment.

IV. **COMMITTEES**

A. **Executive Committee.** The Board of Directors may designate, by resolution adopted by a majority of the Directors, any two or more of the Directors to constitute an Executive Committee. The Executive Committee shall consider on behalf of the Board of Directors, all matters brought to its attention when the Board of Directors is not in session during either a regular or a special meeting. The Executive Committee may act solely in an advisory capacity and shall not exercise any of the powers granted to the Authority of its officers pursuant to these Bylaws or the Act. The Executive Committee shall report to the members of the Authority at the Authority's next regularly scheduled meeting all matters discussed by the Executive Committee.

B. **Special Committees.** The Board of Directors may appoint, from time to time, committees as it may deem necessary and expedient to promote the purposes of the Authority. Such committees shall be advisory only and shall not be empowered to act by or on behalf of the Authority. Members of any special committee shall not be compensated for their services but may be reimbursed for necessary traveling and other expenses incurred while on the business of the Authority.

V. **SEAL OF THE AUTHORITY**

The seal of the Authority shall be a flat faced circular die with the name of the Authority engraved thereon and such other words and figures as may appear thereon, as evidenced by a sample of such seal which appears on the margin of these Bylaws opposite this Section.

VI. CHECKS , NOTES , DRAFTS AND OTHER LEGAL DOCUMENTS

Checks, notes, drafts, and other legal documents shall be signed by such Directors or Officers as specified in the Act, these Bylaws, or as the Board of Directors may, from time to time, authorize. The signature of any such person may be electronic when authorized by the Board of Directors or the Act.

VII. RULES AND REGULATIONS

A. **Rules of Order.** Roberts Rules of Order, newly revised or any subsequent edition thereof, shall govern all matters of procedure not specifically set forth in these Bylaws or the Act.

B. **Rules and Regulations.** The Board of Directors may adopt, amend and alter, from time to time, such rules, regulations, or forms which it may deem necessary or expedient for the management of the affairs of the Authority and which shall not be inconsistent with the Act. The Secretary of the Authority shall maintain current copies of all rules, regulations, and forms adopted by the Authority, which shall be available for public inspection at all times at the office of the Authority.

VIII. AMENDMENT OF THE BYLAWS

These Bylaws may be amended by a majority of the Board of Directors present at any duly constituted meeting, provided written notice of such amendment shall have been given to the Directors and Officers at least four business days prior to any such meeting.

APPENDIX A: FISCAL IMPACT STATEMENT FORM

_____ Date: _____

(Name of Applicant)

(Facility)

1. Maximum amount of financing sought	\$
2. Estimated taxable value of the facility's real property to be constructed in the locality	\$
3. Estimated real property tax per year using present tax rates	\$
4. Estimated personal property tax per year using present tax rates	\$
5. Estimated merchants' capital tax per year using present tax rates	\$
6.(a) Estimated dollar value per year of goods that will be purchased from Virginia companies within the locality	\$
6.(b) Estimated dollar value per year of goods that will be purchased from non-Virginia companies within the locality	\$
6.(c) Estimated dollar value per year of services that will be purchased from Virginia companies within the locality	\$
6.(d) Estimated dollar value per year of services that will be purchased from non-Virginia companies within the locality	\$
7. Estimated number of regular employees on year round basis	\$
8. Average annual salary per employee	\$
TOTAL	\$

Signature

Authority Chairman

Industrial Development Authority of the City of Lexington, Virginia

Name of Authority

APPENDIX B: PROCEDURES FOR FINANCIAL ASSISTANCE REQUESTS

1. Prior to consideration of any request for financing assistance, the Authority shall require submission of the following documentation by all applicants:

- a. Cover letter soliciting an Authority Resolution of Inducement for the use of industrial revenue bonds.
- b. Background information on the applicant, including but not limited to: a brief history of the applicant; the names of the applicant's chief officers and principal owners; a description of the applicant's market and products or services; records of past sales growth and projected sales; financial statements for the previous three years of operation and current year estimates; and a statement of the relationship of this project to the organization and to its marketing and sales strategy.
- c. Detailed project outline, including but not limited to; a description of the facilities to be constructed and/or utilized; a schedule of the estimated cost of the project as it relates to the financing sought; an economic valuation analysis; and a detailed explanation of how the bonds will be sold, including all cost connected therewith.
- d. Statement of benefits to the State of Virginia and to the City of Lexington, including but not limited to: a projection of new employment opportunities created as a result of the project; an estimate of all taxes projected to be paid to the City of Lexington as a result of the facility; and an estimate of all taxes projected to be paid to the State of Virginia as a result of the facility; and a statement of other potential benefits which might accrue to the local economy, including non-monetary benefits.

2. All documentation referred to in Paragraph 1 shall be addressed to the Chairman, Industrial Development Authority of Lexington, Virginia.

3. At the time the application is received, a non-refundable filing fee of \$5,000 is due. A non-refundable closing fee of \$20,000 or 1 percent of the total issuance amount is due at the time the applicant's project is financed through the Authority. The applicant shall be responsible for the cost of advertising legal notices of public hearings, and other costs related to the public hearing as determined by the Authority. The applicant shall also be responsible for the payment of an annual fee. For affordable housing transactions where the Authority or the City is required to conduct ongoing monitoring of the project, the annual fee shall be based on the lesser of: 1) staff's estimate of the costs to be incurred each year in monitoring the project; or 2) one-eighth of one percent of the outstanding principal amount of the bonds. For all other transactions, the annual fee shall be the lesser of: 1) \$5,000 or 2) one-eighth of one percent of the outstanding principal amount of the bonds. Fees shall be made payable to the Industrial Development Authority of the City of Lexington, Virginia. The Authority shall retain

the right to waive all or part of the closing and/or annual fee if the applicant demonstrates to the Authority that financial hardship would result from payment of all or part of the closing fee.

4. Upon receipt of an application for financing assistance, the Authority shall forward all relevant materials to the City Council staff for review. The Authority shall meet to make a recommendation upon an application only after review by the City Council staff has been completed. The Authority shall hold a public meeting to allow for public comment prior to the adoption of an inducement resolution authorizing a proposed project or projects. Notice of this meeting shall be advertised in a newspaper of general circulation in the County fourteen days and again seven days before the public hearing is held. The notice must include the name and address of the Authority, the time and place of the hearing, the name and address of the party seeking financing, the maximum dollar amount of financing sought, the type of business and the proposed location of the facility to be financed. The Authority's recommendation along with accompanying documentation and a detailed summary of the public hearing shall then be forwarded to the City Council for consideration. Final action shall be taken by the Authority only after receipt of a recommendation from the City Council.

5. The Authority shall take into consideration the following factors in reviewing any request for financing assistance:

- a. General Land Use Plan.
- b. Existing Zoning.
- c. Efficient Land Utilization.
- d. Other County Board-adopted Goals, Policies, and Objectives.

6. The Authority shall include in its bond documents and require the applicant to include in its Official Statement the following certifications:

- a. The Official Statement shall meet current financial disclosure guidelines as promulgated by the Government Finance Officers Association; and,
- b. The applicant shall provide ongoing, timely disclosure of annual financial information (including an annual financial audit prepared by an independent auditor using generally accepted accounting principles) and notices of material events to the Authority and to the Municipal Securities Rulemaking Board. The applicant shall bear the burden of compliance with Securities Exchange Commission (SEC) mandates regarding ongoing compliance and reporting obligations, and shall be indemnified to the Authority for any fines resulting from failure to comply with SEC rules.

APPENDIX C: MOTION FOR A CLOSED SESSION

MOTION FOR CLOSED MEETING

I move that Industrial Development Authority of Lexington, Virginia convene in Closed Session in accordance with Section 2.2-3712, of the Code of Virginia, as amended, in order to discuss matters identified as exempt pursuant to Section 2.2-3711, Subsection A, Paragraph [fill in paragraph number(s)]. The subject to be addressed shall be [fill in description from paragraph(s) cited]

VOTE:

Don Burks	Aye	Nay
Homer "Buddy" Derrick	Aye	Nay
John DeVogt	Aye	Nay
Anna-Lisa Fitzgerald	Aye	Nay
Richard Halseth	Aye	Nay
James Joyner	Aye	Nay

RESOLUTION

WHEREAS, the Industrial Development Authority of the City of Lexington has convened a closed session on this date pursuant to an affirmative vote in accordance with the provisions of the Virginia Freedom of Information Act, specifically Section 2.2-3711, Paragraph [fill in paragraph number(s)], to discuss [fill in description from paragraph(s) cited]; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by this Authority that such executive meeting was conducted in conformity with Virginia law;

NOW THEREFORE BE IT RESOLVED by the Members of the Board of the Industrial Development Authority of Lexington, Virginia, that the Members hereby certify that, to the best of each member's knowledge, (1) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the executive meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the executive meeting were, heard, discussed or considered by the Authority.

VOTE:

Don Burks	Aye	Nay
Homer "Buddy" Derrick	Aye	Nay
John DeVogt	Aye	Nay
Anna-Lisa Fitzgerald	Aye	Nay
Richard Halseth	Aye	Nay
James Joyner	Aye	Nay

ABSENT DURING VOTE: _____

ABSENT DURING MEETING: _____

Resolved: _____

John DeVogt, Chairman

Clerk

IDA Balance Sheet
June 30, 2016

ASSETS	
Cash- SunTrust	\$ 110,037
Money Market	\$ 75,000
CD's	\$ 151,606
TOTAL ASSETS	<u>\$ 336,643</u>
LIABILITIES	
Accounts Payable	\$ 47,511
EQUITY	
Fund Balance	\$ 60,236
Reserve for R E Lee Hotel Project	\$ 228,896
TOTAL EQUITY	<u>\$ 289,132</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 336,643</u>

IDA Income Statement
June 30, 2016

REVENUE	
Interest Income	\$ 3,226
From General Fund- Transient Occupancy Taxes	\$ 182,357
User Fees	\$ 45,288
REVENUE TOTAL	<u>\$ 230,871</u>
EXPENSES	
Payments to Horse Center Foundation	\$ 182,357
R E Lee Hotel Incentive	\$ 63,813
EXPENSE TOTAL	<u>\$ 246,170</u>
REVENUE MINUS EXPENSES	<u><u>\$ (15,299)</u></u>