

NEW ISSUE – BOOK-ENTRY ONLY

RATING: Fitch: “BB+”
See “RATING” herein

In the opinion of Rhoads & Sinon LLP, bond counsel, under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income of the owners of the Bonds for purposes of federal income taxation and is not an item of tax preference of the owners of the Bonds for purposes of the federal alternative minimum tax imposed on individuals and corporations, although in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. Such opinion of bond counsel is given in reliance upon certain certifications made by or on behalf of the Authority and the Corporation and subject to the continuing compliance by the Authority and the Corporation with their covenants in the Bond Indenture, the Loan Agreement and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.

Bond counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania (the “Commonwealth”), as presently enacted and construed, and the Bonds are exempt from personal property taxes in the Commonwealth and the interest on the Bonds is exempt from the Commonwealth’s Personal Income Tax and the Commonwealth’s Corporate Net Income Tax.

For further information concerning federal and state tax matters relating to the Bonds, see “Tax Exemption and Other Tax Matters” herein.



\$102,955,000*
LANCASTER COUNTY HOSPITAL AUTHORITY
REVENUE BONDS
(BRETHREN VILLAGE PROJECT), SERIES OF 2017

Dated: Date of Delivery

Due: July 1, as shown below

The \$102,955,000* aggregate principal amount Revenue Bonds (Brethren Village Project), Series of 2017 (the “Bonds”) offered hereby are being issued by the Lancaster County Hospital Authority (the “Authority”), in the manner described herein, for the purpose of providing funds, together with other available funds, to (i) currently refund the Authority’s outstanding Revenue Bonds (Brethren Village Project), Series A of 2008, (ii) fund a debt service reserve fund for the Bonds, and (iii) pay related costs and expenses, including costs of issuance of the Bonds.

The Bonds are limited obligations of the Authority and are payable solely from payments required to be made by Brethren Village (the “Corporation”) under the Loan Agreement and Obligation No. 6 and other sources described herein. Neither the credit nor the taxing power of the County of Lancaster or the Commonwealth of Pennsylvania or of any political subdivision thereof is pledged for the payment of the Bonds, nor shall the Bonds be or be deemed an obligation of the County of Lancaster or the Commonwealth of Pennsylvania or any political subdivision thereof. No member of the Authority, past, present or future, shall have any personal liability by reason of execution or issuance of the Bonds. The Authority has no taxing power.

The Bonds are issuable in fully registered form. Purchases of the Bonds will be made in book-entry only form, and individual purchasers will not receive physical delivery of bond certificates. When issued, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Interest on the Bonds is payable on each January 1 and July 1, beginning July 1, 2017.

The Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as described herein.

MATURITY SCHEDULE
\$27,760,000* Serial Bonds

Due July 1*	Amount*	Interest Rate	Price	Yield	CUSIP Number
2018	\$2,155,000				
2019	2,275,000				
2020	2,400,000				
2021	2,530,000				
2022	2,670,000				
2023	2,820,000				
2024	2,975,000				
2025	3,135,000				
2026	3,310,000				
2027	3,490,000				
	\$20,560,000*	% Term Bonds due July 1, 2032*	Price	% Yield	% CUSIP: _____
	\$26,875,000*	% Term Bonds due July 1, 2037*	Price	% Yield	% CUSIP: _____
	\$27,760,000*	% Term Bonds due July 1, 2040*	Price	% Yield	% CUSIP: _____

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. An investment in the Bonds involves a significant degree of risk and is speculative in nature as described under “CERTAIN BONDHOLDERS’ RISKS” herein and under other sections of this Official Statement.

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of the legality of the Bonds by Rhoads & Sinon LLP, Harrisburg, Pennsylvania, Bond Counsel. Legal matters pertinent to the financing will be passed upon for the Authority by its Counsel, McNees Wallace & Nurick LLC, Lancaster and Harrisburg, Pennsylvania; for the Corporation by its Counsel, Gibbel, Kraybill & Hess, LLP, Lancaster, Pennsylvania; and for the Underwriters by their counsel, Ballard Spahr LLP, Philadelphia, Pennsylvania. It is expected that the Bonds will be available for delivery in New York, New York, through the Book-Entry Only System of DTC, on or about April __, 2017.



Dated: March __, 2017

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment without notice. The Bonds 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 an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or exemption under the securities laws of any such jurisdiction.



3001 Lititz Pike, P.O. Box 5093, Lancaster, PA 17606-5093
 717-569-2657 | www.bv.org
 When using GPS—enter 3001 Lititz Pike, Lititz, PA 17543



- SUPPORTIVE LIVING FACILITIES:**
- The Courtyards
 - Rehab Center at BV
 - Terrace Crossing Personal Care & Memory Support
 - Transportation & Security
 - Village Manor Personal Care
- RESIDENTIAL LIVING FACILITIES:**
- Cottages #1 through #420
 - Fieldcrest
 - Oakwood House
 - Fairview Meadows
 - Village Garden
 - Village Townhouse
 - Northside Court

- OFFICES & SUPPORT FACILITIES:**
- Child Day Care
 - Accounting - located in Terrace Crossing
 - Administration - located in the Welcome Center
 - Development - 505 Airport Road
 - Home Care - located on the Ground Floor of Fieldcrest Commons
 - Human Resources - located in Terrace Crossing
 - Facility Building
 - Marketing - 505 Airport Road
 - Volunteering - located in the Support Services Building
 - Welcome Center

- RESIDENT ACTIVITIES & SERVICES:**
- Chapel
 - Dining Rooms
 - Coffee Shop - located in Village Center
 - Fieldcrest
 - Chives American Grill
 - Perkisimo Café
 - Oakwood House
 - Village Townhouse
 - Fieldcrest Store
 - Fitness Rooms
 - Fieldcrest
 - Terrace Crossing
 - Pool
 - Resident Gardens
 - Thrift Shop
 - Village Center
 - Bank - BB&T
 - Beauty Shop
 - Coffee Shop
 - Creative Arts Room
 - Fellowship Hall
 - Gift Shop
 - Library
 - Pharmacy - Williams Apothecary
 - Village Store
 - Wolfe Auditorium - located in the Welcome Center Workshop

➤ Main Entrances into various buildings

The Courtyards at Brethren Village



Fieldcrest Independent Living



Outpatient Physical Therapy Room at Brethren Village Rehabilitation Center



Architect's Rendering of Northside Court



IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No broker, dealer, salesman or other person has been authorized by the Authority, the Corporation or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Corporation or the Underwriters. The information contained in this Official Statement has been obtained from the Corporation and other sources believed by the Underwriters to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters or, as to information from sources other than the Authority, by the Authority, or, as to information from sources other than the Corporation, by the Corporation.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under 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.

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as an agreement or contract between the Authority and the purchasers or owners of any of the Bonds.

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Other than with respect to information concerning the Authority contained under the captions "THE AUTHORITY" and "LITIGATION" herein, none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority makes no representation or warranty, express or implied, as to the accuracy or completeness of such information.

This Official Statement contains certain "forward-looking statements" concerning the operations and financial condition of the Corporation. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the Corporation. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. *The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to these forward-looking statements if or when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur.*

ALL QUOTATIONS FROM AND SUMMARIES AND EXPLANATIONS OF PROVISIONS OF LAWS AND DOCUMENTS HEREIN DO NOT PURPORT TO BE COMPLETE, AND REFERENCE IS MADE TO SUCH LAWS AND DOCUMENTS FOR FULL AND COMPLETE STATEMENTS OF THEIR PROVISIONS. ANY STATEMENTS MADE IN THIS OFFICIAL STATEMENT INVOLVING ESTIMATES OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO STATED, ARE INTENDED MERELY AS ESTIMATES OR OPINIONS AND NOT AS REPRESENTATIONS OF FACT. THE INFORMATION AND EXPRESSIONS OF OPINIONS HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE OF THE BONDS SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY OR THE CORPORATION.

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OFFICIAL STATEMENT
of
LANCASTER COUNTY HOSPITAL AUTHORITY
(Commonwealth of Pennsylvania)
relating to its

\$102,955,000*
REVENUE BONDS
(BRETHREN VILLAGE PROJECT), SERIES OF 2017

INTRODUCTION

This Official Statement, including the cover page and appendices, is provided to furnish information regarding the offering by the Lancaster County Hospital Authority (the “Authority”) of its \$102,955,000* Revenue Bonds (Brethren Village Project), Series of 2017 (the “Bonds”). The Bonds are being issued pursuant to the Municipality Authorities Act, 53 Pa. C.S. § 5601 *et seq.*, as amended (the “Act”), and an Indenture of Trust and Security Agreement, dated as of April 1, 2017 (the “Bond Indenture”), between the Authority and Fulton Bank, National Association, Lancaster, Pennsylvania, as trustee (the “Bond Trustee”). The proceeds of the Bonds will be loaned by the Authority to Brethren Village (the “Corporation”), a Pennsylvania nonprofit corporation, pursuant to a Loan Agreement, dated as of April 1, 2017 (the “Loan Agreement”), between the Authority and the Corporation, for the purpose of providing funds to be used, together with other available funds, to (i) currently refund the Authority’s outstanding Revenue Bonds (Brethren Village Project), Series A of 2008 (the “2008 Bonds”), (ii) fund a debt service reserve fund for the Bonds, and (iii) pay related costs and expenses, including costs of issuance of the Bonds. See “PLAN OF FINANCE” herein.

The Bonds are limited obligations of the Authority, payable solely from money to be received from the Corporation pursuant to the terms of the Loan Agreement and Obligation No. 6, dated the date of delivery thereof (“Obligation No. 6”), issued by the Corporation to the Authority pursuant to a Master Trust Indenture, dated as of January 1, 2008 (the “Master Indenture”), as supplemented by a First Supplemental Master Indenture and a Second Supplemental Master Indenture, each dated as of January 1, 2008, and a Third Supplemental Master Indenture dated as of July 15, 2015, each between the Corporation and Fulton Bank, National Association, as successor to Fulton Financial Advisors, National Association, as trustee (in such capacity, the “Master Trustee”), and a Fourth Supplemental Master Indenture dated as of June 15, 2016, a Fifth Supplemental Master Indenture, dated as of March 31, 2017, a Sixth Supplemental Master Indenture, dated as of April 1, 2017 (the “Sixth Supplement”) and a Seventh Supplemental Master Indenture, dated as of April 1, 2017 (the “Seventh Supplement”), each among the Corporation, BV Rehab and the Master Trustee. Payments on Obligation No. 6 will be required to be sufficient to pay the principal of, premium, if any, and interest on the Bonds as they become due and payable. The Corporation and BV Rehab are currently the only Members of the “Obligated Group” established under the Master Indenture.

As security for the repayment of Obligation No. 6 and all other Obligations issued under the Master Indenture, the Corporation will execute and deliver to the Master Trustee an Open-End Mortgage and Security Agreement, effective the date of delivery thereof (the “Mortgage”), granting to the Master Trustee a mortgage lien and security interest in the Corporation’s facilities, consisting of approximately

* Preliminary, subject to change.

96 acres, as more fully described in the Mortgage, together with all buildings, improvements and fixtures thereon (the “Facilities”) on a parity with the mortgage liens on and security interests in the Facilities granted to the Master Trustee to secure certain outstanding Obligations previously issued under the Master Indenture. Such lien and security interest is subject to certain Permitted Liens. All of the property subject to the lien of the Mortgage is referred to herein as the “Mortgaged Property.”

In addition, pursuant to the Master Indenture, the Corporation has granted to the Master Trustee a security interest in its Pledged Assets, subject to Permitted Liens and subject to the right of the Corporation to transfer Property, Plant and Equipment free of the security interest created in Pledged Assets under certain circumstances. All Obligations issued or to be issued and Outstanding under the Master Indenture, including Obligation No. 6, are secured *pari passu* by the liens on the Mortgaged Property and the security interest in the Pledged Assets. The Corporation is also subject to certain covenants contained in the Master Indenture restricting, among other things, incurrence of Indebtedness, existence of Liens, consolidation or merger, and disposition of assets. See the form of the Master Indenture in Appendix E.

The Authority will assign to the Bond Trustee (a) all its right, title and interest in and to Obligation No. 6, (b) all its rights under the Master Indenture and the Mortgage as the owner of Obligation No. 6, and (c) substantially all its right, title and interest in and to the Loan Agreement, to secure the payment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

The Master Indenture permits any Persons which are not Members of the Obligated Group and other corporations which 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. The Master Indenture also permits, upon compliance with certain requirements, any Member of the Obligated Group to withdraw from the Obligated Group. The Loan Agreement, however, prohibits the withdrawal of the Corporation from the Obligated Group without the prior written consent of the Authority.

Certain information concerning the Corporation and the Facilities is contained in Appendix A. The audited financial statements of the Corporation and its controlled affiliates for the two fiscal years ended June 30, 2016 and June 30, 2015, are contained in Appendix B.

This introduction is merely a summary and is qualified by reference to the entire Official Statement. Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Master Indenture, the Loan Agreement, the Bond Indenture and the Mortgage (see “Certain Definitions” in Appendix D and definitions contained in the form of the Master Indenture included in Appendix E). Brief descriptions and summaries of the Loan Agreement, the Bond Indenture and the Mortgage are included in Appendix D to this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive, and all references in this Official Statement to the Loan Agreement, the Bond Indenture and the Mortgage are qualified in their entirety by reference to such documents, and all references to the Bonds are qualified by reference to the definitive forms of the Bonds contained in the Bond Indenture. A copy of the Master Indenture is included in Appendix E hereto. Copies of such documents are available for inspection at the designated corporate trust office of the Bond Trustee.

THE AUTHORITY

The Authority is a body corporate and politic incorporated by the Board of Commissioners of the County of Lancaster (the “County”), pursuant to the Act. Under the Act, the Authority may, among other things, finance projects which it is empowered to undertake by its Articles of Incorporation. As provided in its Articles of Incorporation, the Authority is authorized to exercise any and all powers granted under the Act which include the power to undertake projects for health centers (defined in the Act to include life care or continuing care communities and nursing, personal care or personal care facilities for the elderly, handicapped or disabled) for non-profit institutions. A Certificate of Incorporation, dated as of June 2, 1975, has been issued to the Authority by the Secretary of the Commonwealth of Pennsylvania. The Authority’s initial life was for 50 years from its initial date, but was extended to December 31, 2065 pursuant to Articles of Amendment filed with the Secretary of the Commonwealth on April 18, 2016.

A Resolution authorizing the Bonds was adopted by the Board of the Authority on January 17, 2017.

The governing body of the Authority is a Board consisting of seven members appointed by the Board of County Commissioners of the County, the latter of whom are elected officials. Members of the Authority Board are appointed for staggered five-year terms and may be reappointed, but may not be County Commissioners. There is currently one vacancy on the Authority Board. Present members of the Authority Board and their respective offices and terms are as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Darcy Pollock	Chairperson	12/31/2021
Richard S. Wolman	Vice Chairman	12/31/2017
Jared E. Miller	Treasurer	12/31/2017
John Leaman	Assistant Treasurer	12/31/2019
Michael B. Julian	Secretary	12/31/2021
Oneida D. DeLuca	Assistant Secretary	12/31/2020

The Authority has issued several other series of revenue bonds to finance projects permitted under the Act. The bonds issued under the trust indenture or loan documents executed in connection with each such issue are payable solely from the revenues pledged under each such trust indenture or loan document, each separately secured, and each separate and independent from the Bonds as to sources of payment and security.

NEITHER THE PRINCIPAL OF THE BONDS NOR THE INTEREST ACCRUING THEREON SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR INDEBTEDNESS OF THE COUNTY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COUNTY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF, NOR WILL THE BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COUNTY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. NO MEMBER OF THE AUTHORITY, PAST, PRESENT OR FUTURE, SHALL HAVE ANY PERSONAL LIABILITY BY REASON OF EXECUTION OR ISSUANCE OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

Limited Involvement of the Authority

The Authority has not prepared or assisted in the preparation of this Official Statement except for the statements under this section captioned “THE AUTHORITY” and information in respect of the Authority under the section captioned “LITIGATION”; and except as aforesaid, the Authority is not responsible for any statements made herein, and will not participate in, or otherwise be responsible for, the offer, sale or distribution of the Bonds. Accordingly, except as aforesaid, the Authority disclaims responsibility for the disclosure set forth herein made in connection with the offer, sale and distribution of the Bonds.

THE BONDS

General Description

The Bonds will be issued as fully registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof, without coupons, and will be registered to CEDE & Co. as described below. The Bonds are being made available for purchase only under a book-entry only system maintained by The Depository Trust Company (“DTC”), New York, New York. Purchasers of the Bonds will not receive physical delivery of Bonds and must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of principal and interest. See “THE BONDS – Book-Entry Only System” herein.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. See “THE BONDS – Book-Entry Only System” herein.

The Bonds will be issued in the aggregate principal amount of \$ _____ and will be stated to mature as shown on the cover of this Official Statement, unless sooner called for redemption. Interest on the Bonds, payable at the rates set forth on the inside cover page hereof from the date of delivery thereof, is payable on January 1 and July 1 of each year, commencing July 1, 2017. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Each Bond shall bear interest from the most recent interest payment date to which interest has been paid or from the dated date thereof if no interest has been paid.

While the Bonds are held by DTC or its nominee, payment of principal, interest and redemption price is to be made by the Bond Trustee directly to DTC or its nominee. See “THE BONDS – Book Entry Only System” herein.

If the book entry only system is discontinued as provided under the terms of the Bond Indenture, then:

1. The principal or redemption price of the Bonds shall be payable upon surrender thereof at the designated corporate trust office of the Bond Trustee, and interest shall be payable by check mailed to the registered owners of the Bonds as shown on the registration books kept by the Bond Trustee as of the close of business on the applicable record dates described below, except that at the written direction of any registered owner of at least \$1,000,000 in aggregate principal amount of Bonds filed at least one business day prior to the relevant record date for interest due on any interest payment date, the Bond Trustee shall pay interest to such registered owner by wire transfer to a designated account of such registered owner in a financial institution located in the United States of America.

2. Except in the case of overdue interest, the Regular Record Date for interest due on the Bonds shall be the fifteenth day of the calendar month (whether or not a business day) immediately preceding each regular interest payment date. Interest which is due and payable on an interest payment date, but cannot be paid on such date from available funds under the Bond Indenture, shall thereupon cease to be payable to the registered owners otherwise entitled thereto as of such date. At such time as sufficient funds are available for the payment of such overdue interest, the Bond Trustee shall establish a special payment date for such interest and a special record date in respect thereof. The Bond Trustee shall mail a notice specifying each special payment date so established to each registered owner of the Bonds, such notice to be mailed at least 10 days prior to the special record date.

3. The Bond Trustee shall keep the registration books for the Bonds at its designated corporate trust office. Subject to the further conditions contained in the Bond Indenture, the Bonds may be transferred or exchanged for one or more Bonds of the same maturity and interest rate in different authorized denominations upon surrender thereof at the designated corporate trust office of the Bond Trustee by the registered owners or their duly authorized attorneys. Except in the case of any Bond properly surrendered for partial redemption (as described in the Bond Indenture), the Bond Trustee shall not be required to effect any transfer or exchange of any Bond during the five (5) days immediately preceding the date of mailing of any notice of redemption, or at any time following the mailing of any such notice if the Bond to be transferred or exchanged has been called for such redemption. No charge shall be imposed in connection with any transfer or exchange, except for taxes or governmental charges related thereto. The Authority and the Bond Trustee shall be entitled to treat the registered owners of the Bonds, as their names appear in the registration books as of the appropriate dates, as the owners of such Bonds for all purposes under the Bond Indenture. No transfer or exchange made other than as described above and in the Bond Indenture shall be valid or effective for any purposes under the Bond Indenture.

Redemption

Mandatory Sinking Fund Redemption. The Bonds maturing on July 1, 20__ are subject to mandatory redemption prior to maturity in part, by lot, on July 1 of each year as set forth below, in the respective principal amounts listed opposite each such year, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date:

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

(maturity)

The Bonds maturing on July 1, 20__ are subject to mandatory redemption prior to maturity in part, by lot, on July 1 of each year as set forth below, in the respective principal amounts listed opposite each such year, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date:

Year

Amount

(maturity)

The Bonds maturing on July 1, 20__ are subject to mandatory redemption prior to maturity in part, by lot, on July 1 of each year as set forth below, in the respective principal amounts listed opposite each such year, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date:

Year

Amount

(maturity)

The principal amount of Bonds so required to be redeemed in any year may be reduced, at the request of the Corporation, by an amount equal to the principal amount of Bonds of the same maturity and interest rate (i) surrendered uncanceled and in transferable form by the Corporation to the Bond Trustee not less than 45 days prior to such redemption date or (ii) selected at least 45 days prior to such date for redemption by the Corporation, as described below under "Optional Redemption", if in either case such Bonds have not previously served as the basis for any such reduction.

Optional Redemption. The Bonds stated to mature after July 1, 20__ are subject to optional redemption prior to maturity by the Authority, at the direction of the Corporation, in whole or from time to time in part, in any order of maturity designated by the Authority at the direction of the Corporation, on or after July 1, 20__ at a redemption price of ___% of the principal amount thereof, plus interest accrued to the redemption date.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole or in part by the Authority, upon the request of the Corporation given to the Authority and the Trustee, no later than 365 days after the occurrence of any event described below upon which such request is based or, if later, within 60 days following the receipt of any insurance or condemnation proceeds relating to such event (and in either case, except with the consent of the Bond Trustee, not less than 45 days prior to the Redemption Date), upon payment of a redemption price equal to 100% of the principal amount of the Bonds or parts thereof so redeemed, together with accrued interest thereon to the date fixed for redemption, if:

- (i) any property of the Corporation or any of the Obligated Affiliates (as defined in Appendix D hereto) shall have been damaged or destroyed to the extent that, in the reasonable judgment of the Corporation, (a) restoration and repair of a substantial portion of the properties of such Persons is required and either could not reasonably be expected to be completed within a

period of six months or is not economically practicable or desirable, or (b) such Persons are prevented or would likely be prevented from using a substantial portion of their properties for their normal purposes for a period of six months or more; or

(ii) title to any property of the Corporation or any of the Obligated Affiliates or the use or possession thereof shall have been taken or condemned by a competent authority for any public use or purpose to such an extent that such Persons are prevented or, in the reasonable judgment of the Corporation, would likely be prevented from using such portion of their properties for their normal purposes for a period of six months or more, or the repair, rebuilding, or restoration of such property or the acquisition of other property of at least equal value and economic utility to that taken or condemned and suitable for the proper and efficient operation of the properties of such Persons is substantial and is not economically practicable or desirable.

Determination of Taxability Redemption. The Bonds are required to be redeemed by the Authority in whole pursuant to the Bond Indenture from amounts received from the Corporation on any date selected by the Bond Trustee, upon the direction of the Corporation, which date shall be no later than one-hundred-twenty (120) days after the date of the occurrence of a Determination of Taxability at a redemption price equal to (i) 105% of the principal amount redeemed plus accrued interest to the date of redemption to the extent that such Determination of Taxability resulted from the action or inaction of the Corporation or (ii) 100% of the principal amount redeemed plus accrued interest to the date of redemption to the extent that such Determination of Taxability did not result from the action or inaction of the Corporation. “Determination of Taxability” means and shall be deemed to have occurred on the date when (a) the Authority receives notice from the Bond Trustee or any current or former Registered Owner or beneficial owner of any of the Bonds that the Internal Revenue Service has included interest on the Bonds in the gross income of such owner for Federal income tax purposes (together with evidence satisfactory to the Authority of such inclusion by the Internal Revenue Service), which inclusion has resulted from the occurrence of an Event of Taxability, or (b) the Authority receives notice from the Commissioner or any District Director of the Internal Revenue Service that the Internal Revenue Service has determined the interest on the Bonds to be includable in gross income for Federal income tax purposes, which determination has resulted from the occurrence of an Event of Taxability; provided, however, that in either case of (a) or (b) above, no Determination of Taxability shall be deemed to occur until the Corporation is offered the opportunity to control the contest thereof, provided that the Corporation shall have agreed to bear all expenses in connection therewith and until the expiration of all periods for judicial review or appeal. “Event of Taxability” means the occurrence or existence of any fact, event or circumstance which has the effect of causing the interest on the Bonds to be included in gross income for Federal income tax purposes.

Redemption Procedures. The Bond Trustee shall give notice of redemption of a Bond not less than 30 nor more than 60 days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner at the address shown on the Bond Trustee’s registration books. Any failure of a Bondholder to receive notice or any defect in notice with respect to a particular Bond or Bondholder shall not affect the validity of the redemption of any other Bonds. Notice of optional redemption or extraordinary redemption may be conditioned upon the deposit of moneys sufficient to redeem all the Bonds called for redemption with the Bond Trustee on or before the date fixed for redemption, and such notice shall be of no effect unless such moneys are deposited. While the Bonds are held by DTC or its nominee under the book-entry only system, redemption notices will be sent by the Bond Trustee to DTC only.

If less than all of the Bonds of any particular maturity shall be called for redemption, the Bonds of such maturity to be redeemed shall be selected by lot or such other manner as the Trustee deems fair

and appropriate. If a Bond is of a denomination in excess of \$5,000, portions of the principal amount in the amount of \$5,000 or any multiple thereof may be redeemed.

While the Bonds are held by DTC or its nominee under the book-entry only system, if less than all Bonds of a particular maturity are to be redeemed, the selection of the Bonds of such maturity to be redeemed shall be made by DTC. See “Book-Entry Only System” below.

Book-Entry Only System

The information in this section concerning DTC and DTC’s book-entry system has been obtained from DTC. The Corporation, the Authority and the Underwriters take no responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The 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 Bonds, each in the aggregate principal amount of such maturity, 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 (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company 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 (“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 and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, redemption premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee on the payment 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, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, redemption premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, 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 Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, the Beneficial Owners of the Bonds will not receive or have the right to receive physical delivery of the Bonds, and references herein to the Bondowners or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

None of the Authority, the Underwriters, the Bond Trustee, or the Corporation will have any responsibility or obligations to any Direct Participants or Indirect Participants or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or any such Direct Participant or Indirect Participant; (ii) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, or interest on the Bonds; (iii) the delivery by any such Direct Participant or Indirect Participants of any notice to any Beneficial Owner that is required or permitted under the terms of the Bond Indenture to be given to Bondholders; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

SECURITY AND SOURCES OF PAYMENT FOR BONDS

Security for the Bonds; Limited Obligations

The principal of, premium, if any, and interest on the Bonds will be payable from moneys paid by the Corporation pursuant to the Loan Agreement and Obligation No. 6. The Authority will assign to the Bond Trustee, without recourse (a) all its right, title and interest in and to Obligation No. 6, (b) all its rights under the Master Indenture and the Mortgage as the owner of Obligation No. 6, and (c) all 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 rights to receive certain documents, information and notices), as security for the payment of the principal of, redemption premium, if any, and interest on the Bonds. The 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 the Reserve Fund described below.

The Bonds are limited obligations of the Authority and are payable solely from payments required to be made by the Corporation under the Loan Agreement and Obligation No. 6 and other sources described herein. Neither the credit nor the taxing power of the County of Lancaster or the Commonwealth of Pennsylvania or of any political subdivision thereof is pledged for the payment of the Bonds, nor shall the Bonds be or be deemed an obligation of the County of Lancaster or the Commonwealth of Pennsylvania or any political subdivision thereof. No member of the Authority, past, present or future, shall have any personal liability by reason of execution or issuance of the Bonds. The Authority has no taxing power.

Security for Obligation No. 6

As security for the payment of Obligation No. 6 (and any other Obligations issued under the Master Indenture), the Corporation has executed and delivered the Mortgage granting a lien on the Mortgaged Property, subject to Permitted Liens. The Mortgaged Property consists of the land and improvements constituting the Facilities. Under certain circumstances additional property acquired by the Corporation will be subject to the lien of the Mortgage. See "THE MORTGAGE" in Appendix D. The Mortgaged Property does not include approximately 52 acres of undeveloped land adjacent to the Corporation's campus which is owned by the Corporation.

Simultaneously with the issuance and delivery of Obligation No. 6, there will be delivered by the Corporation a mortgagee title insurance policy covering all of the Mortgaged Property under the Mortgage and insuring title to the Mortgaged Property in an amount not less than the principal amount of the Bonds.

Under the Master Indenture, as security for payment of all Obligations issued under the Master Indenture, the Corporation has granted to the Master Trustee a security interest in Pledged Assets (subject to Permitted Liens). Pledged Assets include Gross Receipts, Accounts, Equipment (as each such term is defined in the Master Indenture included in Appendix E), general intangibles, inventory, documents, instruments and chattel paper (as each such term is defined in the Pennsylvania Uniform Commercial Code (the "UCC")) of each Member of the Obligated Group, now owned or hereafter acquired, and the proceeds therefrom, but exclude contract rights consisting of charitable pledges. Financing statements will be filed in the office of the Secretary of Commonwealth to perfect the security interest in the Pledged Assets to the extent possible by such filing. Continuation statements meeting the requirements of the UCC must be filed as required by the UCC to continue the perfection of such security interests. The security interest in the Pledged Assets is subject to Permitted Liens that exist prior to or that may be created subsequent to the time the security interest attaches and is subject to the right of the Members of the Obligated Group to transfer Property, Plant and Equipment free of the security interest created in the Pledged Assets under certain circumstances (see the form of the Master Indenture included in Appendix E).

Upon the issuance of the Bonds and the refunding of the 2008 Bonds, the only Obligations that will remain outstanding under the Master Indenture in addition to Obligation No. 6 are: (i) Obligation No. 2 issued to Fulton Bank ("Fulton") to secure up to \$2,500,000 of advances made by Fulton pursuant to a working capital line of credit (the "Fulton Line of Credit"), (ii) Obligation No. 3 issued to the Bond Trustee, as trustee for and in connection with the Authority's Revenue Bonds (Brethren Village Project), Series of 2015 (the "2015 Bonds"), \$9,840,000 of which are currently outstanding, (iii) Obligation No. 4 to be issued to the Authority and assigned to First National Bank of Pennsylvania ("FNB"), the lender, in the initial amount of \$20,000,000 in connection with the financing for an expansion project, as described below under "Northside Court Financing," and (iv) Obligation No. 5 to be issued to FNB to secure up to \$2,500,000 of advances made by FNB pursuant to a working capital line of credit (the "FNB Line of Credit") The FNB Line of Credit is intended to replace the Fulton Line of Credit, which will be terminated once any necessary FNB account are established.

While the Corporation and BV Rehab are currently the only Members of the Obligated Group, other parties may from time to time become Members of the Obligated Group and parties may withdraw from the Obligated Group under certain conditions contained in the Master Indenture. All Members of the Obligated Group will be jointly and severally liable for the payment of Obligation No. 6.

Northside Court Financing

As described under the heading "NORTHSIDE COURT INDEPENDENT LIVING EXPANSION PROJECT" in Appendix A, the Corporation has undertaken an expansion project (the "Northside Court Project") consisting of the construction of 72 new independent living apartments to be located within 9 two-story buildings on the Community's current campus. The Corporation has received a commitment from FNB (the "FNB Commitment") to provide financing for the Northside Court Project in the form of a \$20,000,000 tax-exempt note (the "FNB Note") to be issued by the Authority and purchased by FNB. The FNB Commitment provides that the FNB Note, which is expected to be issued prior to or concurrently with the Bonds, will bear interest at a variable rate equal to 70% of (one month LIBOR plus 170 basis points) and will mature in ten years. The FNB Commitment requires that \$5,000,000 of entrance fees received with respect to the Northside Court apartments be applied to reduce

the principal balance of the FNB Note on or before March 31, 2019. Principal payments on the remaining \$15,000,000 balance will be based on a 23-year amortization, with a final payment due March 31, 2027. As described above under “Security for Obligation No. 6, the FNB Note will be secured by Obligation No. 4 to be issued under the Master Indenture on a parity with Obligation No. 6 and all other outstanding Obligations.

The Project Financing Agreement pursuant to which the FNB Note will be issued (the “FNB Financing Agreement”) will include financial and other operating covenants which are substantially the same as the covenants contained in the Master Indenture; except that the Obligated Group agrees in the FNB Financing Agreement not to incur any additional indebtedness without FNB’s consent. For so long as the FNB Note remains outstanding, the Obligated Group is required to comply with the covenants set forth in the FNB Financing Agreement, unless compliance is waived by FNB. If an event of default were to occur under the FNB Financing Agreement, such event of default could constitute an Event of Default under the Master Indenture.

Covenants of the Obligated Group; Additional Indebtedness

The Members of the Obligated Group are subject to covenants under the Master Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio and other financial ratios 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 form of the Master Indenture included in Appendix E hereto.

Certain covenants of the Obligated Group contained in the Master Indenture will be amended and supplemented by a Sixth Supplemental Master Trust Indenture, dated as of April 1, 2017, but to be executed, delivered and effective as of the date of issuance and delivery of the Bonds. Pursuant to the FNB Financing Agreement, and as Holder of Obligation No. 4 expected to be issued prior to or concurrently with the Bonds, FNB will give its consent to the amendments to be made under the Sixth Supplemental Master Indenture. The Bond Indenture contains a provision authorizing and directing the Bond Trustee, as Holder of Obligation No. 6, to give consent to the execution and delivery of such Sixth Supplemental Master Indenture, and the original purchasers of the Bonds, by their purchase and acceptance of Bonds, shall be deemed to consent to all provisions of the Bond Indenture, including the aforementioned authorization and direction to the Bond Trustee. Upon issuance and delivery of the Bonds and the refunding of the 2008 Bonds, Obligation No. 6 is expected to represent approximately 75% in aggregate principal amount of all Obligations then Outstanding under the Master Indenture, and the consent of the Bond Trustee as Holder of Obligation No. 6 will satisfy the requirement of the Master Indenture that Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding consent to amendments of the nature of those being made by such Sixth Supplemental Master Indenture.

The form of Master Indenture attached hereto as Appendix E includes the changes made pursuant to the Sixth Supplemental Master Indenture. The changes contained in the Sixth Supplemental Master Indenture include: (i) a clarification of an ambiguous provision regarding the steps required to be taken by the Obligated Group if the Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 (see “FINANCING DOCUMENTS AND SELECTED COVENANTS – Long-Term Debt Service Coverage Ratio” herein); (ii) a revision to the definition of “Income Available for Debt Service” designed to address a change in accounting rules with respect to the treatment of monthly service fees; (iii) a change to the definition of “Indebtedness” designed to address a change in accounting rules with respect to the treatment of certain operating leases; (iv) a revision to the definition of “Maximum Annual Debt Service” to exclude from such definition debt service during the final year of the term of

Indebtedness that is reasonably expected to be paid from amounts on deposit in a debt service reserve fund or other account pledged for the payment of such Indebtedness; (v) a revision to the definition of “Balloon Long-Term Indebtedness”; and (vi) a revision to the provision regarding calculation of the Long-Term Debt Service Requirement with respect to Balloon Long-Term Indebtedness.

THE MASTER INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR OBLIGATION NO. 6 ON A PARITY WITH OBLIGATION NO. 6. 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 AS SECURITY FOR THE BONDS.

Bankruptcy

Title 11 of the United States Code (the “Bankruptcy Code”) permits a bankruptcy court to modify the rights of a creditor holding a secured claim under certain circumstances. In the event of a bankruptcy proceeding involving any Member of the Obligated Group, by virtue of the Master Indenture, the Master Trustee should be treated under the Bankruptcy Code as one holding a secured claim to the extent provided in the Master Indenture; and by virtue of the Mortgage, the Master Trustee should be similarly treated to the extent provided in the Mortgage (as suggested by the legislative history of the Bankruptcy Code, although there is no direct authority on the point). The potential effects of bankruptcy of such Member of the Obligated Group could be, among other things, (a) to delay enforcement of remedies otherwise available to the Master Trustee and allow the bankruptcy court, under certain circumstances, to substitute other assets of such Member of the Obligated Group for collateral under the Master Indenture or the Mortgage, (b) to sell all or part of the collateral under the Master Indenture or the Mortgage without application of the proceeds to the payment of the Obligations, including Obligation No. 6, (c) to subordinate the rights and liens created by the Master Indenture and the Mortgage to liens securing borrowing approved by the bankruptcy court, (d) to permit such Member of the Obligated Group to cure defaults and reinstate the Master Indenture or the Mortgage, (e) to compel release of the Mortgage or termination of the Master Indenture by payment of an amount determined by the bankruptcy court to be the value of the collateral thereunder (even though less than the total of the Obligations thereunder) or (f) to modify the terms of or payments due under the Obligations, including Obligation No. 6. For additional detail, reference is made to the Bankruptcy Code, 11 U.S.C. § 101 *et seq.*

Limitations on Remedies

The security interest in the Pledged Assets may not be enforceable against third parties unless the Pledged Assets are transferred to the Master Trustee (which transfer Members of the Obligated Group are required to make only if requested by the Master Trustee upon the occurrence and continuation of an Event of Default under the Master Indenture) and is subject to certain exceptions under the UCC. In such event, the Master Trustee may not be able to compel Medicare, Medicaid, Blue Cross and Blue Shield of Pennsylvania or other third parties to make payment directly to the Master Trustee. The enforcement of the security interest in the Pledged Assets may further be limited by the following: (a) statutory liens, (b) rights arising in favor of the United States of America or any agency thereof, (c) current or future prohibitions against assignment contained in any federal or State statutes or regulations, (d) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and (e) federal bankruptcy laws, Commonwealth of Pennsylvania receivership or fraudulent conveyance laws or similar laws affecting creditors’ rights that may affect the enforceability of the Master Indenture or the security interest in the Pledged Assets.

The remedies specified in the Loan Agreement, the Bond Indenture, the Master Indenture and the Mortgage may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing law, the remedies specified in the Loan Agreement, the Bond Indenture, the Master Indenture and the Mortgage may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by Commonwealth and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Reserve Fund

A Reserve Fund will be established under the Bond Indenture and maintained for the payment of the principal of and interest on the Bonds in the event that other funds available under the Bond Indenture for payment thereof are insufficient. Upon the issuance of the Bonds, there will be deposited in the Reserve Fund an amount equal to the Required Balance (as defined in Appendix D under the heading "THE BOND INDENTURE - Reserve Fund").

THE CORPORATION, THE OBLIGATED GROUP AND THE FACILITIES

The Corporation is a not-for-profit corporation organized and existing under the laws of the Commonwealth of Pennsylvania and is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). BV Rehab is a limited liability company whose sole member is the Corporation. The Corporation and BV Rehab are currently the only Members of the Obligated Group established under the Master Indenture. The Corporation owns and operates a continuing care retirement community (the "Community" or the "Facilities") currently consisting of 505 independent living apartments, 141 personal care units, 120 nursing beds, a separately licensed 20 bed rehabilitation center (the "Rehab Center") and common areas, located on an approximately 96-acre campus in Lancaster, Pennsylvania. BV Rehab's sole business consists of the management and operation of the Rehab Center. See Appendix A hereto for further information regarding the Corporation, BV Rehab and the Facilities.

The audited financial statements of the Corporation and its controlled affiliates for the years ended June 30, 2016 and June 30, 2015 are included in Appendix B hereto. In addition to BV Rehab, the controlled affiliates consist of two separate non-profit corporations (the "HUD Affiliates"), each of which owns a separate apartment building containing 60 units which are subsidized by the United States Department of Housing and Urban Development, and Brethren Village Realty LLC ("BV Realty"), a limited liability company whose sole member is Brethren Village. BV Realty owns and leases a condominium unit on a tract of land contiguous to the Community. The HUD Affiliates and BV Realty are not responsible for the payment of debt service on the Bonds and neither the HUD-subsidized apartments nor the BV Realty property will be subject to the Mortgage. See "BRETHREN VILLAGE – General" in Appendix A and "CERTAIN BONDHOLDERS' RISKS – Northside Court Project" herein.

As described under the heading "NORTHSIDE COURT INDEPENDENT LIVING EXPANSION PROJECT" in Appendix A, the Corporation is undertaking an expansion project (the "Northside Court Project") consisting of the construction of 72 new independent living apartments to be located within 9 two-story buildings on the Community's current campus.

PLAN OF FINANCE

The Authority is issuing the Bonds, at the request of the Corporation, for the purpose of providing funds to be used, together with other available funds, to (i) currently refund the Authority’s outstanding Revenue Bonds (Brethren Village Project), Series A of 2008 (the “2008 Bonds”), (ii) fund a debt service reserve fund for the Bonds, and (iii) pay related costs and expenses, including costs of issuance of the Bonds.

The proceeds of the 2008 Bonds were used to refinance certain prior debt incurred to finance various improvements comprising part of the Community and to finance (i) the construction and equipping of 135 new independent living apartments and related common areas and support areas, a new nursing care building containing 120 replacement nursing beds, activity rooms and a rehabilitation/physician suite, a welcome center including an auditorium, and a new central utility plant to serve the western portion of the Community, and (ii) the renovation of a nursing facility to replace the nursing units with 36 one- and two-bedroom assisted living apartments and 25 memory support assisted living apartments.

In order to effect the current refunding of the 2008 Bonds, a portion of the proceeds of the Bonds and other available moneys will be deposited in an escrow fund (the “Escrow Fund”) to be held by Fulton Bank, National Association, as escrow agent (the “Escrow Agent”) under an Escrow Agreement (the “Escrow Agreement”) among the Authority, the Corporation and the Escrow Agent. Such moneys will be applied to the purchase of obligations of the United States of America (“Government Obligations”) which will be payable as to principal and interest at such times and in such amounts as will be sufficient, together with any initial cash deposit, to pay the redemption price of all outstanding 2008 Bonds on July 1, 2017. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.” Such Government Obligations will be pledged only to the payment of the 2008 Bonds and are not available for the payment of the Bonds. After the deposit of the Government Obligations as described above, the Authority and the Corporation will be discharged from all of their payment obligations with respect to the 2008 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth below:

SOURCES OF FUNDS*

Par amount of Bonds	\$102,955,000
Funds held in reserve fund securing 2008 Bonds	8,608,849
Funds held in debt service fund securing 2008 Bonds	<u>3,089,844</u>
Total Sources of Funds	<u>\$114,653,693</u>

USES OF FUNDS*

Deposit to Escrow Fund for 2008 Bonds	\$105,245,991
Reserve Fund Deposit	7,821,800
Costs of Issuance ⁽¹⁾	<u>1,585,902</u>
Total Uses of Funds	<u>\$114,653,693</u>

(1) Includes Underwriters’ discount, title insurance premium, legal fees, accounting fees, trustee fees, and printing and other miscellaneous costs.

* Preliminary, subject to change.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each twelve-month period ending July 1, the amounts required to be paid by the Corporation to the Bond Trustee in such period for the payment of principal of (whether at maturity or pursuant to mandatory sinking fund redemption) and interest on the 2015 Bonds, the FNB Note and the Bonds.

<u>Year</u>	<u>Total Debt Service on 2015 Bonds</u>	<u>Total Debt Service on FNB Note</u>	<u>Principal on 2017 Bonds</u>	<u>Interest on 2017 Bonds</u>	<u>Total Debt Service on 2017 Bonds</u>	<u>Total Debt Service</u>
2017	670,581					
2018	671,250					
2019	671,150					
2020	670,463					
2021	669,163					
2022	672,225					
2023	673,450					
2024	674,225					
2025	669,550					
2026	674,650					
2027	672,313					
2028	674,450					
2029	675,800					
2030	676,363					
2031	676,138					
2032	675,125					
2033	678,325					
2034	675,475					
2035	676,838					
2036	677,150					
2037	680,425					
2038	677,325					
2039	678,125					
2040	682,550					
2041	680,325					
2042	681,725					
2043	681,475					
2044	684,575					
2045	685,750					
2046						
2047						
Total	19,606,959					

CERTAIN BONDHOLDERS' RISKS

The paragraphs below discuss certain Bondholders' risks but are not intended to be a complete listing or discussion of all risks associated with the purchase of the Bonds.

AN INVESTMENT IN THE BONDS INVOLVES A SIGNIFICANT DEGREE OF RISK. A BONDHOLDER IS ADVISED TO READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO AND TO REFER TO THE SECTION "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" AND THIS SECTION FOR A DISCUSSION OF CERTAIN INVESTMENT CONSIDERATIONS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS.

General

Payment of the Obligations issued under the Master Indenture, including Obligation No. 6 and, therefore, the Bonds, will depend on the Obligated Group's ability to generate revenues sufficient to pay debt service on the Obligations, including Obligation No. 6, while paying operating expenses of the Obligated Group's facilities. The Obligated Group's ability to generate revenues and its overall financial condition may be adversely affected by a wide variety of unforeseen events and conditions, including changes in demand for facilities similar to those provided by the Obligated Group, fluctuations in public confidence both in the Members of the Obligated Group and the services they provide, changes in government licensing procedures, regulation and competition and changes in the rules and guidelines governing reimbursement for health care by third party payors. Appendix C hereto includes certain forecasted financial statements prepared by the Corporation and examined by Baker Tilly Virchow Krause, LLP for the years ending June 30, 2017 through 2021 (the "Financial Forecast"). As stated in the Financial Forecast, there will usually be differences between the forecasted data and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The Financial Forecast should be read in its entirety, including management's notes and assumptions set forth therein.

Limited Obligations

The Bonds are limited obligations of the Authority, the principal or redemption price of and the interest on which will be payable solely from payments made by the Corporation under the Loan Agreement or by the Obligated Group under Obligation No. 6 or from any other moneys made available to the Authority for such purpose under the Loan Agreement, Obligation No. 6 or the Bond Indenture.

Limited Assets of Obligated Group

The Corporation and BV Rehab are currently the only Members of the Obligated Group. The Corporation's sole business consists of the ownership, management and operation of the Facilities and BV Rehab's sole business consists of the management and operation of a separately licensed 20-bed rehabilitation center owned by the Corporation and located on the Brethren Village campus (the "Rehab Center"). Although the Corporation may seek donations from groups and individuals, neither the Corporation nor BV Rehab have any other sources of funds if revenues from operation of the Facilities and the Rehab Center are not sufficient to cover their expenses, including debt service on Obligation No. 6 and all other Outstanding Obligations.

Failure to Maintain Turnover or Occupancy

The economic feasibility of the Obligated Group's facilities depends upon the ability of the Obligated Group to attract sufficient residents and to maintain substantial occupancy of the facilities of the Obligated Group throughout the term of the Bonds. If the levels of occupancy assumed by the Obligated Group do not occur, the revenues anticipated by the Obligated Group from monthly service fees and entrance fees and other charges could be adversely affected.

If a substantial number of residents live beyond the life expectancies anticipated by the Obligated Group, new residents will be admitted at a slower rate and the receipt of additional entrance fees and monthly service fees will be curtailed with a consequent impairment of the Obligated Group's cash flow. In addition, even if the anticipated attrition levels are realized and maintained, no assurance can be given that remarketing of vacated units will take place as quickly as assumed by the Obligated Group.

Northside Court Project

As described under the heading "NORTHSIDE COURT INDEPENDENT LIVING EXPANSION PROJECT" in Appendix A, the Corporation is undertaking the Northside Court Project, construction of which commenced the first week of March, 2017. The construction, phasing and fill-up of the Northside Court Project presents risks to the Corporation's financial stability.

While the Corporation has obtained a commitment for funding for the Northside Court Project through the expected issuance of the FNB Note and the Corporation believes that such funding will be sufficient, together with entrance fees expected to be received with respect to the Northside Court apartments, to cover the estimated cost thereof, uncertainties inherent in construction (such as strikes, material shortages and adverse weather conditions) may result in escalations of the costs of the Northside Court Project or delays in its completion. Cost overruns for a project of such magnitude may occur due to change orders and other factors. Further, delays in completion of the Northside Court Project, failure to meet targets for marketing and occupancy and a variety of other events could slow the rate at which the Northside Court Project is occupied. It is difficult to market units while under construction because prospective residents have no assurance that the Northside Court Project will be completed in a timely manner. The failure to successfully construct or market the Northside Court Project could have an adverse effect on the Corporation's operations and financial conditions. Even if the Northside Court Project is completed and occupied as currently anticipated, there is no assurance that revenues to be received with respect to the Northside Court units will be sufficient to pay the debt service on the debt incurred pursuant to the FNB Note to finance construction.

Sale of Homes

Many prospective residents of the Obligated Group's independent living units must sell their current homes to pay the entrance fee prior to occupancy or to meet other financial obligations under their residency agreements. If prospective residents encounter difficulties in selling their current homes due to local or national economic conditions affecting the sale of residential real estate, such prospective residents may not have sufficient funds to pay the entrance fee or to meet other obligations under their residency agreements, thereby causing a delay in the remarketing of vacated independent living units which would have an adverse impact on the revenues of the Obligated Group. In addition, lower prices on the sale of existing homes could result in decreased demand for independent living units in retirement communities generally.

Additional Debt

The Master Indenture permits the Obligated Group to incur Additional Indebtedness which may be equally and ratably secured with Obligation No. 6 and the other outstanding Obligations. Any such Additional Indebtedness would be entitled to share ratably with the holders of Obligation No. 6 in any moneys realized from the exercise of remedies in the event of a default by the Obligated Group and in the proceeds of certain insurance and condemnation awards. 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 the Obligated Group to make the necessary payments to repay Obligation No. 6 may not be materially, adversely affected upon the incurrence of Additional Indebtedness.

Supplements to the Master Indenture entered into in connection with the issuance of additional Obligations under the Master Indenture may contain additional covenants for the benefit of the Holders of such additional Obligations, including financial covenants that are more restrictive than the covenants otherwise contained in the Master Indenture. In the case of an Event of Default related to failure to comply with such covenants, the Holders of such additional Obligations, to the extent that they hold at least 25% of the aggregate principal amount of Obligations Outstanding under the Master Indenture, could direct an acceleration of all Obligations issued under the Master Indenture, including Obligation No. 6.

Liquidation of Security May Not Be Sufficient in the Event of a Default

In the event the Obligated Group is unable to operate its facilities so as to generate sufficient revenues to pay debt service on the Bonds and other obligations and the other expenses of the Obligated Group, the only assets which may be available to the Bond Trustee and the Authority to pay the Bonds and other Obligations would be the Mortgaged Property and any available trustee-held funds. The Facilities have been specially designed as a continuing care retirement community. Furthermore, the residency agreements may not be terminated upon a foreclosure of the Mortgage. As a result, in the event of default and eviction of the Corporation from the Mortgaged Property, the Master Trustee's remedies and the number of entities which would be interested in purchasing or leasing the Mortgaged Property might be limited, and the sales price or fees generated by the Mortgaged Property might thus be adversely affected.

Bankruptcy

The ability of the Authority, the Master Trustee and the Bond Trustee to exercise rights under the Loan Agreement, the Mortgage and the Master Indenture, as applicable, may be limited by bankruptcy, insolvency, reorganization or other similar laws or equitable principles and judicial discretion related to or affecting the enforcement of creditors' rights generally.

Competition

The Obligated Group faces competition from similar facilities operating and under construction in or near its market area, from other residential facilities for older adults and from existing facilities offering custodial, intermediate and skilled nursing care. The Obligated Group may face additional competition in the future as a result of the construction of new, or the renovation or expansion of existing, housing and nursing care facilities for senior persons in the areas served by the Obligated Group's facilities. The Obligated Group also faces competition from other forms of retirement living, including active adult communities, condominiums, apartment buildings and facilities not specifically designed for seniors, some of which may be designed to offer similar facilities but not necessarily similar services, at lower prices, and from providers of home care and home health services. In addition, there are few entry

barriers to future competitors because competing facilities generally do not require a certificate of need approval, although continuing care facilities are required to obtain a Certificate of Authority from the Pennsylvania Department of Insurance. All of these factors combine to make the senior housing industry volatile and subject to material change that cannot be currently predicted.

Nature of the Income of Residents

A large percentage of the monthly income of some residents of the Obligated Group's facilities is fixed income derived from pensions and social security or income from investments. If, due to inflation or otherwise, substantial increases in resident fees and charges are required to cover increases in operating costs, including wages, benefits and other expenses, residents may have difficulty paying or may be unable to pay such increased fees and charges. Furthermore, investment income of the residents may be adversely affected by declines in market interest rates, also resulting in payment difficulties. The Obligated Group conducts a financial analysis of each potential resident of their independent living units before executing a residency agreement to determine the likely ability of the resident to meet the financial obligations to the Obligated Group; however no assurance may be given that future events, including life expectancy, will not result in residents encountering difficulty in paying the fees and charges of the Obligated Group.

Fluctuation in Market Value of Investments

Earnings on its investments have historically provided the Obligated Group a source of cash flow and capital appreciation to support its programs and services, to finance its capital expenditure investments and to build its cash reserves. No assurances can be given that the market value of the Obligated Group's investments will grow, or even remain at its current level and there is risk that it may actually decline at some time in the future.

Certain Matters Relating to Enforceability of the Master Indenture

The obligations of the Obligated Group under Obligation No. 6 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 equity to the enforcement of creditors' rights and as additionally described below.

The joint and several obligations described herein of the Corporation, BV Rehab and any future Members 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 (i) are requested from a Member of the Obligated Group on account of borrowings which did not directly benefit such Member; (ii) are requested to be made from any moneys or assets which are donor-restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) 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 (iv) 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 Obligation No. 6 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. In the event additional entities become Members of the Obligated Group in the future, there is no clear precedent in the law as to whether such payments from a Member of the Obligated Group other than the Corporation in order to pay debt service on Obligation No. 6 may be voided by a trustee in bankruptcy in the event of bankruptcy of the Member of the Obligated Group, or by third-party creditors in an action brought pursuant to Pennsylvania fraudulent conveyance laws. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under the Pennsylvania fraudulent transfer statute 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 reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or Pennsylvania fraudulent transfer laws, or the guarantor is undercapitalized.

Application by courts of the tests of “insolvency” and “reasonably equivalent value” 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 the Member of the Obligated Group is analogous to a guarantor of the debt of the Member of the Obligated Group who directly benefited from the borrowing and that reasonably equivalent value for the Member’s guaranty was not received and that the incurrence of such Obligation has rendered or will render the Member insolvent.

The accounts of the Corporation, BV Rehab and any future Members 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 Members of the Obligated Group contained in the Master Indenture which bear on the availability of the assets and revenues of the Members of the Obligated Group to pay debt service on Obligations, including Obligation No. 6.

The various legal opinions to be delivered concurrently with the execution and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors’ rights or the enforceability of certain remedies or document provisions.

Federal and State Regulation; Rights of Residents

The Obligated Group is subject to regulatory actions by a number of federal, state and local agencies. These bodies may promulgate new regulatory provisions from time to time, and it is not possible to predict the effect of any such future promulgations on the Obligated Group. Future actions by the federal, state or local government increasing the required services to be provided to residents of the Obligated Group’s facilities or otherwise changing existing regulations or their interpretation could increase the cost of operation of the Obligated Group’s facilities and adversely affect the revenues of the Obligated Group.

The United States Congress and the Pennsylvania Legislature have considered a number of proposals, some of which involve comprehensive health care reform, in recent years. See “Health Care Reform” below. The provisions that may be included in future federal or state legislation or regulations and their impact upon the Obligated Group cannot be determined at this time. No assurance can be given

that any future health care legislation that is enacted will not materially adversely affect the Obligated Group.

Failure by the Obligated Group or the Mortgaged Property to comply with applicable federal and state laws and regulations could have a material adverse effect on the Obligated Group's financial condition and its ability to pay and perform their obligations under the Loan Agreement, the Master Indenture, Obligation No. 6 and the Mortgage.

The enactment of further legislation restricting operation of continuing 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 and the Bond Trustee to enforce remedies and rights under the Master Indenture, the Bond Indenture and the Mortgage may be adversely affected by litigation on behalf of residents. Although under the current residency 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. In the event that the Authority, the Bond Trustee or the Master Trustee seeks to enforce any of the remedies provided by the Loan Agreement, the Master Indenture and the Mortgage upon the occurrence of a default thereunder, it is impossible to predict any judicial resolution of competing claims between the Authority, the Bond Trustee or the Master Trustee and the residents of the Obligated Group's facilities who have fully complied with all the terms and conditions of the residency agreements.

Public and Private Third-Party Reimbursement

The health care industry, in general, is subject to increased efforts of federal, state and local governmental agencies to reduce their health care program costs, including the Medicare and Medicaid reimbursement programs. As a result, the Obligated Group is sensitive to legislative and regulatory changes in such programs and is affected by reductions in governmental spending for such programs. Congress and the state legislatures have in the past enacted a number of provisions which 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 and Medicaid programs.

Future legislation, regulation and reimbursement changes by the federal and state governments are expected to continue the trend towards more restrictions on reimbursement for long-term care services in an effort to control the cost of the Medicare and Medicaid programs. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations upon the Obligated Group's financial performance cannot be determined at this time. In addition, future delays in adopting a state budget, as has occurred in some recent years, could result in delays in receipt by the Obligated Group of reimbursement for services provided, which could adversely affect the ability of the Obligated Group to make timely payments under the Loan Agreement and Obligation No. 6.

The Obligated Group also receives reimbursement for services from non-governmental third-party payers, such as commercial insurers, employer self-insured programs, health maintenance organizations, and preferred provider organizations. Reimbursement paid by these payers may be at contract rates which are less than actual charges. Accordingly, there can be no assurance that payments made under such programs will be adequate to cover actual costs incurred.

Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were enacted. The two laws are collectively referred to as the “ACA.” The ACA is intended to reform substantially the health insurance and healthcare delivery markets to improve access, coverage and the quality of health care and to lessen the rising cost of that care. The ACA also includes new forms of reimbursement for health care under the federal health care programs (Medicare and Medicaid), targeted reimbursement reductions and increased enforcement against fraud and abuse in those programs. Some of the provisions of the ACA took effect immediately, while others are being phased in over time, ranging from one year to ten years. Most of the significant healthcare coverage reforms began in 2014. The ACA also requires the promulgation of substantial regulations with significant effects on the healthcare industry.

Provisions of the ACA that affect the Obligated Group’s operations, financial performance or financial conditions are described below. This listing is not comprehensive. The ACA is complex and comprehensive, and includes myriad new programs and initiatives and changes to existing programs, policies, practices and laws.

- Through September 30, 2019, payments under the “Medicare Advantage” programs (Medicare managed care) are or will continue to be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans and may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs.
- States have the option to expand Medicaid programs to a broader population, with incomes up to 133% of federal poverty levels.
- Medicare reduces payments to hospitals found to have a high rate of preventable readmissions for certain conditions; this information is available to the public. Hospitals in turn have incentive to focus on post-acute care facilities’ ability to prevent readmissions.
- The Secretary of Health and Human Services (“HHS”) developed a value-based purchasing program for Medicare payments. This program provides incentive payments to skilled nursing facilities based on their performance on certain quality and efficiency measures.
- In order to reduce waste, fraud, and abuse in public programs, the ACA provides for provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs. It also requires Medicare and Medicaid program providers and suppliers to establish compliance programs. The ACA requires the development of a database to capture and share healthcare provider data across federal healthcare programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.
- The ACA establishes an Independent Payment Advisory Board (“IPAB”) to develop proposals to improve the quality of care and to recommend proposals to limit Medicare spending growth. Each year, CMS makes an annual determination in which it compares the projected five-year average growth in Medicare per-capita spending to the statutory target noted in the ACA. If CMS determines that the Medicare spending growth rate

exceeds the statutorily prescribed target, then the IPAB is required to develop proposals to reduce the growth rate and the Secretary of HHS must implement those proposals, unless Congress enacts legislation related to the proposals.

President Trump and Congress have stated that they intend to repeal the ACA, and in January 2017, the Senate passed a budget resolution directing the legislature to draft a repeal and a replacement of the ACA. The repeal and replacement of the ACA could have wide-ranging impacts upon the Obligated Group.

Health Care Regulation

General. The Obligated Group receives reimbursement for providing skilled nursing care for eligible residents under Title XVIII of the federal Social Security Act (Medicare) and Title XIX of the federal Social Security Act (Medicaid). Medicare is an exclusively federal program and Medicaid is funded by federal and state appropriations. For the fiscal year ended June 30, 2016, approximately 4% of the Obligated Group's net resident service revenue was received from Medicare reimbursement and approximately 9% of the Obligated Group's net resident service revenue was received from Medicaid reimbursement. Changes to Medicare or Medicaid reimbursement could have a material impact on the finances of the Obligated Group.

Federal Budget Cuts. The Budget Control Act of 2011 (the "Budget Control Act") mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The Budget Control Act also created a Joint Select Committee on Deficit Reduction (the "Super Committee") to develop a plan to further reduce the federal deficit by \$1.5 trillion on or before November 23, 2011. As the Super Committee failed to act before the mandated deadline, a 2% reduction in Medicare spending, among other reductions, began in 2013 in a process known as sequestration.

The Bipartisan Budget Act of 2015 further increased the discretionary spending caps imposed by the Budget Control Act for fiscal years 2016 and 2017 and authorized \$80 billion in increased spending over the two years. The Bipartisan Budget Act of 2015 also extended the 2% reduction to Medicare providers and insurers to at least March 31, 2025, and suspended the limit on the federal government's debt until March 2017. The Obligated Group does not anticipate that such reduction will have a material adverse effect on its operations. Additional legislation addressing nursing home reimbursement could be introduced, and if enacted, such legislation might have an adverse impact upon the revenues of the Obligated Group.

Medicare. Medicare, which is administered by the an agency of HHS known as the Centers for Medicare and Medicaid Services ("CMS"), is a federal health insurance program that provides certain health benefits to beneficiaries who are age 65 or older, blind, disabled, or qualify for the End Stage Renal Disease Program. In order to achieve or maintain Medicare certification, the Obligated Group must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state's health facility survey agency or the Joint Commission (a private nonprofit corporation that accredits health care programs and providers in the United States).

Subject to certain limitations, Medicare will reimburse nursing care facilities for certain services provided to a beneficiary who has been transferred to a Medicare-certified skilled nursing facility within thirty (30) days after discharge from an inpatient stay of at least three (3) days in an acute care hospital. To be covered, the services provided in the skilled nursing facility must be reasonable and necessary to treat a condition that was being treated during the hospital stay. Additionally, Medicare reimbursement for skilled nursing care is limited to a renewable 100-day period for each qualified resident.

Under the Medicare program, CMS reimburses skilled nursing facilities on a prospective payment system (“PPS”) methodology, similar to the diagnosis related group prospective payment system for hospitals. Under PPS, facilities are paid a per diem amount, based on formulas discussed below, to care for residents in the facility. Because the payment does not reflect the actual costs associated with individual residents’ care, a facility whose actual costs exceed the per diem payment rate will incur losses for the care of such residents. Medicare requires consolidated billing and the PPS payment rates include most of the costs of providing skilled nursing care services, other than the costs associated with operating approved educational activities. The PPS payment rates include all routine, ancillary (for example, physical, occupational, and speech therapy, drugs and laboratory services directly attributable to individual patients whether provided directly or indirectly by other contracted providers), and capital related (land, building and equipment) costs. Not included in the PPS payment rate are physician services provided to individual patients, certain services provided by nurse practitioners, clinical nurse specialists, physician assistants, psychologists, and certified registered nurse anesthetists, certain dialysis services, hospice care and some transportation and ambulance costs.

The PPS payment rates are based on a federal per diem rate and are updated annually using a market basket index. The federal per diem rate is adjusted to account for the relative resource utilization of different patients based on the intensity of care and the services required to treat a patient. Patients are classified into groups using a classification system of sixty-six (66) groups known as Resource Utilization Groups IV (“RUGs-IV”) based on data from resident assessments and relative weights developed from staff time data. The relative payment weight is applied to the federal per diem rate, along with a wage index modifier reflecting the geographic variation in labor costs, to arrive at the applicable per diem payment for a resident.

The traditional Medicare fee-for-service program (Medicare Parts A and B) reimburses up to 100 days of skilled nursing care per illness after a qualifying hospital stay for treatment of the illness. The first 20 days are covered by Medicare at 100%, after which Medicare requires the patient to contribute a daily co-payment for the remaining 80 days. This co-payment may be covered by a private insurance company through a Medigap plan. However, in the event the patient’s secondary coverage is Medicaid, or the patient has no secondary insurance, the co-payment may not be paid. Medicare allows for certain patient payments that remain unpaid and for which the facility has made certain collection attempts, to be reported as bad debt on Medicare cost reports. Medicare historically reimbursed 70% of the amount of uncollected bad debt. However, the Middle Class Tax Extension and Job Creation Act of 2012, reduced Medicare bad debt reimbursement to 65% of uncollected debt and took effect in cost reporting periods beginning in fiscal year 2013. Such reduction has not had a material adverse impact on the Obligated Group’s revenues.

Federal health care reform impacts Medicare reimbursement of skilled nursing homes. In July 2012, CMS released the 2012 Nursing Home Action Plan, an action plan that focuses on the goal of further improving nursing home quality. There are multiple initiatives by CMS outlined in the 2012 Nursing Home Action Plan that may impact the Obligated Group’s finances. CMS’ goals include reducing preventable facility acquired conditions and reducing the number of hospital readmissions. Some of the initiatives include value based purchasing demonstration projects, where nursing facility payments may be bundled with hospital payments and other provider payments to encourage utilization control. CMS has adopted similar readmission and facility acquired condition reduction programs for inpatient facilities that are expected to lead to fewer inpatient admissions at hospitals for Medicare patients. Under the Protecting Access to Medicare Act of 2014, CMS is required to establish a value-based purchasing program for skilled nursing facilities by October 1, 2019. The program will be based on a facility’s performance on hospital readmissions. Changes in Medicare program survey requirements and performance on changing quality of care performance metrics may also impact the Obligated Group’s finances.

The final rule on the 2016 Medicare skilled nursing facility PPS included value-based purchasing provisions for skilled nursing facilities, based on a hospital readmission measure; set the 30-day skilled nursing facility all-cause/all-condition hospital readmission measure and adopted that measure for the SNF VBP; and implemented the skilled nursing facility quality reporting program (“SNF QRP”), required by the Improving Medicare Post-Acute Care Transformation Act of 2014 and the ACA’s mandate that nursing homes submit payroll-based staffing data.

In July 2016, CMS issued the final rule outlining the 2017 Medicare payment policies and rates for the skilled nursing facility PPS, the SNF QRP, and the SNF VBP. The final rule further brings Medicare payments toward value-based care instead of fee-for-service reimbursements. The final rule adds three new measures to the SNF QRP for fiscal year 2018: average cost per Medicare beneficiary, rehospitalization rate, and discharge to community rate, and one new measure for fiscal year 2020: drug regimen review. Skilled nursing facilities that fail to submit the required quality data to CMS will be subject to a 2-percentage point reduction to the annual market basket percentage update factor for fiscal years beginning with fiscal year 2018. CMS projects that aggregate payments to skilled nursing facilities will increase in fiscal year 2017 by \$920 million, or 2.4%, from payments in fiscal year 2016

In September 2016, CMS issued a final rule implementing major changes to improve the care and safety of residents in long-term care facilities that participate in the Medicare and Medicaid programs. The final rule is the first major rewrite of the conditions of participation for long-term facilities since 1991. The changes are targeted at reducing unnecessary hospital readmissions and infections, improving the quality of care, and strengthening safety measures for residents in long-term care facilities. CMS estimates that the final rule will cost \$831 million in the first year and \$736 million annually in subsequent years. The average per-facility cost is estimated at \$62,900 in the first year and \$55,000 annually thereafter. The rule includes various revisions to staffing and training requirements, discharge and care planning rules, and infection prevention and control provisions.

Future legislation, regulation or actions by the federal government may continue the trend toward more restrictive limitations on reimbursement for long term care services. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations upon the Obligated Group’s financial performance cannot be determined at this time.

Medicaid Managed Care Proposed Rule. On April 25, 2016, CMS issued the final rule to modernize Medicaid managed care plans to create more standardized practices across states and align managed care standards with those of the private market whose circumstances change during the year. The key aspects of the final rule include:

- Clarifying state authority to require plans to implement value-based purchasing models or encourage participation in alternative payment models and other delivery system reform efforts;
- Revising state and managed care plan standards in the areas of enrollment, communications, care coordination, and the availability and accessibility of covered services;
- Allowing managed care enrollees to have continued coverage during appeals of denials, and aligns Medicaid appeal timeframes to better align with Medicare Advantage and Marketplace rules;

- Strengthening requirements for data relating to utilization and quality of services and for transparency on how Medicaid rates are set, to ensure the fiscal integrity of Medicaid managed care programs, including with respect ; and
- Strengthening the fiscal and programmatic integrity of Medicaid managed care programs and rate setting.

The final rule will be implemented in phases over the next three years, starting on July 1, 2017. Additionally, the final rule establishes a minimum medical loss ratio (or “MLR”) of 85% for Medicaid Managed Care plans, effective 2017. In Pennsylvania, the HealthChoices plans are not currently held to an MLR requirement by the state.

Medicaid. Pennsylvania’s Medical Assistance (or “Medicaid”) program is a joint federal-state reimbursement program administered by the Pennsylvania Department of Human Services (“DHS”). Medicaid provides certain health care benefits to beneficiaries who are categorically needy (based on financial condition) or meet certain other eligibility requirements for skilled nursing and intermediate care services. Under the ACA, states have the option to expand Medicaid eligibility to individuals with incomes up to 133% of the federal poverty level. Pennsylvania expanded Medicaid eligibility based on a private-market Medicaid program on January 2015, but transitioned to a more simplified and traditional form of Medicaid coverage in September 2015.

Medicaid payments are made to skilled nursing facilities on behalf of eligible individuals based upon a case-mix payment system that is set prospectively on an annual basis. The case-mix payment system is based on (i) the skilled nursing facility’s net operating costs, which include resident care costs, other costs related to resident care, and administrative costs, and (ii) the nursing facility’s capital costs, which include the facility’s fixed property costs, movable property costs, and real estate tax costs as determined by the real estate costs in the facility’s most recent audited cost report.

The operating cost component of facility reimbursement is determined based upon the classification of each facility into one (1) of twelve (12) peer groups with similar geographical locations and certified bed complements, and the average operating costs of facilities within such peer group. In determining the resident care costs, a component of the operating costs, the applicable case-mix index for a facility is determined based upon a quarterly snap shot of all of the residents in a facility, and the arithmetic mean of their respective RUGs classifications, which reflects each resident’s individual characteristics and clinical needs.

The capital cost component of facility reimbursement is based upon facility-specific fair rental values for certain fixed and movable property, and facility-specific real estate tax costs. DHS has placed substantial limitations on reimbursement for capital costs, and has eliminated payments for capital costs to most facilities not operational prior to August 31, 1982.

There can be no assurance that payments under the Medicaid program will be adequate to cover the costs of providing nursing care to Medicaid patients. Budgetary and financial constraints in the Commonwealth, as well as severe limitations on the method of acquiring increased federal financial participation through the use of provider taxes and donations have called into question the ability of DHS to make adequate and timely payments to providers. In addition, proposals to reduce or substantially alter federal funding for Medicaid programs to effect federal budget reductions may result in decreased payment levels to providers which may not be adequate to cover the Obligated Group’s cost of care to Medicaid patients. Further, the Commonwealth has increasingly supported funding for home based and community services care instead of institutional care. There can be no assurance that this policy will not negatively impact funding for institutionalized Medicaid recipients.

Medicare and Medicaid Audits

The federal government is devoting significant and increasing resources to the auditing of health care providers with respect to reimbursement claimed under the Medicare and Medicaid programs. The Medicare Prescription Drug Improvement and Modernization Act of 2003 (“MMA”) established the Medicare Recovery Audit Contractor (“RAC”) program to identify overpayments and underpayments made to providers under the Medicare program. The RAC program, initially a three year demonstration project, was made a permanent program in the Tax Relief and Health Care Act of 2006. The ACA expanded the scope of the RAC program to include a review of Medicare Parts C (Medicare Advantage plans) and D (Medicare Prescription Drug plans) and Medicaid. Health care facilities participating in Medicare and Medicaid may be subject to audits and retroactive audit adjustments with respect to reimbursement claimed under those programs. Because such claims can be large or small amounts, it is impossible to predict the effect of such claims. Any such future adjustments could be material. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the provider to civil or criminal sanctions.

Both Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. Any such withholding could have a material adverse effect on the ability to generate funds sufficient to make required payments related to the Bonds and on the overall financial condition of the Obligated Group. In addition, contracts between facilities and third-party payers often have contractual audit, setoff and withholding language that may cause retroactive adjustments, which could have a material adverse effect on the future financial condition of the Obligated Group.

While it is not anticipated that Medicare and Medicaid audits will materially adversely affect the future financial condition or operations of the Obligated Group, in light of the complexity of the regulations relating to the Medicare program, there can be no assurance that significant difficulties could not develop in the future.

Medicare Advantage

As an alternative to the traditional Medicare, every individual who is entitled to Medicare Part A benefits and enrolled in Medicare Part B, with the exception of individuals who suffer from end stage renal disease, may elect coverage under either the traditional Medicare fee for service program or Medicare Advantage.

Public and private health maintenance organizations, preferred provider organizations, and provider service organizations may qualify as authorized Medicare Advantage organizations. With limited exceptions, Medicare Advantage organizations are risk-bearing entities that accept a fixed monthly capitation fee in return for providing beneficiaries with a defined level of services (basic or basic plus supplemental), either directly or through arrangements with other providers. Providers wishing to participate in Medicare Advantage plans are subject to specific requirements concerning enrollee protection and accountability. The shift of Medicare eligible beneficiaries from traditional Part A and Part B coverage to Medicare Advantage may result in reduced utilization of health care services and have a material negative impact upon the revenue of the Obligated Group. Because the cost to the Medicare program under Medicare Advantage plans was on average 114% higher than traditional Medicare, the ACA included changes to the Medicare Advantage payment methodologies that will reduce the federal payments to the level of traditional Medicare spending. Decreased payments to Medicare Advantage plans may impact the scope of coverage and reimbursement from these insurance plans. It is unclear what, if any, effects these cuts will have on Medicare beneficiaries enrolled in Medicare Advantage plans.

Medicare Prescription Drug Program

In 1993, Congress amended the Social Security Act to create a voluntary prescription drug benefit program, commonly known as Part D, for Medicare beneficiaries. Individuals entitled to or enrolled in Medicare benefits under Parts A and B may elect to enroll in a prescription drug plan (“PDP”). Beneficiaries who qualify for both Medicare and Medicaid are automatically enrolled unless the individual has comparable drug coverage through an employer-based prescription drug plan.

In general, coverage is provided through private prescription plans that exclusively offer drug coverage or through Medicare Advantage Plans that offer integrated prescription drug and health coverage. All participating plans enjoy the flexibility of individual benefit design, including the authority to establish a formulary to designate which drugs are available to beneficiaries under the coverage.

Licensing, Surveys and Accreditations

Health care facilities, including those operated by the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Those requirements include credentialing and survey requirements relating to Medicare participation and payment, state licensing agencies, private payer participation, The Joint Commission, the National Labor Relations Board and other federal, state and local government agencies. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews. These activities are generally conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could be the cause of loss of or reduction in a facility’s scope of licensure, certification or accreditation or reduce payments received.

Management of the Obligated Group currently anticipates no difficulty in renewing or maintaining currently held licenses, certifications or accreditations that are material to its operations, and does not anticipate a reduction in third-party payments that would materially adversely affect the financial condition, operations, revenues and expenses of the Obligated Group due to licensing, certification or accreditation difficulties. Nevertheless, there can be no assurance that the requirements of present or future laws, regulations, certifications, and licenses will not materially and adversely affect the operations of the Obligated Group. Actions in any of these areas could occur and could result in a reduction in utilization or revenues or both, or the loss of the Obligated Group’s ability to operate all or a portion of its health care facilities, and, consequently, could adversely affect the Obligated Group’s financial condition, operations, revenues and expenses or its ability to make payments of principal, interest or any premium coming due on the Bonds.

Civil and Criminal Fraud and Abuse Laws

There are multiple federal and state laws concerning the submission of inaccurate, incomplete or fraudulent claims for reimbursement. The coding, billing and reporting obligations of Medicare providers are extensive, complex and highly technical. Under these laws, individuals and health care providers can be penalized for submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, provided as the result of a prohibited referral, or billed in a manner that does not otherwise comply with applicable government requirements. In some cases, errors and omissions by billing and reporting personnel may result in liability under one of the federal False Claims Acts or similar laws, exposing a health care provider to civil and criminal monetary penalties, as well as exclusion from participation in all federal and state health care programs. In other cases, prohibited activity for which the health care provider is reimbursed by Medicare or Medicaid can expose the provider to sanctions under the Anti-Kickback Law or the Stark Law. Lastly, in

recent years, the federal government has brought numerous actions against nursing homes alleging that a nursing home's submissions of claims for residents whom allegedly did not receive quality care constituted a false claim under the federal False Claims Act ("FCA").

The threats of large monetary penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs, and the significant costs of mounting a defense, create serious pressures to settle on providers who are targets of false claims actions or investigations and other fraud and abuse actions or investigations. Therefore, an action under the FCA, the Civil Monetary Penalties Law (the "CMP Law"), the Anti-Kickback Law or the Stark Law could have an adverse financial impact on the Obligated Group, regardless of the merits of the case. A discussion of these Laws follows.

False Claims Act. The federal FCA provides, in part, that the federal government may bring a lawsuit against any person whom it believes has knowingly presented, or caused to be presented, a false or fraudulent request for payment from the federal government, or who has made a false statement or has used a false record to get such a claim approved. The statute is violated if a person acts with actual knowledge of, or in deliberate ignorance or reckless disregard of, the falsity of the claim. Penalties include civil penalties, plus treble damages per claim. Under the federal criminal FCA, anyone who knowingly makes a false statement or representation in any claim to the Medicare or Medicaid programs is subject as well to fines and imprisonment.

In May 2009, the Fraud Enforcement and Recovery Act of 2009 ("FERA") amended the federal FCA to strengthen the government's ability to combat health care and other program fraud. Under FERA, liability attaches whether a person knowingly makes, uses or causes to be made or used, a false record or statement material to a false or fraudulent claim. To establish liability now, the federal government need only prove that the false statement was material to the government's decision to pay a false claim.

FERA also expands the reverse false claims provision of the FCA. Before FERA, the reverse false claims provision imposed liability on a person who knowingly made, used or caused to be made or used, a false record or statement to conceal, avoid or decrease an obligation to pay or transmit money or property to the government. First, FERA broadens the standard for liability by eliminating the need for a false record or statement. Instead, liability can be imposed where a person "knowingly conceals or knowingly and improperly avoids or decreases an obligation to pay or transmit money or property to the Government." It is not clear what the word "improperly" is intended to encompass or how it will be interpreted, but it appears likely that it is intended to serve as an analog to the word "false" in the other sections of the statute. Second, FERA includes a definition of "obligation" that likely expands the types of duties that are actionable. Probably most important for the health care industry, the definition of "obligation" also specifies that the "retention of any overpayment" can serve as the basis for reverse false claims liability if it is done knowingly and improperly, or if an overpayment is knowingly concealed.

The ACA directly linked the retention of overpayments to false claim liability. As a result, health care providers, suppliers, Medicaid managed care organizations, Medicare Advantage Plans and prescription drug plan sponsors must report and return any overpayments within 60 days after either the date on which the overpayment was identified or the date any corresponding cost report was due, whichever is later. In addition, members of the health care industry must submit notification in writing to the entity to which the overpayment was returned as to the reason of the overpayment. Any overpayment retained after the deadline becomes an "obligation" for purposes of the FCA. Therefore, a failure to return any Medicare or Medicaid overpayments by the deadline may result in false claim liability.

The federal FCA includes "whistleblower" provisions under which anyone who believes that a person is violating the federal FCA can file a sealed complaint against that person in the name of the United States government. The nature of the allegations is not revealed to the target during the time the

Justice Department investigates the complaint and determines whether to join in the suit. If the Justice Department decides not to join in the suit, the original complainant can nonetheless proceed. In either event, if the case is successful, the whistleblower is entitled to between 15% and 30% of the proceeds of any fines or damages paid. Although the federal FCA has been in effect for many years, in recent years there has been a significant increase in the number of whistleblower allegations filed under the whistleblower provisions of the federal FCA, a large number of which involve the health care and pharmaceutical industries. In addition, FERA enhances whistleblowers' ability to investigate alleged violations of the FCA and provides them with enhanced protections.

In some cases, whistleblowers and the federal government have taken the position that providers who allegedly have violated other statutes, such as the Anti-Kickback Law or the Stark Law, as discussed below, have thereby submitted false claims under the FCA.

Civil Monetary Penalties Law. In addition, the CMP Law under the Social Security Act provides for the imposition of civil money penalties against any person who submits a claim to Medicare or any other federal health care program that the person knows or should know is for items or services not provided as claimed, is false or fraudulent, is for services provided by an unlicensed or uncertified physician or by an excluded person, or represents a pattern of claims that are based on a billing code higher than the level of service provided or are for services that are not medically necessary. Penalties under the CMP Law also include damages of up to three times the amount claimed for each item or service, and exclusion from participation in the federal health care programs. Since the enactment of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the CMP Law extends its prohibition for fraudulent activities to all federal health care programs (except the Federal Employees Benefits Program) and all state health care programs that are funded in part by the federal government.

Exclusions from Medicare or Medicaid Participation. The term "exclusion" means that no Medicare or state health care program payment (including Medicaid and the Maternal and Child Health programs) will be made for any services rendered by the excluded party or for any services rendered on the order or under the supervision of an excluded physician. The Secretary of HHS must exclude from program participation for not less than five years any individual or entity who has been convicted of a criminal health care offense or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance.

The Secretary of HHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty, or other financial misconduct relating either to the delivery of health care in general, or to participation in a federal, state or local government program. The excluded person/entity and the entity that enters into a contract with the excluded person/entity could be subject to a CMP Law penalty for each item or service furnished by the excluded individual, and the responsible party might have to pay three times the amount claimed for each item or service. Any action to exclude the Obligated Group from participation in the Medicare program or any state health care program could have a material adverse impact on the Obligated Group.

Anti-Kickback Law. Subject to certain safe harbors, it is illegal to enter into certain remuneration arrangements with physicians and other health care providers for the referral of federal healthcare program beneficiaries. Violation of the Anti-Kickback Law is a felony and may result in imprisonment for up to five years, fines of up to \$25,000, and exclusion from participation in federal healthcare programs, as well as other state health care programs. In addition, civil monetary penalties for each act and damages of not more than three times the remuneration offered, paid, solicited or received may be imposed on individuals or entities that commit acts prohibited by the Anti-Kickback Law. HHS has published safe harbor regulations that describe arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors, however, are narrow. Failure to comply with a

safe harbor is not automatically a violation of the Anti-Kickback Law. Depending on the circumstances, arrangements outside of the safe harbors may be legitimate business relationships that are not prohibited by the Statute. Such determinations are fact specific and, absent an advisory opinion from the Office of Inspector General (“OIG”) of the HHS, cannot be guaranteed to comply with the Anti-Kickback Law.

Although the Anti-Kickback Law applies only to health benefit programs funded by the federal government, a number of states have passed similar laws pursuant to which similar types of prohibitions are made applicable to other health plans or third-party payers. Pennsylvania has its own anti-kickback law that prohibits the offer, payment, solicitation or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for the provision of goods or services that may be reimbursed under the medical assistance program. For a first conviction, the person is guilty of a felony of the third degree and subject to a maximum penalty of a \$15,000 fine and seven (7) years imprisonment for each violation. As ordered by the court, a convicted person shall pay the Commonwealth an amount not to exceed three (3) times the amount of excess benefits or payments and is ineligible to participate in the medical assistance program for five (5) years from the date of conviction.

Stark Law. In addition to the Medicare and Medicaid Fraud and Abuse statutes, the Stark Law, enacted by federal lawmakers in 1989 and effective in 1992, prohibits referrals for certain designated health services between a physician and any entity in which or with which the physician (or an immediate family member) has a financial interest if the referrals are for goods and services reimbursable by Medicare or Medicaid. The legislation was adopted to address conflicts of interests that could arise when a physician has a financial relationship with a facility and refers patients to the facility for care. Financial relationship is a broadly defined term that includes employment and independent contractor relationships between physicians and certain health care entities. Exceptions to the Stark Law prohibition are narrow, and arrangements must fit all elements of an exception in order to be protected. Although the Stark Law is primarily focused on physician behavior, the health care entity that provides the prohibited goods or services may be denied payment, is subject to civil monetary penalties for each prohibited service, and faces exclusion from participation in the Medicare and Medicaid programs. In addition, if a physician and another entity enter into a circumvention scheme (e.g., a cross-referral arrangement) that is designed to ensure referrals that would be prohibited if made directly, the physician and the entity can be subject to a civil monetary penalty and also face exclusion from the Medicare and Medicaid programs.

HIPAA. Congress enacted HIPAA as part of a broad health care reform effort. Among other things, HIPAA established a program administered jointly by the Secretary of HHS and the United States Attorney General designed to coordinate federal, state and local law enforcement programs to control fraud and abuse in connection with the federal health care programs. In addition, in HIPAA, Congress greatly increased funding for health care fraud enforcement activity, enabling the OIG of HHS to substantially expand its investigative staff and the Federal Bureau of Investigation to plan to quadruple the number of agents assigned to health care fraud. The result has been a dramatic increase in the number of civil, criminal and administrative prosecutions for alleged violations of the laws relating to payment under the federal health care programs, including the Anti-Kickback Law and the federal FCA. This expanded enforcement activity, together with the whistleblower provisions of the federal FCA, have significantly increased the likelihood that all health care providers, including the Obligated Group, could face inquiries or investigations concerning compliance with the many laws governing claims for payment and cost reporting under the federal health care programs.

In addition to the expanded enforcement activity noted above, HIPAA also established, among other things, a program to address the confidentiality and security of individuals’ health information (the “Administrative Simplification” provisions). The Administrative Simplification provisions apply to health care providers, health plans, and health care clearinghouses (collectively “Covered Entities”). In 2013, HHS issued final regulations strengthening many aspects of the privacy and security rules under

HIPAA so that they are more aligned with the Health Information Technology for Economic and Clinical Health Act (“HITECH Act”). The final rules (the “Omnibus Rule”) change certain requirements for covered entities and establish rules that now apply directly to their vendors that handle protected health information and qualify as business associates under HIPAA. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA’s confidentiality and electronic data security requirements extend not only to patient medical records, but also to a wide variety of health care clinical and financial transactions where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability. Various requirements of HIPAA apply to virtually all health care organizations (including continuing care retirement communities), and significant civil and criminal penalties may result from a failure to comply with the Administrative Simplification regulations.

The HITECH Act. In February, 2009, the American Recovery and Reinvestment Act amended HIPAA through the HITECH Act, which appropriated about \$20 billion for the development and implementation of health information technology standards and the adoption of electronic health care records. The HITECH Act also significantly expanded the HIPAA privacy and security provisions applicable to covered entities such as the Obligated Group and its business associates. Changes to the privacy provisions include modifications to the minimum necessary requirement, the fundraising and marketing rules, the rules governing accounting for disclosures of protected health information, and the right of individuals to restrict disclosure of protected health information in certain circumstances. HHS is charged with developing guidance and implementing regulations for these requirements and issued final regulations in 2013, implementing many of the HITECH Act provisions.

The HITECH Act institutes a breach notification rule for covered entities and their business associates with respect to breaches of unsecured protected health information. This breach notification rule, finalized in the Omnibus Rule, requires covered entities to provide written notice directly to the individual in the manner and with the content prescribed in the HITECH Act and by HHS in the Omnibus Rule. In the event a covered entity experiences a breach of unsecured protected health information involving more than 500 individuals, the entity must notify HHS and the media in the area where the breach occurred. Breaches involving fewer than 500 individuals must be reported to HHS on an annual basis.

The HITECH Act provides that all of the HIPAA administrative, physical and technical safeguards, as well as security policies, procedures and documentation requirements will now apply directly to all business associates. In addition, the HITECH Act makes certain privacy provisions directly applicable to business associates. Business associates are required to report breaches of unsecured protected health information to the covered entity (or upstream business associate). As a result of these changes, business associates will be directly regulated by HHS for those requirements, and as a result, will be subject to penalties imposed by HHS and/or state attorneys general. The HITECH Act also requires HHS to perform periodic audits to ensure that covered entities and business associates are complying with HITECH’s new privacy and security provisions.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The HITECH Act revises the civil monetary penalties associated with violations of HIPAA, as well as provides state attorneys general with authority to enforce the HIPAA privacy and security regulations in some cases, through a damages assessment of \$100 per violation or an injunction against the violator. The revised civil monetary penalty provisions establish a tiered system, ranging from a minimum of \$100 per violation for an unknowing violation to \$1,000 per violation for a violation due to reasonable cause, but not willful neglect. For a violation due to willful neglect, the penalty is a minimum of \$10,000 or \$50,000 per violation, depending

on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation. There is a \$1.5 million maximum total penalty per calendar year for the same type of violation. Further, the HITECH Act requires HHS to promulgate a regulation to distribute a portion of civil monetary penalty proceeds directly to harmed individuals which may serve as an incentive for individuals to file complaints. A person who knowingly obtains or discloses protected health information in violation of HIPAA may face a criminal penalty of up to \$50,000 and up to one-year imprisonment. The criminal penalties increase to \$100,000 and up to five years imprisonment if the wrongful conduct involves false pretenses, and to \$250,000 and up to 10 years imprisonment if the wrongful conduct involves the intent to sell, transfer or use identifiable health information for commercial advantage, personal gain or malicious harm.

The ACA also includes new electronic transaction and operating guidelines that must be used by all HIPAA covered entities for electronic funds transfers and various claim forms. The effective dates are 2013 and 2015.

The financial costs of continuing compliance with HIPAA and the Administrative Simplification regulations are substantial and will increase as a result of the amendments issued under the HITECH Act.

Pennsylvania Fraud and Abuse Laws

Health care providers in the Commonwealth are subject to a variety of state laws and regulations, including those described below.

Insurance Fraud. 18 Pa. Cons. Stat. § 4117(a) prohibits a person's or entity's submission of false or misleading claims for payment or approval by an insurance company, and allows the Commonwealth to recover substantial damages from persons or entities that knowingly present or cause to be presented a false or misleading claim for payment or approval by an insurance company. Any person or entity that violates the statute may be liable for, among other things, a penalty of \$5,000 for the first violation, \$10,000 for the second violation, and \$15,000 for each subsequent violation. In addition to or as an alternative to the civil sanctions provided in the statute, the Attorney General may bring a criminal action under other applicable statutes.

False Claims. 62 P.S. § 1407(a) prohibits submission of duplicate or misleading claims and submission of claims for services or equipment not rendered by the provider. Violation of 62 P.S. § 1407 may lead to termination of the provider agreement and a civil penalty of up to three times the amount of excess benefits or payments plus legal interest from the date the violation or violations occurred. For a first conviction, the person is guilty of a felony of the third degree and subject to a maximum penalty of a \$15,000 fine and seven (7) years imprisonment for each violation. The mere allegation of such a violation, if such violation were found to have occurred, or any sanctions imposed, could have a material adverse effect upon the operations and financial condition of the Obligated Group.

Anti-Kickback Laws. 18 Pa. Cons. Stat. § 4117(b) prohibits health care providers from compensating or giving anything of value to a person for providing names, addresses, telephone numbers or other identifying information of individuals seeking or receiving medical or rehabilitative care for accident, sickness or disease, except to the extent a referral and receipt of compensation is permitted under applicable professional rules of conduct. Health care providers may not compensate or give anything of value to a person to recommend or secure the provider's service for having made a recommendation resulting in the provider's service, except that the provider may pay the reasonable cost of advertising or written communication as permitted by rules of professional conduct. 62 P.S. § 1407(a)(2) prohibits solicitation or receipt of any form of remuneration, including any kickback, bribe or rebate for referrals, services or merchandise which may be paid whole or in part under the Medical

Assistance program. Violation of 18 Pa. Cons. Stat. § 4117(b) may lead to civil and criminal penalties, as well as suspension or revocation of the health care provider's license.

Coding Changes

The coding standards used by health care providers and facilities to classify diseases and causes of death changed from ICD-9 classifications to ICD-10 on October 1, 2015. These changes may be costly to health care providers and facilities and may require significant planning, training and updates to the software and systems of the Obligated Group.

Corporate Compliance

The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines, which permit the imposition of extremely large fines in many instances. The Guidelines permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. As a result of the current environment of increased enforcement against health care fraud and abuse, health care organizations have established compliance programs to prevent or detect violations of federal law. The OIG issued a Compliance Program Guideline for Nursing Facilities in 2000 and Supplemental Compliance Program Guidance for Nursing Facilities in 2008 to assist nursing facilities in the development and implementation of effective controls and to promote adherence to applicable federal and state laws and program requirements of federal, state and private health plans. Section 6102(b) of the ACA required nursing homes to have an effective compliance and ethics program in place by March 23, 2013. CMS has not yet issued final regulations regarding what constitutes effective ethics and compliance programs and as a result has said that it will not be issuing instructions to surveyors on evaluating compliance and ethics programs until the regulations have been promulgated, but nursing facilities are still expected to maintain compliance with the law.

On March 3, 2010, the Obligated Group adopted a Master Compliance Plan (the "Compliance Plan") in order to assist its employees, agents and staff in understanding their job responsibilities, and to foster compliance with federal, state and local laws, and federal health care program and private health plan requirements. The goal of the Compliance Plan is to prevent and reduce improper or unlawful conduct. The Compliance Plan consists of the following: the appointment of a compliance officer, the establishment of policies and procedures, the development of mandatory educational and compliance training, the establishment of processes for reporting any potential non-compliance issues or areas of concern, periodic and on-going monitoring and auditing, and the establishment of a process for corrective action.

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures

Health plans, Medicare, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by nursing facilities. Nursinghomecompare.com and other published rankings (such as "score cards"), and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of nursing facilities to influence the behavior of consumers and providers. Current measures of quality are based on clinical outcomes of patient care, staffing levels, survey results and patient satisfaction, among other factors. Measures of performance set by others that characterize the Obligated Group's nursing facilities negatively may adversely affect its reputation and financial condition.

Professional Liability Claims and Losses

One or more substantial medical malpractice claim or claims arising from the corporate or business activities of the Obligated Group or its affiliates in excess of their insurance coverage or other actions seeking punitive or other damages which are not covered by insurance could materially and adversely affect the consolidated financial results and condition of the Obligated Group.

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against health care providers. Litigation may also arise from the corporate and business activities of the Obligated Group and its respective employees. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims, business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of the Obligated Group if determined or settled adversely. Claims for punitive damages may not be covered by insurance under Pennsylvania law. Although the Obligated Group currently carries malpractice and general liability insurance which management of the Obligated Group considers adequate, the Obligated Group is unable to predict the availability, cost or adequacy of such insurance now or in the future.

The operations of the Obligated Group, 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. The Obligated Group covenants to maintain professional liability insurance in the amount required under the Master Indenture. It is not possible at this time to determine either the extent to which such insurance coverage will continue to be available to the Obligated Group.

Possible Limitations on Security

The Obligated Group covenants in the Master Indenture and the Mortgage not to create or permit to exist any lien or encumbrance on the Mortgaged Property, except Permitted Liens. The security interest in the Pledged Assets may not extend to any revenues generated from the use and operation of the Obligated Group's property after any person other than the Obligated Group Members obtains possession of such property, whether by voluntary transfer, foreclosure under a mortgage or other security agreement or enforcement of a statutory or judicially created lien. Further, the Master Indenture permits the Obligated Group to dispose of assets and to pledge, mortgage or grant a security interest in revenues, property and other assets of the Obligated Group to secure other indebtedness of the Obligated Group, subject to certain limitations stated therein. Any such pledges, liens, encumbrances or security interests, and any pledge, lien, encumbrance or security interest created in violation of the Master Indenture would give the holders of the indebtedness secured thereby priority in payment over the Bonds from the property, other than Pledged Assets, so encumbered in the event of the enforcement thereof. See Section 3.05 in the form of the Master Indenture included in Appendix E hereto.

The security interest created by the Master Indenture in Pledged Assets and similar security may be limited by the following: (i) statutory liens; (ii) rights arising in favor of the United States of America or any agency thereof; (iii) prohibitions against assignment contained in state or federal statutes, including those governing Medicare and Medicaid; (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction; (v) state and federal insolvency or bankruptcy laws as affecting any such security in which the Obligated Group acquires an interest and upon which the lien of the Master Indenture and the Mortgage attaches within the statutorily prescribed preference period prior to any effectual institution of bankruptcy proceedings by or against the

Obligated Group Members and thereafter; (vi) rights of third parties in any such security, including any such security converted to cash, not in the possession of the Master Trustee; and (vii) the requirement that appropriate continuation statements be filed in accordance with the Uniform Commercial Code as in effect from time to time in any jurisdiction in which any portion of the property of the Obligated Group Members subject to the lien of the Master Indenture or the Mortgage is located or on which the Obligated Group Members may conduct their operations.

The realization of any rights upon a default will depend upon the exercise of various remedies specified in the Master Indenture, the Bond Indenture, the Loan Agreement, the Mortgage and the other documents securing the Bonds and the Corporation's obligations under the Loan Agreement. 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 Master Indenture, the Indenture, the Loan Agreement, the Mortgage and the other documents securing Obligation No. 6 and the Bonds and the Corporation's obligations under the Loan Agreement and the Obligated Group's obligations under the Master Indenture may not be readily available.

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 the Corporation of the present advantages of certain provisions of the federal income or state tax laws could materially and adversely affect the status of the Corporation and thereby the revenues of the Obligated Group. The Corporation has obtained a determination letter from the Internal Revenue Service to the effect that the 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, the Corporation is subject to a number of requirements affecting its operation. The failure of the Corporation to remain qualified as such an exempt organization would affect the funds available to the Corporation for payments to be made under the Loan Agreement and could also cause interest on the Bonds to be included in the gross income of holders of Bonds for federal income tax purposes. Failure of the 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 the Mortgaged Property, could cause interest on the Bonds to be included in the gross income of holders of Bonds or former holders of 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 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 the Corporation by requiring it to pay income taxes.

Intermediate Sanctions. Section 4958 of the Code, provides the Internal Revenue Service 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 Internal Revenue Service 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. Internal Revenue Service officials have stated that more resources will be allocated to audits of tax-exempt bonds in the charitable organization sector. The Bonds may be subject to audit, from time to time, by the Internal Revenue Service. The Corporation believes that the 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 Bonds, as described under the heading “TAX EXEMPTION AND OTHER TAX MATTERS.” No ruling with respect to the tax-exempt status of the Bonds has been or will be sought from the Internal Revenue Service, however, and opinions of counsel are not binding on the Internal Revenue Service or the courts, and are not guarantees. There can be no assurance, therefore, that an audit of the Bonds will not adversely affect the federal tax-exempt status of interest on the Bonds.

Other Tax Status Issues. The Internal Revenue Service has also issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to seniors 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 seniors 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 seniors and relieve hardship or distress. Revenue Ruling 79-18 holds that a facility providing residential services to seniors 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 seniors, and that the organization is committed by established policy to maintaining persons as residents, even if they become unable to pay the monthly service fees after being admitted to the facility.

Other Legislation. Section 7872 of the Code (Treatment of Loans with Below Market Interest Rates), provides for, in certain circumstances, the imputation of interest income to a lender when the rate of interest charged by the lender is below prevailing market rates (as determined under a formula) or, even if the below market interest rate loan would otherwise be exempt from the provisions of Section 7872, when one of the principal purposes for such below market rate loan is the avoidance of federal income taxation.

A refundable entrance fee payment made by a resident to certain continuing care facilities has been determined under Section 7872 to constitute a below market interest rate loan by the resident to the facility to the extent that the resident is not receiving a market rate of interest on the refundable portion of the entrance fee. Section 7872(h) provides a “safe harbor” exemption for certain types of refundable entrance fees. The statutory language of Section 7872 does not permit a conclusive determination as to whether the residency agreements come within the scope of the continuing care facility safe harbor or within the statute itself. The Internal Revenue Service (“IRS”) may issue future guidance to clarify this issue, and such guidance could apply retroactively to existing residency agreements.

Provided the residency agreements fall within the scope of Section 7872, the safe harbor exemption under Section 7872(h) is applicable (i) if such loans were made pursuant to a continuing care contract, (ii) if the residents (or the residents’ spouses) have attained age 62 before the close of the year and (iii) irrespective of the amount of the “loan” by the residents (or the residents’ spouse) to the continuing care facility. Section 425 of the Tax Relief and Health Care Act of 2006 amended Section 7872(h) to make the exemption for loans to qualifying care facilities permanent. Any

determination of applicability of Section 7872 could have the effect of discouraging potential residents from becoming or remaining residents of the Mortgaged Property.

In recent years the Internal Revenue Service 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 of retirement communities in particular. Legislation has been previously introduced restricting the ability of such organizations to utilize tax-exempt bonds unless they maintain a required percentage of low to moderate income residents. Although the Corporation has covenanted to take all appropriate measures to maintain its tax-exempt status, compliance with current and future regulations and rulings of the Internal Revenue Service could adversely affect the ability of the Corporation to charge and collect revenues at the level required by the Loan Agreement, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of the Bonds.

Unrelated Business Taxable Income

The IRS and state, county and local taxing authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income (“UBTI”). The Obligated Group participates in activities that may generate UBTI. These activities are currently immaterial to the Obligated Group and there is no tax liability involved, but these activities could increase in the future. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the Obligated Group, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

State and Local Tax Exemptions

In recent years, a number of local taxing authorities in Pennsylvania have sought to subject the facilities of non-profit and other traditionally exempt organizations to local real estate and business privilege taxes, primarily by challenging their status as “institutions of purely public charity” as described in the Pennsylvania Constitution, notwithstanding the fact that such facilities historically may have been viewed as exempt from such taxes. In November 1997, the Pennsylvania legislature enacted H.B. 55, The Institution of Purely Public Charity Act (the “Act”), the intent of which was to grant certainty with respect to the standards for all not-for-profit organizations, that are purely public charities from challenges to their tax-exempt status. The Act adopts a five-part test similar, but not identical to, that developed by the courts (known as the “HUP Test”) as a criterion for determining if an organization is an institution of purely public charity. However, in 2012, the Pennsylvania Supreme Court in *Mesivtah Eitz Chaim of Bobov Inc. v. Pike County Board of Assessment Appeals* ruled that an institution must first satisfy the HUP test and then separately the test under the Act before it can be considered an institution of purely public charity and therefor exempt from taxation. This decision potentially opens up more opportunities for a local taxing authority to tax a non-profit and prevail in any appeal proceeding. As a result of the 2012 decision, there is increased risk that a Pennsylvania non-profit will face taxation. Further, the taxing authorities are able to apply more pressure to non-profits to make payments in lieu of taxes to local governments to avoid a challenge to their tax-exempt status.

In July 2009, the Corporation filed for exemption from real estate taxation with the County of Lancaster’s Board of Assessment Appeals. Such exemption was granted. As part of filing for real estate tax exemption, the Corporation entered into agreements with the local taxing authorities (County of Lancaster, Manheim Township, and Manheim Township School District) in June 2010 whereby a payment in lieu of real estate taxes would be made to each taxing authority. The agreements commenced on January 1, 2010 for the County of Lancaster and Manheim Township and on July 1, 2010 for Manheim Township School District. Each agreement has an initial 10-year term and automatically

renews and continues in effect thereafter for additional 10-year terms until terminated by either party upon a one year's advance written notice provided within the 9th year of the initial term or the then-current renewal term, as the case may be. Payments under the agreements are calculated using current assessed values of the exempt property and mutually agreed upon percentages which vary by taxing authority.

Any future imposition of an additional tax levy on any member of the Obligated Group may have an adverse impact on the Obligated Group's financial position and operations. It is not possible to predict the scope or effect of future legislation, including any amendments to Act 55, constitutional amendments, or regulatory actions with respect to taxation of nonprofit entities, especially given the uncertainty following the *Mesivtah* decision. There can be no assurance that future changes in the laws and regulations of the federal, state and local governments may not materially and adversely affect the operations and revenues of the Obligated Group by requiring the Obligated Group to pay income or real estate taxes.

Secondary Market for the Bonds

There can be no assurance that there will be a secondary market for the Bonds and, although the Underwriters contemplate making a secondary market for the Bonds, from time to time there may be no market for them depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition and results of the operations of the Obligated Group.

Prepayment Risks

All of the Bonds are subject to redemption, without premium, in advance of their stated maturities under certain circumstances. Upon the occurrence of certain events of default, the payment of the principal of and interest on the Bonds may be accelerated. Thus, there can be no assurance that the Bonds will remain outstanding until their stated maturities.

Environmental Risks

Health care providers and retirement communities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations and facilities owned or operated by providers and retirement communities. The types of regulatory requirements faced by health care providers and retirement communities include: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at facilities operated by such providers or retirement communities; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as owner and/or operator, the Obligated Group may be subject to liability for hazardous substances that are located on its property, including any such substances that may have migrated off its property. Typical health care provider and retirement community operations include, but are not limited to, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, health care provider and retirement community operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; interrupt operations and/or increase their cost; result in legal liability, damages, injunctions or fines; and result in

investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

RETTEW Associates, Inc. (“RETTEW”) issued a Phase I Environmental Site Assessment (the “Report”), dated July 9, 2015, with respect to the Mortgaged Property. The Report identified certain “recognized environmental conditions” (or “RECs”) based on standard industry criteria regarding existing, past or potential for future releases of hazardous materials to the environment (“Releases”). Entech Engineering, Inc. issued a report dated December 1, 2016, setting out corrective action recommendations for these RECs. These identified RECs, the recommendations, and information about the Corporation’s plans to address these RECs are set out as follows:

- Two small aboveground fuel storage tanks, among other things, lack secondary containment measures, show signs of wear, and may not meet applicable construction requirements. Although they show no indication of any past or present Releases, they could present potential for future Releases. The Entech report recommends removal and replacement of these tanks, and the Corporation has affirmed its plans to do so.
- There was a 1,000-gallon heating oil underground storage tank, whose removal in 1991 was not performed in conjunction with adjacent soil sampling or closure documentation, although the Report found no indication of a Release. The Corporation notes that its environmental consultant, Entech Engineering, has reported that results of soil sampling conducted on February 7, 2017, produced no exceedances of applicable contamination screening criteria that appear to warrant further response action, and that the circumstances relating to this tank could be removed from consideration as a REC.
- There is a 12,000-gallon fuel oil underground storage tank (“UST”) with supply lines connected to two aboveground storage tanks serving two emergency generators. The Report states that no evidence of past or current Releases is present, but the potential for future releases exists. The Entech report recommends either registering the UST with the Pennsylvania Department of Environmental Protection (“PADEP”) and assuring that it meets specifications for its present use, or abandoning the UST and implementing an alternative system for delivering fuel to the emergency generators. The Corporation reports that it plans to ascertain whether exemptions from regulatory requirements as to certain specifications apply, and if not to conform the UST to meet applicable specifications, including secondary containment requirements.

The Report further noted that a portion of the Mortgaged Property comprising less than one-half acre is subject to a deed restriction resulting from a prior release from an underground heating oil tank which has been removed and remediated. The deed restriction prohibits the restricted area from excavation without approval by PADEP. No such approval is required in connection with the Northside Court Project because no excavation is planned for the restricted area.

Nonprofit Tax-exempt Healthcare Environment

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are in compliance with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead, in many cases, are examinations of core business practices of the health care organizations.

Areas that have come under examination have included pricing practices, billing and collection practices, community benefit, charitable care, executive compensation, exemption of property from real property taxation and others. These challenges and questions have come from a variety of sources, including state, local governments, attorneys general, the IRS, labor unions, Congress, state legislatures, other federal and state agencies and patients and in a variety of forums, including hearings, audits and litigation.

Possible Future Changes to Accounting Policies and Procedures

From time to time, accounting policies and procedures change as accounting principles that are generally accepted in the United States change. Such changes may cause a variation in the presentation of the financial information of the Obligated Group. There can be no assurance that any such changes would not have a material adverse impact on the Obligated Group's compliance with certain covenants contained in the Master Indenture.

Amendments to Bond Documents

Certain amendments to the Master Indenture, the Bond Indenture, the Loan Agreement and the Mortgage may be made without the consent of the owners of the Bonds and other amendments may be made with the consent of the owners of a majority in an aggregate principal amount of all outstanding Bonds or Master Indenture Obligations, as applicable. Such amendments could affect the security for the Bonds. See Appendices C and D hereto and "CERTAIN BONDHOLDERS' RISKS – Additional Debt."

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the financial condition or results of operations of the Obligated Group:

1. Establishment of mandatory governmental wage, rent or price controls.
2. A decline in the population, a change in the age composition of the population or a decline in the economic conditions of the Obligated Group's market area.
3. Developments or events affecting the federal or state exemption of the income of the Obligated Group from taxation or the status of any Member of the Obligated Group as an exclusively charitable organization.
4. Changes in key management personnel.
5. Reductions in utilization of continuing care retirement or personal care facilities as a result of preventive medicine, improved occupational health and safety, development and utilization of medical and scientific research and technological advances and other developments.
6. Increased costs resulting from the unionization of the employees of the Obligated Group or the utilization by a non-union employee of the Obligated Group of proceedings available under the National Labor Relations Act.
7. Increases in costs, including costs associated with, among other things, salaries, wages and fringe benefits, supplies, technology and equipment, energy and other utilities, the attraction and retention of nurses and other personnel, compliance with or violation of environmental laws and regulations, and other costs that could result in a sizable increase in expenditures without a corresponding increase in revenues.

8. Inability of the Obligated Group to obtain future governmental approvals to undertake additional projects necessary to remain competitive as to rates, charges and the quality and scope of care or any limitation on the availability of tax-exempt or other financing for future projects.
9. The occurrence of natural disasters, including floods, hurricanes, tornadoes and earthquakes, could damage the facilities of the Obligated Group, interrupt utility service or otherwise impair the operations of the Obligated Group and the generation of revenues from the facilities. The facilities of the Obligated Group are required to be covered by general property insurance in amounts which management of the Obligated Group considers to be sufficient to provide for the replacement of such facilities in the event of a natural disaster.
10. Suspension or revocation of or failure to renew the license to operate any of the Obligated Group's facilities, or any portion thereof, or any restriction on new admissions to licensed beds, or a failure to obtain a renewal of any certificate of authority from the Pennsylvania Department of Insurance.
11. Increases in the cost and limitations on the availability of insurance, such as fire, automobile and general comprehensive liability insurance and business interruption insurance, that institutions of size and type similar to the Obligated Group generally carry.
12. Adverse community relations or publicity involving the Obligated Group could affect the demand for the services provided by the Obligated Group's facilities, or the generation of revenues from such facilities.
13. Increases in the cost of public utilities, including electricity, natural gas, water and sewer services.

The paragraphs above discuss certain Bondholders' risks, but are not intended to be a complete enumeration of all risks associated with the purchase or holding of the Bonds. Regulatory and other changes resulting from the factors mentioned above, among others, or the occurrence of other unanticipated events could have a material adverse effect on the Obligated Group's financial condition or results of their operations.

PENNSYLVANIA REGULATION OF CONTINUING CARE FACILITIES

In the Commonwealth, continuing care retirement facilities are licensed by several different agencies. Because the entrance fees paid upfront by residents upon admission to a continuing care retirement facility are held by the management of the continuing care community and must be invested according to state law, continuing care retirement facilities are regulated by the Department of Insurance (See "Residency Agreements" in Appendix A hereto). The Department of Human Services is responsible for licensure of personal care homes, assisted living residences or dually licensed personal care/assisted living facilities. Skilled nursing care facilities, home health services, home care agencies and hospices are licensed by the Department of Health under the Health Care Facilities Act.

Continuing Care Provider Law

The Corporation's facilities are subject to the provisions of the Commonwealth's Continuing Care Provider Registration and Disclosure Act and the regulations promulgated thereunder by the Commonwealth's Insurance Department (the "CCP Act"). The CCP Act requires, among other things, that the Corporation: (i) obtain a certificate of authority ("COA") from the Insurance Commissioner; (ii) provide to each prospective resident a disclosure statement (a "Disclosure Statement") setting forth

material information with respect to the Corporation and the operation of the continuing care facility; (iii) include certain provisions in agreements for continuing care; (iv) set aside reserves in specified amounts to ensure that the Corporation will be able to meet its contractual obligations to residents; and (v) file an annual financial report. The CCP Act also provides for civil and criminal penalties for violations of the CCP Act and for certain remedies if a continuing care facility encounters financial difficulties.

The CCP Act requires each continuing care provider to establish and maintain liquid reserves in an amount equal to or exceeding the greater of (i) the total of all principal and interest payments due during the next twelve (12) months on account of any mortgage loan or other long-term financing or (ii) ten (10) percent of the projected annual operating expenses of the facility exclusive of depreciation and amortization. The provider is required to notify the Insurance Commissioner in writing at least ten (10) days prior to reducing the funds available to satisfy this reserve requirement and may expend no more than one-tenth of the required balance in each calendar month. Reserve funds may be invested under the CCP Act.

The CCP Act also requires a continuing care provider to establish an interest bearing escrow account for entrance fees. The Insurance Commissioner may, when deemed necessary to further secure a provider's obligations under its continuing care agreements, require a provider to establish and maintain, on a current basis, in escrow with a bank, trust company or other escrow agent approved by the Insurance Department, a portion of all entrance fees received by the provider in an aggregate amount not to exceed the total of all principal and interest payments due during the next twelve (12) months on account of any first mortgage loan or other long-term financing. The escrow agent must release up to one-twentieth of the original principal balance of the escrow account if the provider so requests in writing. Funds may not be released more than once during any calendar month and then only after the escrow agent has given written notice to the Insurance Commissioner at least ten (10) days in advance.

The CCP Act also provides that prior to issuing a COA, or at such other time as the Insurance Commissioner may determine it to be in the best interests of the facility's residents, the Insurance Commissioner may file a lien on the real and personal property of the provider to secure the provider's obligations under existing and future contracts for continuing care. The CCP Act provides that such lien shall be subordinate to the lien of any first mortgage on the real property of the facility and may be subordinated with the Insurance Commissioner's consent to the claims of other persons. The lien may be foreclosed upon the liquidation of the facility or the insolvency or bankruptcy of the provider and the proceeds thereof are required to be used in full or partial satisfaction of the provider's obligations under existing contracts for continuing care.

Under certain circumstances, the Insurance Commissioner may, after notice and an opportunity for the provider to be heard, apply to the appropriate court of the Commonwealth or to any federal bankruptcy court which may have previously taken jurisdiction over the provider or facility for an order directing or authorizing the Insurance Commissioner to appoint a trustee to rehabilitate or liquidate such facility. The Insurance Commissioner may make such an application when: (i) a portion of a reserve fund escrow required under the CCP Act has been or is proposed to be released; (ii) a provider has been or will be unable in such a manner as may endanger the ability of the provider to fully perform its obligations pursuant to its continuing care contracts or to meet the pro forma income or cash flow projections previously filed with the Insurance Commissioner; (iii) a provider has failed to maintain the reserves required under the CCP Act; or (iv) the provider is bankrupt or insolvent or in imminent danger of becoming bankrupt or insolvent. A rehabilitation order under the CCP Act permits the Insurance Commissioner or the appointed trustee to take possession of and operate the facility and take such other steps as the court may direct to rehabilitate the facility. In applying for an order to rehabilitate or liquidate a facility, the Insurance Commissioner must give due consideration in the application to the

manner in which the welfare of persons who have previously contracted for continuing care with the provider may be best served.

Assisted Living Facilities

In 2007, the Pennsylvania legislature adopted a law defining and establishing oversight for assisted living residences by the Department of Human Services. The legislation was designed to permit the delivery of certain nursing home level medical services in the personal care home setting to permit aging in place. Such facilities are defined as any premises in which food, shelter, personal care assistance or supervision and supplemental health care services are provided to residents who require assistance with such matters as dressing, bathing, diet, financial management or medication administration. Assisted living residences are required to provide residents with individual living units. However, the level of medical care delivered in assisted living facilities is intended to be more intensive than that delivered in a personal care home. The Facilities do not include any units licensed as assisted living residences.

Personal Care Homes

Personal care homes are designed to provide safe, comfortable and supportive residential settings for adults who do not require the services of a long-term care facility, but who do require assistance or supervision with activities of daily living. Personal care homes must be licensed by the Department of Human Services and licenses must be renewed annually. Although the personal care home regulations are similar to assisted living facility regulations regarding residents' rights and abuse and incident reporting, personal care homes are not required to provide nursing services. In addition, there may be up to four (4) residents to a room in a personal care home. To determine compliance with the regulations, the Department of Human Services conducts annual, unannounced inspections of licensed facilities, and may conduct additional announced or unannounced inspections. Failure to comply with regulatory requirements could result in the imposition of various penalties, including fines and the revocation or non-renewal of licensure.

The Corporation's personal care units are licensed by the Department of Human Services as a personal care home. There is no third party reimbursement for personal care homes.

Nursing Homes

Both for-profit and nonprofit long-term care nursing facilities which provide either skilled nursing care or intermediate nursing care are licensed medical facilities that are inspected and licensed annually by the Pennsylvania Department of Health. Nursing homes must comply with both state and federal laws and regulations. There is third party reimbursement (Medicare and Medicaid) for those who qualify. The Obligated Group participates in the Medicare program. *See* "CERTAIN BONDHOLDERS' RISKS –Health Care Regulation - Medicare" and "-Medicaid." Nursing homes must comply with multiple regulations regarding management of the facility, residents' rights, compliance with the federal life-safety code, physical plant and equipment standards, housekeeping and maintenance standards, resident care plans and service standards, and staffing and training requirements. In addition, nursing homes must also comply with federal laws and regulations related to participation in the Medicare and Medicaid programs. A failure to meet any of the federal or state laws or regulations may jeopardize a nursing home's ability to admit new residents and may result in exclusion from federal payer programs. No assurances can be made that the Obligated Group will continue to satisfy the conditions of participation under Medicare or Medicaid rules for eligibility as a nursing home or that the Obligated Group will be able to maintain current revenue levels in the future.

FINANCING DOCUMENTS AND SELECTED COVENANTS

General

The Corporation will be subject to certain covenants contained in the Master Indenture and the Loan Agreement relating to (a) maintenance of a Long-Term Debt Service Coverage Ratio and a required number of Days' Cash on Hand and other financial and operating covenants, (b) disclosure of certain information to Beneficial Owners of the Bonds, and (c) restrictions on, among other things, incurrence of Indebtedness, existence of Liens on Property, consolidation and merger, disposition of assets, addition of Members to the Obligated Group and withdrawal of Members from the Obligated Group. Certain of such covenants are summarized below. For a more detailed summary of the covenants of the Corporation, see "THE LOAN AGREEMENT" in Appendix D and the form of the Master Indenture contained in Appendix E. Certain terms used in the summaries set forth below are defined in Appendix D or in the form of the Master Indenture contained in Appendix E.

Long-Term Debt Service Coverage Ratio (Section 3.07 of 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, is not 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 shall 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 shall not be taken into account until the earlier to occur of (i) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such capital improvements reaches 90% or (ii) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 24 months after the date on which substantially all of such capital improvements are placed in service; in either case, the Obligated Group agrees that it will notify the Master Trustee of such event within ten days following its occurrence).

If the Long-Term Debt Service Coverage Ratio calculated as of the end of any Fiscal Year is less than 1.20 but not less than 1.10 and the Available Reserves as of the end of such Fiscal Year are not less than 35% of the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, no Event of Default shall be deemed to have occurred and no further action need be taken.

If (i) the Long-Term Debt Service Coverage Ratio, calculated at the end of any Fiscal Year is less than 1.20 but not less than 1.10 and the Available Reserves as of the end of such Fiscal Year are less than 35% of the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, or (ii) the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.10, then in either such case, the Obligated Group shall retain a Management Consultant to analyze the reasons for the failure to achieve a Long-Term Debt Service Coverage Ratio of at least 1.20 and to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to such amount. If the Long-Term Debt Service Coverage Ratio is less than 1.00 for two successive Fiscal Years, it shall be an Event of Default under the Master Indenture.

In the event the Obligated Group fails to make a selection of a Management Consultant and fails to give notice of such selection to the Master Trustee within 30 days after it shall have been required to do

so as described above, the Master Trustee shall select, on behalf of the Obligated Group, a Management Consultant, the costs of which shall be paid by the Obligated Group, to make the recommendations described above. A copy of such recommendations must be filed with the Master Trustee within 90 days after the date the Management Consultant is selected unless the Master Trustee extends, by prior written consent, the time within which such recommendations must be so filed.

The Obligated Group agrees that it will, to the extent permitted by law and consistent with the status of any Member of the Obligated Group as a Tax-Exempt Organization, follow any recommendations of the Management Consultant pursuant to the provisions described above

Liquidity Covenant (Section 3.08 of the Master Indenture)

The Obligated Group covenants that it will conduct its business so that, on each June 30 and December 31 (each, a "Liquidity Testing Date"), the Obligated Group will maintain not less than 150 Days' Cash on Hand (the "Liquidity Covenant").

If the Obligated Group does not have at least 150 Days' Cash on Hand on any Liquidity Testing Date, the Obligated Group Representative shall promptly give written notice of such fact to the Master Trustee. If the number of Days' Cash on Hand as of any such Liquidity Testing Date is less than 150, but greater than 90, the Obligated Group Representative shall, not later than 30 days after reporting such deficiency, deliver to the Master Trustee a management report setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth the steps to be taken to achieve the required number of Days' Cash on Hand by the end of the third fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was less than 150. If the number of Days' Cash on Hand for any Liquidity Testing Date is less than 90, or if the Obligated Group has not achieved 150 Days' Cash on Hand by the end of the third fiscal quarter following the issuance of the management report, the Obligated Group Representative shall, not later than 60 days after receipt of the financial statements disclosing such deficiency, as applicable, obtain a Management Consultant's report setting forth in detail the reasons for such deficiency and a specific plan setting forth the steps designed to achieve 150 Days' Cash on Hand by the end of the third fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was less than 90 or by the end of the fifth fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was more than 90 but less than 150, as the case may be.

Each Member of the Obligated Group covenants that it will follow any management report or any Management Consultant's report delivered pursuant to this Section, except to the extent that (i) any of the Management Consultant's recommendations conflict with law or existing contracts, (ii) the implementation of such 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 (iii) the Governing Body of such Member reasonably determines, and declares by resolution, that such recommendations are unreasonable, impractical or infeasible. So long as the Obligated Group or any Member thereof shall, as required above, deliver the management report or retain a Management Consultant, and so long as the Members of the Obligated Group shall follow such management report or such Management Consultant's recommendations to the fullest extent feasible, the Liquidity Covenant Section shall be deemed to have been complied with for a Liquidity Testing Date even if the number of Days' Cash on Hand is less than 150 on such Liquidity Testing Date, and such circumstances shall not constitute an Event of Default under the Master Indenture.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by Herbert J. Sims & Co., Inc. on behalf of the Corporation relating to the computation of forecasted receipts of principal of and interest on the Government Obligations on deposit in the Escrow Fund and the forecasted payments of principal and interest to redeem the 2008 Bonds will be verified by The Arbitrage Group, Inc. Such computations are based solely upon schedules and information supplied by or on behalf of the Corporation. The Arbitrage Group, Inc. will express no opinion on the assumptions provided to it, nor as to the exemption from taxation of the interest on the Bonds.

CONTINUING DISCLOSURE

Annual Report. In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the United States Securities and Exchange Commission, the Corporation (being an “obligated person” with respect to the Bonds, within the meaning of the Rule) will enter into a Continuing Disclosure Agreement pursuant to which it will covenant to provide or cause to be provided, not later than not later than the last day of the fourth month following the end of each fiscal year of the Obligated Group (or the next succeeding Business Day if that day is not a Business Day) commencing with the fiscal year ending June 30, 2017, certain financial information and other operating data with respect to the Obligated Group (collectively, the “Annual Report”), as follows:

- annual financial statements prepared in accordance with generally accepted accounting principles and audited by a certified public accountant in accordance with generally accepted auditing standards; provided, however, if the audited financial statements are not available within four months after the end of the fiscal year, unaudited financial statements shall be filed and subsequently replaced or supplemented by the audited financial statements when available;
- certain financial information and annual operating data, including updates of the information provided under the subheadings: “Unit Mix and Pricing”, “Historical Occupancy”, “Turnover in Independent Living”, “Payor Mix” and “Residency Agreements and Entrance Fees, Monthly Fees and Other Charges – *Rate Increases*” which appear in Appendix A hereto; and
- the Long-Term Debt Service Coverage Ratio for the most recently completed fiscal year, the number of Days’ Cash on Hand as of the end of such fiscal year and the ratio of Available Reserves to the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate Term Indebtedness, for such fiscal year, all as calculated based on the audited financial statements as and when available, to the extent such items are not included in the Corporation’s audited financial statements, and a brief narrative of the financial and operating results for such fiscal year.

The Corporation will also covenant to provide notices of certain specified events required by the Rule. Such information will be filed with the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access (EMMA) System (<http://emma.msrb.org>).

Quarterly Reports. In addition, the Continuing Disclosure Agreement will provide that within 45 days following the end of each quarter of each Fiscal Year of the Obligated Group, commencing with the quarter ending June 30, 2017, the Corporation shall file with EMMA: (i) occupancy statistics for the Facilities for such fiscal quarter, (ii) quarterly financial statements including income statement, balance

sheet and cash flow statements, compared to budget, and information with respect to the payor mix for such fiscal quarter, (iii) computations of the Long-Term Debt Service Coverage Ratio (calculated based on the twelve month period ending on the last day of such fiscal quarter then ended) and the number of Days' Cash on Hand as of the end of such fiscal quarter, and (iv) the ratio determined by dividing the aggregate amount of Available Reserves by the aggregate amount of Long-Term Indebtedness Outstanding, exclusive of Qualifying Intermediate-Term Indebtedness, as of the end of such fiscal quarter.

Additional Information. The Corporation will also agree under the Continuing Disclosure Agreement to file with EMMA: (i) a copy of the Obligated Group's annual budget, within 30 days after the commencement of each Fiscal Year, (ii) a copy of any actuarial report prepared for the Corporation with respect to its future service obligation, and (iii) until construction of the Northside Court Project is complete and the independent living apartments in the Northside Court Project have reached 90% occupancy, (A) a marketing report showing the number of net pre-sales and the number of move-ins with respect to independent living apartment units in the Northside Court Project for the prior month, and (B) bi-monthly construction status reports, including the status of completion (and opening) of each building and project construction overall.

The Corporation may from time to time choose to provide notice of the occurrence of certain other events, or to provide other information which may be relevant to an investment in the Bonds, in addition to the notices of material events or other information specified above, but the Corporation is not obligated to provide notice of any event whether or not material, or to provide any information, other than the notices and information described herein.

The Corporation reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate in the judgment of the Corporation; provided that the Corporation agrees that any such modification will be done in a manner consistent with the Rule. The Corporation reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the Corporation no longer remains an "obligated person" with respect to the Bonds within the meaning of the Rule.

The Corporation acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Beneficial Owners of the Bonds and shall be enforceable by such Beneficial Owners; provided that the right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the Corporation's continuing disclosure obligations and any failure by the Corporation to comply with the provisions of this undertaking shall not be an Event of Default under the Bond Indenture, the Loan Agreement or the Master Indenture. Holders of the Bonds are advised that the Continuing Disclosure Agreement, the form of which is attached hereto as Appendix G, 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 Bonds and the Authority will not provide any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to holders of the Bonds as described above and in Appendix G and the Authority shall have no liability to the holders of the Bonds or any other person with respect to such disclosures.

Prior Disclosure Agreements. The Corporation entered into continuing disclosure agreements (the "Prior Disclosure Agreements") in connection with the issuance of 2008 Bonds and the 2015 Bonds. The Prior Disclosure Agreements require the Corporation to file with the Municipal Securities Rulemaking Board ("MSRB") its annual audited financial statements and an update of certain financial

and operating data (the “Annual Report”) within 120 days of the Corporation’s fiscal year-end and to file an update of certain financial and operating data within 45 days of the end of each fiscal quarter of the Corporation (the “Quarterly Reports”). For the last five years, all Annual Reports and Quarterly Reports were filed by the applicable deadline; however, not all reports included all the information required by the Prior Disclosure Agreements. The Annual Reports for all five years did not include a table indicating fee increases, and the Annual Reports for the fiscal years ended June 30, 2012 through June 30, 2014 did not include a table showing the unit mix and pricing or a calculation of the ratio of Available Reserves to the principal amount of outstanding Long-Term Debt. The Quarterly Reports during such five-year period did not include a schedule of rates and charges in effect for such fiscal quarter or an abbreviated narrative of the operating and financial environment of the Corporation for such fiscal quarter. In addition, the Corporation’s annual budget for Fiscal Year 2015 and certain actuarial reports were not filed. The Corporation has updated its EMMA filings, as necessary, to make this information publicly available.

The Corporation intends to fully comply with all current and future continuing disclosure undertakings, compliance with which will be overseen by the Vice President Finance of the Corporation. The Corporation has put in place internal procedures to help ensure that all future filings are completed on a timely basis in accordance with the Rule.

LITIGATION

There is no pending or threatened litigation against the Authority or the Corporation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way questioning or affecting the validity of the Bonds or any proceedings of the Corporation or the Authority taken with respect to the issuance or sale thereof or questioning or affecting the validity of the pledge or application of any security pledged for the payment of the Bonds or the existence or powers of the Authority to issue and approve the Bonds, or questioning the right of the Corporation to enter into the Master Indenture, the Seventh Supplement, the Loan Agreement, the Mortgage or Obligation No. 6 or to borrow funds for the uses set forth herein.

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

CERTAIN RELATIONSHIPS

Fulton Bank, National Association, which is acting as Bond Trustee and Master Trustee, currently has, and in the future may have, credit and other banking relationships with the Corporation. Rhoads & Sinon LLP, which is serving as Bond Counsel in connection with the issuance of the Bonds, has from time to time represented Fulton Bank and/or its affiliates in unrelated matters and has also represented the Corporation in matters unrelated to the Bonds.

FINANCIAL ADVISOR

The Corporation has retained Susquehanna Group Advisors, Inc., Harrisburg, Pennsylvania as financial advisor (the “Financial Advisor”) in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this

Official Statement. Susquehanna Group advisors is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approval of certain legal matters by Rhoads & Sinon LLP, Harrisburg, Pennsylvania, Bond Counsel, who will deliver an opinion with respect to the Bonds in substantially the form set forth in Appendix F hereto. Certain legal matters will be passed upon for the Authority by its Counsel, McNees Wallace & Nurick LLC, Lancaster and Harrisburg, Pennsylvania; for the Corporation by its Counsel, Gibbel, Kraybill & Hess, LLP, Lancaster, Pennsylvania; and for the Underwriters by their counsel, Ballard Spahr LLP, Philadelphia, Pennsylvania.

TAX EXEMPTION AND OTHER TAX MATTERS

Federal Income Tax Matters

On the date of delivery of the Bonds, Rhoads & Sinon LLP, bond counsel, will issue an opinion to the effect that under existing statutes, regulations and judicial decisions, interest on the Bonds is excludable from gross income of the owners of the Bonds for purposes of federal income taxation and is not an item of tax preference of the owners of the Bonds for purposes of the federal alternative minimum tax imposed on individuals and corporations, but that in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of bond counsel will rely upon the qualification of the Corporation as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, will assume the accuracy of certifications made by the Authority and the Corporation pertaining to the use, expenditure and investment of the proceeds of the Bonds (and of any other obligations deemed to be part of the same issue for federal income tax purposes), and will be subject to the condition that the Authority and the Corporation will comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Authority and the Corporation have covenanted to comply with all such requirements, which include, among others, restrictions upon the yield at which proceeds of the Bonds (or of other obligations deemed to be part of the same issue for federal tax purposes) and other money held for the payment of the Bonds (or any such other obligations) and deemed to be "proceeds" thereof may be invested and the requirement to calculate and rebate any arbitrage that may be generated with respect to investments allocable to the Bonds (and any other such obligations). Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. See Appendix F for the proposed text of the opinion of Bond Counsel.

[Certain maturities of the Bonds may be sold to the public in the initial offering at a price less than the stated redemption price of such Bonds at maturity (that is, at less than par or the stated principal amount), the difference being "original issue discount." Generally, original issue discount accruing on a tax-exempt obligation is treated as interest excludible from gross income for federal income tax purposes. In addition, original issue discount that has accrued on a tax-exempt obligation is treated as an adjustment to the issue price of the obligation for the purpose of determining taxable gain upon sale or other disposition of such obligation prior to maturity. The Internal Revenue Code of 1986, as amended, provides specific rules for the accrual of original issue discount on tax-exempt obligations for federal

income tax purposes. Prospective purchasers of Bonds being sold with original issue discount should consult their tax advisors for further information.]

[Certain of the Bonds may be offered at a price that reflects a premium (“original issue premium”) over their stated principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of the Bond through reductions in the holder’s tax basis for the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Holders should consult their tax advisors for an explanation of the amortization rules.]

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain Subchapter S corporations with substantial passive income and Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, foreign corporations and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel will express no opinion as to such collateral tax consequences, and prospective purchasers of the Bonds should consult their tax advisors.

No representation is made or can be made by the Authority, the Corporation or any other party associated with the issuance of the Bonds, including Bond Counsel, as to whether or not any legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the Bonds to inclusion in gross income for Federal income tax purposes or so as to otherwise affect the marketability or market value of the Bonds. Enactment of any legislation that subjects the interest on the Bonds to inclusion in gross income for federal income tax purposes or otherwise imposes taxation on the Bonds or the interest paid thereon may have an adverse effect on the market value or marketability.

Bond Counsel’s opinion is not a guaranty of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority and the Corporation described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal bonds. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners of the Bonds. Also, public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Pennsylvania Tax Matters

On the date of delivery of the Bonds, Bond Counsel will also issue an opinion to the effect that under the laws of the Commonwealth of Pennsylvania (the “Commonwealth”), as presently enacted and construed, the Bonds are exempt from personal property taxes within the Commonwealth and the interest on the Bonds is exempt from the Commonwealth’s Personal Income Tax and the Commonwealth’s Corporate Net Income Tax.

Profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth, in accordance with Pennsylvania Act No. 1993-68.

[Certain maturities of the Bonds may be sold to the public in the initial offering at a price less than their stated redemption price at maturity (that is, at an "original issue discount"). For Pennsylvania Personal Income Tax purposes, original issue discount on publicly offered obligations is treated under current regulations of the Pennsylvania Department of Revenue as interest and, for purposes of determining taxable gain upon sale or other disposition of an obligation the interest on which is exempt from income taxation by the Commonwealth, as an adjustment to basis. For Pennsylvania Corporate Net Income Tax purposes, original issue discount is to be accorded similar treatment, according to a Private Letter Ruling issued by the Office of the Chief Counsel of the Pennsylvania Department of Revenue dated December 2, 1993, but such Private Letter Ruling may be relied upon only by the taxpayer to whom it was addressed.]

No representation is made or can be made by the Authority, the Corporation or any other party associated with the issuance of the Bonds, including Bond Counsel, as to whether or not any legislation now or hereafter introduced and enacted in the Commonwealth will be applied retroactively so as to subject interest on the Bonds to state or local taxation in the Commonwealth or so as to otherwise affect the marketability or market value of the Bonds. Enactment of any legislation that subjects the interest on the Bonds to state or local taxation within the Commonwealth or otherwise imposes or authorizes state or local taxes on the Bonds or the interest paid thereon may have an adverse effect on the market value or marketability.

Federal Income Tax Interest Expense Deductions for Financial Institutions

Under the Internal Revenue Code of 1986, as amended (the "Code"), financial institutions are disallowed 100 percent of their interest expense deductions that are allocable, by a formula, to tax-exempt obligations acquired after August 7, 1986. An exception, which reduces the amount of the disallowance, is provided for certain tax-exempt obligations that are designated or "deemed designated" by the issuer as "qualified tax-exempt obligations" under Section 265 of the Code.

The Bonds have not been designated, or "deemed designated", as "qualified tax-exempt obligations" for purposes and effect contemplated by Section 265 of the Code (relating to expenses and interest relating to tax-exempt income of certain financial institutions).

Financial institutions intending to purchase Bonds should consult with their professional tax advisors to determine the effect of the interest expense disallowance on their federal income tax liability.

RATING

Fitch Ratings Service has assigned the Bonds a municipal bond rating of "BB+" (stable outlook). Any explanation of the significance of such rating may only be obtained from Fitch Ratings Service. There is no assurance that the rating initially assigned to the Bonds will be maintained for any given period of time or that such rating may not be revised downward or withdrawn entirely by Fitch Ratings Service if, in its judgment, circumstances so warrant. Any downward change in or the withdrawal of such rating may have an adverse effect on the marketability or the price at which the Bonds may be resold by the holder of such Bonds.

UNDERWRITING

Herbert J. Sims & Co., Inc., B.C. Ziegler & Company and Janney Montgomery Scott LLC (collectively, the "Underwriters") are purchasing the Bonds pursuant to a Bond Purchase Agreement at

the total purchase price of \$_____ (representing the principal amount of the Bonds, [plus/minus] net original issue [premium/discount], less an Underwriters' discount of \$_____). The obligation of the Underwriters to pay for the Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including delivery of specified opinions of counsel and 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 Corporation agrees in the Bond Purchase Agreement to indemnify the Underwriters and the Authority against certain liabilities relating to this Official Statement.

The Underwriters may offer and sell Bonds to certain dealers, including dealer banks and dealers depositing Bonds into investment trusts and others, at prices lower than the public offering prices stated on the cover of this Official Statement. The initial public offering prices may be changed from time to time by the Underwriters.

FINANCIAL STATEMENTS

The audited financial statements of the Corporation and its controlled affiliates as of and for the fiscal years ended June 30, 2016 and June 30, 2015 included in this Official Statement in Appendix B, have been audited by Baker Tilly Virchow Krause, LLP, independent auditors, as stated in their report appearing in Appendix B.

FINANCIAL FORECAST

Baker Tilly Virchow Krause, LLP has examined certain forecasted financial statements (the "Financial Forecast") prepared by the Corporation. The Financial Forecast, which is included as Appendix C, includes the financial forecast of management of the Corporation for the years ending June 30, 2017 through 2021. As stated in the Financial Forecast, there will usually be differences between the forecasted data and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The Financial Forecast should be read in its entirety, including management's notes and assumptions set forth therein. See Appendix C—"FINANCIAL FORECAST."

The table below reflects the forecasted Debt Service Coverage Ratio and the forecasted Days Cash on Hand for the years ended June 30, 2017 through June 30, 2021. Information for this table has been extracted from the Financial Forecast included as Appendix C. The Financial Forecast should be read in its entirety, including management's notes and assumptions set forth therein.

Special-Purpose Consolidated Forecasted Schedule of
Debt Service Coverage Ratio and Days Cash on Hand
As of and For Each of the Years Ending June 30, 2017-2021

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in thousands of dollars)				
Debt Service Coverage Ratio					
Revenues available for debt service:					
Revenues less than expenses	\$ (6,009)	\$ (1,489)	\$ (1,271)	\$ (1,011)	\$ (771)
Depreciation	6,743	6,896	7,282	7,232	7,146
Amortization	372	344	380	380	254
Interest	6,812	6,162	6,608	6,358	6,206
Loss on refunding	2,770	-	-	-	-
Proceeds from entrance fees, existing units, net	5,349	5,462	5,573	5,686	5,794
Amortization of entrance fees	<u>(4,044)</u>	<u>(4,601)</u>	<u>(5,112)</u>	<u>(5,153)</u>	<u>(5,200)</u>
Revenues available for debt service	<u>\$ 11,993</u>	<u>\$ 12,774</u>	<u>\$ 13,460</u>	<u>\$ 13,492</u>	<u>\$ 13,429</u>
Maximum annual debt service (1)	<u>\$ 8,489</u>	<u>\$ 8,490</u>	<u>\$ 9,411</u>	<u>\$ 9,411</u>	<u>\$ 9,411</u>
Debt service coverage ratio (2)	<u>1.41</u>	<u>1.50</u>	<u>1.43</u>	<u>1.43</u>	<u>1.43</u>
Days Cash on Hand					
Total expenses	\$ 45,018	\$ 46,070	\$ 48,211	\$ 48,927	\$ 49,577
Less:					
Depreciation	6,743	6,896	7,282	7,232	7,146
Amortization	<u>372</u>	<u>344</u>	<u>380</u>	<u>380</u>	<u>254</u>
Total cash operating expenses	37,903	38,830	40,549	41,315	42,177
365/366 days	<u>365</u>	<u>365</u>	<u>365</u>	<u>366</u>	<u>365</u>
Daily cash operating expenses	<u>\$ 104</u>	<u>\$ 106</u>	<u>\$ 111</u>	<u>\$ 113</u>	<u>\$ 116</u>
Unrestricted cash and investments:					
Cash and cash equivalents	\$ 2,130	\$ 2,238	\$ 2,325	\$ 2,388	\$ 2,464
Board-designated assets whose use is limited	20,297	26,248	27,594	28,929	30,283
Long-term investments	<u>8,815</u>	<u>8,992</u>	<u>9,171</u>	<u>9,355</u>	<u>9,542</u>
Total unrestricted cash and investments	<u>\$ 31,242</u>	<u>\$ 37,478</u>	<u>\$ 39,090</u>	<u>\$ 40,672</u>	<u>\$ 42,289</u>
Days cash on hand (3)	<u>300</u>	<u>354</u>	<u>352</u>	<u>360</u>	<u>365</u>

Notes:

- (1) The determination of maximum annual debt service in 2017 and 2018 excludes the principal and interest payments on the FNB Note. The determination of maximum annual debt service in 2019 excludes \$5,000,000 of principal payments made on the FNB Note in 2019 using the proceeds from entrance fees.
- (2) The debt service coverage ratio is calculated by dividing revenues available for debt service by maximum annual debt service.
- (3) Days cash on hand is calculated by dividing unrestricted cash and investments by daily cash operating expenses.

MISCELLANEOUS

The Corporation has furnished the information in this Official Statement under the caption “THE CORPORATION” and in Appendix A hereto. The Authority has furnished the information in this Official Statement under the caption “THE AUTHORITY”. The Underwriters have furnished the information in this Official Statement with respect to the public offering prices of the Bonds and the information under the caption “UNDERWRITING.”

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact and no representation is made that any of the estimates will be realized.

Use of the words “shall,” “will,” “must,” or other words of similar import or meaning in summaries of documents or law in this Official Statement (including the appendices hereto) to describe future events or continuing obligations is not intended as a representation that such event will occur or such obligations will be fulfilled, but only that the document or law requires or contemplates such event to occur or such obligation to be fulfilled.

The Authority and the Corporation have approved this Official Statement and authorized its use prior to delivery of the Bonds.

LANCASTER COUNTY HOSPITAL AUTHORITY

By: _____
Title:

BRETHREN VILLAGE

By: _____
Title:

APPENDIX A
BRETHREN VILLAGE

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BRETHREN VILLAGE

History and Background

Brethren Village (“Brethren Village” or the “Village”) was initially incorporated in Pennsylvania as the “Home for the Homeless of the German Baptist Brethren Church” by charter dated February 15, 1897. Over the years and in several phases, the Village constructed a retirement community (the “Community”) which currently serves more than 1,050 residents on an approximately 96-acre campus in Lancaster County, Pennsylvania.

The Village’s continuing mission is to provide a continuum of care, based on conservative Christian values and to enhance the spiritual, physical, social and emotional wholeness of residents, staff and community. Brethren Village believes in the dignity and worth of each individual and the need to retain one’s own personal identity and independence, and is dedicated to providing a gracious environment for individuals in their retirement years, as well as meeting the needs of the aging in the community at large. The facilities and programs are open to all without regard to race, color, gender, national origin or religion.

General

Brethren Village is located on an approximately 96-acre campus along Lititz Pike (Route 501) in Manheim Township, Lancaster County, Pennsylvania, 35 miles southeast from downtown Harrisburg, Pennsylvania and 75 miles west of Philadelphia, Pennsylvania. Brethren Village is currently comprised of 505 independent living apartments, 141 personal care units, 120 nursing beds, and common areas. The Village is a charitable organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and therefore exempt from federal income taxation under Section 501(a) of the Code.

Rehabilitation Center at Brethren Village, LLC (“BV Rehab”) is a limited liability company whose sole member is Brethren Village. BV Rehab operates a separately licensed 20 bed rehabilitation center on the Brethren Village campus.

Additionally, there are 120 apartments on land adjacent to the Village’s campus which are subsidized by the United States Department of Housing and Urban Development (“HUD”). The HUD-subsidized apartments are owned by Brethren Services, Inc. and Brethren Services II, Inc., (collectively the “HUD Affiliates”) both of which are affiliates of Brethren Village. The HUD Affiliates are not responsible for the payment of debt service on the Series 2015 and Series 2017 Bonds and the HUD-subsidized apartments will not be subject to the Mortgage.

Brethren Village Realty LLC (“BV Realty”), a limited liability company whose sole member is Brethren Village, owns and leases a condominium unit on a tract of land contiguous to the Village’s campus. BV Realty is not responsible for the payment of debt service on the Series 2015 and Series 2017 Bonds.

The Brethren Village Obligated Group (“Obligated Group”) is comprised of Brethren Village and BV Rehab. Neither the HUD Affiliates nor BV Realty are members of the Obligated Group. Only the Obligated Group is responsible for the payment of debt service on the Series 2015 and Series 2017 Bonds.

Board of Directors

The business and affairs of Brethren Village are directed by its Board of Directors (the “Board”) which, under the Village’s by-laws, is to be composed of not more than 15 qualified women and men (“Directors”). A simple majority of the Directors shall be members of the Church of the Brethren, live in the Atlantic Northeast District and have an interest in the operations and well-being of the Community. There presently are eleven members serving on the Board. Directors serve three-year terms and, insofar as possible, elections are arranged so that the terms of approximately one-third of the members expire each year. Directors may serve an unlimited number of terms and do not receive compensation for their service.

The Board meets bi-monthly and has the following Committees:

- Executive Committee
- Finance Committee
- Vision and Strategy Committee
- Directors Committee
- Development Committee

The current Directors, their principal occupations and committee membership are set forth below.

<u>Board Member</u>	<u>Role</u>	<u>Occupation</u>	<u>Member Since</u>	<u>Committee Membership</u>
Steven L. Faus	Chair	President – The Hess Agency	2002	Executive, Finance, Visions and Strategy, Directors, and Development
J. Eric Brubaker	Vice Chair	Owner – Brubaker Building Design	2014	Executive and Development
Douglas F. Deihm	Treasurer	Partner – Trout, Ebersole & Groff, LLP	2009	Executive and Finance
Alan R. Over	Secretary	Retired - VP Commercial Relationship, Mgr. – Susquehanna Bank	2009	Executive, Finance, Directors and Development
Carol D. Hess	Asst Sec/ Treas	VP Human Resources – Lutheran Social Services of South Central PA	2008	Executive and Vision & Strategy
John W. Biemiller	Director	Executive VP & COO – EDC Finance Corporation	2014	Finance and Directors
Joanne C. Eshelman	Director	Director of Community – Relations/Wellspan Ephrata Community Hospital	2014	Vision & Strategy
John H. Gibbel	Director	Owner – Home Instead Senior Care	2015	Vision & Strategy
Stephen D. Leaman	Director	President of Clark Associates – Restaurant Store	2015	Development

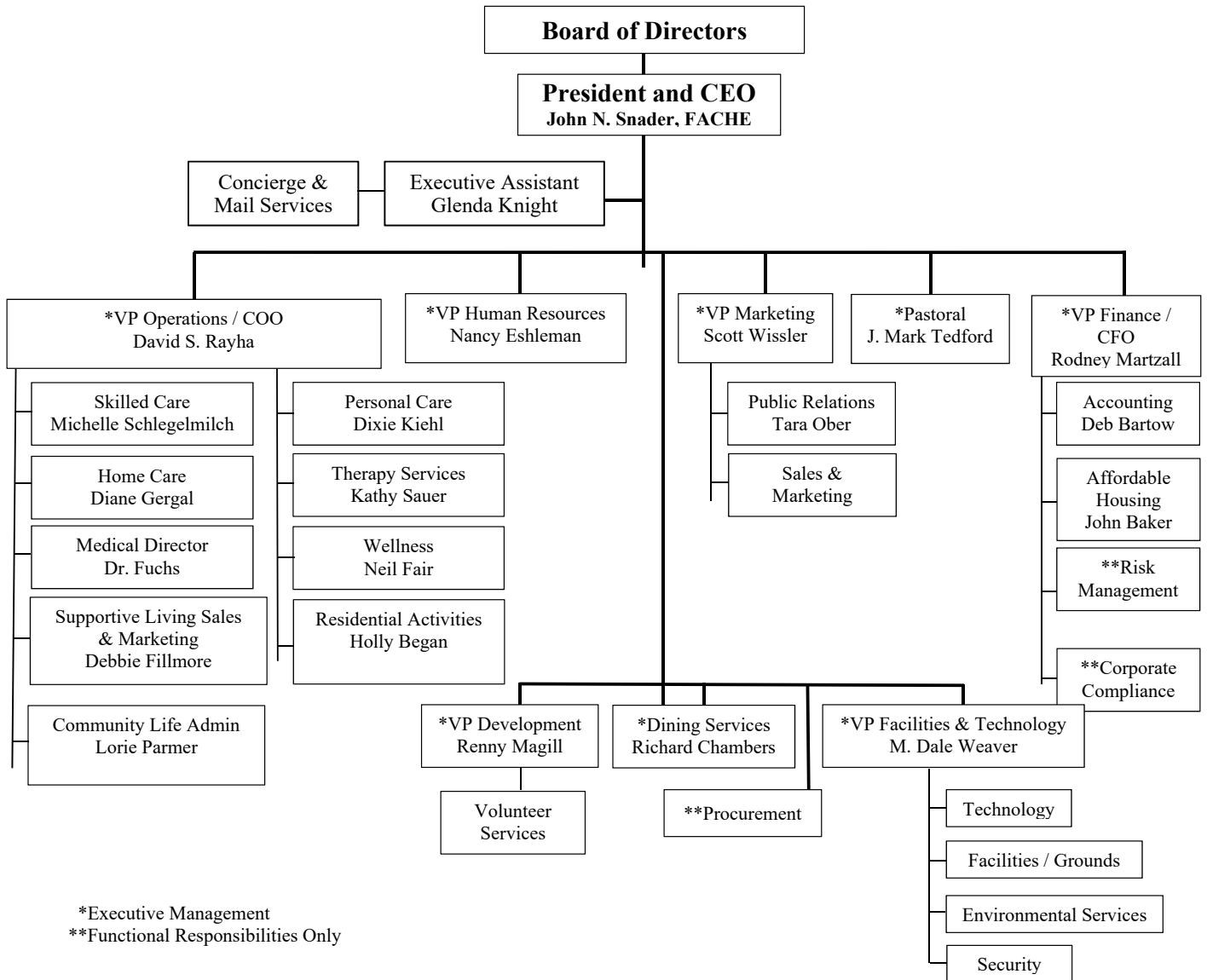
<u>Board Member</u>	<u>Role</u>	<u>Occupation</u>	<u>Member Since</u>	<u>Committee Membership</u>
Heather H. Landram	Director	Community Action Program of Lancaster	2016	Directors
Stephen E. Wenzel	Director	Vice President - BB&T Wealth	2016	Finance

Conflicts of Interest Policy

From time to time, the Village conducts business transactions with organizations or corporations with which one or more members of the Board may be affiliated. The Village has a conflict of interest policy which requires that any such duality of interest or possible conflict of interest on the part of any member of the Board be disclosed and be made a matter of record. In addition to disclosure, the policy requires that additional specified steps be taken, as appropriate, to assure that the conflict does not impact objective deliberation or vote.

Management

The following chart shows the management structure for the Village:



The Management of the Village carries out the policies of the Board and members of the Management team report to the Board on a regular basis. The Senior Management of the Village is currently comprised of the following individuals:

John N. Snader, President & CEO

Serving as Brethren Village President and Chief Executive Officer, Mr. Snader is responsible for direct planning and coordination of the continuing care facilities and health care facilities at the Village. Mr. Snader began his employment at the Village in 2012 after having served as Sr. Vice President for Customer Experience at Ephrata Community Hospital. Mr. Snader is a graduate of Elizabethtown College with a degree in Political Science, and he earned an MBA at Saint Joseph's University in Philadelphia. He is a Fellow of the American College of Healthcare Executives and is a Fellow of the College of Physicians of Philadelphia. He is an adjunct faculty instructor in Saint Joseph University's graduate health care administration program, and has also been a lecturer at the University of Pennsylvania, Saint Joseph's University and Pennsylvania State University, in both the undergraduate and graduate schools.

David Rayha, Vice President of Operations / COO

Mr. Rayha, NHA, joined Brethren Village as Vice President of Operations in 2012, and is responsible for Skilled Care, Personal Care, Home Care, Rehabilitation Services and the Resident & Community Support team. Mr. Rayha holds an undergraduate degree from York College of Pennsylvania, and a Masters in Public Administration with a concentration in Health Care Management from Pennsylvania State University.

Rodney Martzall, Vice President of Finance / CFO

Mr. Martzall joined Brethren Village in July 2015. Mr. Martzall came to Brethren Village from Baker Tilly Virchow Krause, LLP (formerly ParenteBeard LLC), where he served as Senior Manager. During his time at Baker Tilly, he managed audit and review engagements for various clients with a focus on the senior living and not-for-profit industries. Mr. Martzall graduated from Elizabethtown College in 1993 with a BS in Accounting. He is a Certified Public Accountant and is a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants.

Debra Bartow, Director of Accounting

Ms. Bartow, who joined Brethren Village in November 2007, serves as the Director of Accounting and oversees the Accounting functions, prepares the monthly financial reporting for the Board and internal management, and coordinates the Financial Audit, Actuarial Studies, Cost Reports and Tax reporting for Brethren Village. Ms. Bartow, licensed as a certified public accountant, holds a B.S. degree from Pennsylvania State University

Renny Magill, Vice President of Development

Mr. Magill joined Brethren Village in May 2015. As Vice President of Development, he is responsible for the fundraising activities of the Village, including, but not limited to, the Annual, Special Events (Good Samaritan Banquet and Golf Tournament), planned giving, charitable gift annuities and capital campaigns. He also has responsibility for volunteers and acts as the chief liaison between Brethren Village and industry organizations (LeadingAge, LeadingAge PA) and legislative relationships. Prior to joining Brethren Village, Mr. Magill was Vice President of Development at Tel Hai Retirement Community. He has 15 years of fundraising experience in not-for-profit organizations. A Certified Fund Raising Executive (CFRE), Mr. Magill is a graduate of Asbury College and holds an MFA from Pennsylvania State University.

Nancy Eshleman, Vice President of Human Resources

Ms. Eshleman joined Brethren Village as Vice President of Human Resources in December 2013. She is responsible for providing leadership for HR processes and practices including staff recruitment and

employment, professional development, talent management, communications, compensation, benefits, and recognition. Ms. Eshleman holds an undergraduate degree from Alfred University and a Masters in Industrial and Labor Relations from Cornell University.

Scott Wissler, Vice President of Sales & Marketing

Mr. Wissler joined Brethren Village in 1999, and is responsible for residential sales, and coordinating the marketing and public relations efforts of the Village. He holds an undergraduate degree in Business Administration and Marketing from Elizabethtown College.

Mark Tedford, Director of Pastoral Services

Mr. Tedford joined Brethren Village in 1993 as Associate Pastor and became Director of Pastoral Services in 2005. As Senior Chaplain and Director of the department, he oversees all pastoral ministries, which provide spiritual assistance to all Residents. Mr. Tedford holds a Master's degree from Westminster Theological Seminary.

M. Dale Weaver, Vice President of Facilities & Technology

Mr. Weaver, who joined Brethren Village in July 2014, serves as the Vice President of Facilities & Technology. In this role, he is responsible for Grounds, Housekeeping, Laundry, Maintenance, Security and Transportation teams, as well as the strategic advancement, directing, coordinating, planning and operations of technology functions. Mr. Weaver is a graduate of Grove City College with a degree in Electrical Engineering and he earned a Master's of Business Administration from Pennsylvania State University.

Glenda Knight, Executive Assistant

Mrs. Knight joined the Village as Executive Assistant in 2006, and serves as the personal assistant to the President and CEO. In addition, Mrs. Knight assists the Vice Presidents of Operations, Finance, and the Board of Directors. Administrative responsibilities also include oversight of the concierge and mail services at Brethren Village.

Licensure, Accreditations and Affiliations

Brethren Village is certified by the Pennsylvania Department of Insurance as a continuing care retirement community and is a member of LeadingAge, LeadingAge PA, the Fellowship of Brethren Homes and the Association of Brethren Caregivers (ABC). The Village's nursing beds are licensed by the Pennsylvania Department of Health; personal care units are licensed by the Pennsylvania Department of Human Services; and the home care agency is licensed by the Pennsylvania Department of Health. In addition, BV Rehab's rehabilitation beds are licensed by the Pennsylvania Department of Health.

The Village currently has a 4 star rating from Medicare with respect to its 120 bed nursing facility. The Village is currently within its survey window and there is no guaranty that such rating will be maintained. The BV Rehab beds have not been in operation long enough to have received a Medicare rating. Information regarding the Medicare star rating system is available at www.medicare.gov/nursinghomecompare.

In addition, the Village is a shareholder of KAIROS (Managed Care cooperative). The Village is also a member of the Anabaptist Providers Group (APG – Compliance Review cooperative).

As part of a strategic plan initiative to explore and cultivate, when appropriate, other senior housing providers, long-term care providers and other organizations that are aligned with Brethren Village's mission, vision and values who can enrich the lives of Brethren Village's Residents and/or Team Members, the Village, along with 12 other Anabaptist Provider Group members, formed Anabaptist

Providers Group Post Acute Network (“APG PAN”). The purpose of this organization was fourfold: (1) to create a regional post-acute care system; (2) to enhance financial advantages for participants; (3) to collaborate with an experienced partner to provide a fuller continuum of services to meet the needs of seniors and long-term care residents; and (4) to continue to create opportunities to be nimble collaborators in a fast changing post-acute care world.

In 2015, Brethren Village contributed \$34,000 in capital to form Anabaptist Provider Group Post Acute Network, which, in turn, formed a joint venture with Covenant Health Alliance, a Phoenix-based, not-for-profit post-acute managed care organization, in forming Covenant Health Alliance of Pennsylvania (“CHAPa”).

Operations of APG PAN and CHAPa are financed through revenues generated by managed-care contracts and rebates that flow through Alliance Purchasing Network, a group purchasing organization operated by Covenant Health Network.

Brethren Village will continue to explore opportunities to collaborate in ways that enhance quality, improve access and reduce costs consistent with BV’s commitment to its vision, mission and values.

Employees

As of January 31, 2017, the Village had approximately 521 employees (394 full-time-equivalents). None of the Village’s employees are represented by a collective bargaining unit and management is not aware of any current efforts to establish a collective bargaining unit for its employees. Management considers its employee relations to be good. Historically, the Village has not experienced significant difficulties in attracting and retaining employees.

The Community – Description and History of Development

Brethren Village is a continuing care retirement community (CCRC) located on 96 acres in Lancaster, Pennsylvania, which has been providing care to seniors for 120 years.

Throughout its history, Brethren Village has grown through a number of additions and renovations. The original building, Founders Hall, which was built in 1910, was ultimately replaced as part of a campus repositioning begun in 2008. Substantial growth to the campus occurred from 1975 through 1993 with the completion of a health care center, Village Manor, Terrace Apartments, Oakwood House, Village Townhouse and Fieldcrest I, as well as multiple cottages.

Growth has continued over the past decade. From 2008 through 2010, Brethren Village added 135 residential (independent living) apartments, 36 personal care units, 25 memory support personal care units and a 120-bed replacement healthcare center (Courtyards) which delivers care in a home-like environment in six households. The 2008 expansion also included a new Welcome Center, which includes a 225-seat auditorium.

In 2014, Brethren Village constructed 13 new residential living cottages, complementing the residential living apartments added in 2008.

In 2015, Brethren Village renovated an existing, vacant apartment building for the creation of a 20-bed dedicated short term rehabilitation facility to serve the Community’s own residents as well as individuals from the greater community. This included construction of a connector between the new rehabilitation facility and the existing skilled care nursing building, and purchasing and installing related fixtures, furnishings and equipment (the “Rehabilitation Facility Project”). Brethren Village also undertook the

upgrade or replacement of various infrastructure or systems integral to its operation. This included: (1) upgrading and connecting the heating, ventilating and air conditioning systems in existing apartment buildings with the central plant and upgrading the central plant to increase its capacity; (2) upgrading, replacing and expanding the coverage of the onsite wireless data and internet system and wireless emergency call system, and purchasing and installing other technology improvements, including new hardware and software for the onsite point-of-sale terminals; (3) purchasing and installing new, replacement beds for the skilled nursing care center; (4) upgrading and renovating the existing personal care facilities and purchasing and installing related fixtures, furnishings and equipment; and (5) upgrading and renovating the “Village Center,” “Oakwood House,” and “Village Manor” buildings.

As discussed in further detail under the heading “Northside Court Independent Living Expansion Project,” the Village has now undertaken a project consisting of the construction of 72 additional independent living apartments and outdoor gathering spaces.

Campus amenities include the following:

- 14 dining venues under the management of Sodexo Senior Services
- Home Care services
- Physical, Occupational, and Speech Therapy under the management of Alliance Therapies
- Pharmacy Services
- Wellness programming which includes two fitness centers and a therapy pool
- Child Day Care under the management of U-Gro Learning Centre
- BVTv, BV Phone, and BV Internet services
- Banking services
- 3 Beauty/Barber Shops
- 27-seat theatre room
- Interdenominational Chapel and Pastoral Services
- Creative Arts Room, Resident Workshop, Model Train and Railroad Room
- Two Medical Suites utilized for medical, podiatry, hematology, and audiology services
- 24-hour campus security
- Guest Room
- Gift Shop, Libraries, Thrift Shop, Village Grocery Stores operated by the Village’s Auxiliary

Two HUD-subsidized apartment buildings (the “HUD Buildings”), each owned by an affiliate of the Village (collectively, the “HUD Affiliates”), are located on two separate five-acre lots adjacent to the Village’s campus. The HUD Affiliates and the Village share the same board members. Each of the HUD Buildings contains 60 studio and one bedroom apartments for the elderly or handicapped. The first HUD Building was constructed in 1990 and the second was constructed in 2007. Utility and road easements have been created to permit each of the HUD Buildings to operate independently if necessary. The Village has no responsibility to provide funds for the operations of the HUD Buildings or the payment of their debt, and similarly the HUD Affiliates have no obligation to provide payments for operations of the Village or for the debt service on the Bonds or other indebtedness of the Village.

Unit Mix and Pricing

The current Community unit mix, size and fees are as follows:

<u>Unit Type</u>	<u># of Units</u>	<u>Entrance Fees</u>		<u>Monthly Service Fees</u>			
		<u>0% Refund</u>	<u>90% Refund</u>	<u>Traditional</u>	<u>Modified</u>	<u>Lifecare</u>	<u>Rental</u>
Apartments:							
Studio (320 - 594 sq ft)	34	\$31,000 - 61,500	\$81,800 - 98,400	\$806 - 981	\$1,100 - 1,190	\$2,041 - 2,131	\$1,156 - 1,673
One Bedroom (548 - 900 sq ft)	175	\$61,500 - 127,000	\$98,400 - 203,200	\$981 - 1,132	\$1,190 - 1,341	\$2,131 - 2,282	\$1,673 - 2,076
One Bedroom with Den (995 - 1256 sq ft)	19	\$143,600 - 160,100	\$229,800 - 256,200	\$1,205 - 1,399	\$1,414 - 1,608	\$2,355 - 2,549	N/A
Two Bedroom (950 - 1700 sq ft)	172	\$116,800 - 226,300	\$221,000 - 362,100	\$1,205 - 1,667	\$1,414 - 1,876	\$2,355 - 2,817	N/A
Cottages (776 - 2236 sq ft)	105	\$88,800 - 327,500	\$142,100 - 524,000	\$1,072 - 1,933	\$1,281 - 2,142	\$2,222 - 3,083	N/A
2nd Person fee		N/A	N/A	\$261	\$470	\$994	\$261

Historical Occupancy

The following table shows the average occupancy for the Community for the past four fiscal years as well as the seven month period ending January 31, 2017:

<u>Historical Occupancy</u>	<u>Fiscal Year Ended June 30,</u>				<u>Seven Months Ended January 31, 2017</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	
Residential Living	93.16%	95.64%	95.64%	95.45%	96.38%
Personal Care	97.86%	97.86%	96.45%	96.45%	96.11%
Healthcare	97.50%	98.33%	98.35%	98.33%	97.06%
Rehabilitation Center ¹	N/A	N/A	N/A	40.00%	63.05%
Total	94.69%	96.47%	96.22%	96.08%	95.59%

1. As previously noted, the Rehabilitation Center opened in May 2016

The above occupancy percentages reflect occupied units only. The Community also commonly has a number of units that, while not occupied, are reserved for occupancy by new residents (along with payment of deposit to hold the unit). New residents are often drawn from a waiting list, currently comprised of approximately 662 applicants, maintained by the Community.

Turnover in Independent Living

The following table shows historical turnover in independent living units for the Community for each of the past four fiscal years.

	<u>Fiscal Year Ended June 30,</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unoccupied Units, Beginning of Year	36	35	22	27
New Vacancies During Year	54	50	55	49
New Move-Ins	55	63	50	52
Unoccupied Units, End of Year	35	22	27	24
Reason for Turnover:				
Death of Resident	18	19	18	15
Permanent Transfer to Nursing Facility	34	30	34	32
Other	2	1	3	2

Healthcare Payor Mix

Revenue for residential and nursing services is derived from a variety of sources. Revenue for residential living residents is entirely private pay. Revenue for personal care residents is primarily private pay, though some residents who are unable to pay the full charge for their unit may receive a “special rate” which is based on the methodology for the federal Supplemental Security Income (SSI) program or may apply for SSI. Revenue for nursing services consists of private pay as well as Medicare, Medicaid and managed care/other sources.

Below is a chart setting forth the distribution of revenue for personal care and health care services by payor source for the past four fiscal years as well as year-to-date through January 31, 2017:

Payor Mix	<u>Fiscal Year Ended June 30,</u>				<u>Seven Months</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Ended</u>
					<u>January 31, 2017</u>
Personal Care:					
Private Pay	75.57%	82.10%	80.72%	80.39%	78.42%
Lifecare	1.23%	4.80%	4.14%	5.26%	5.18%
Special Rate	17.06%	9.58%	12.48%	12.88%	15.19%
SSI	6.14%	3.52%	2.66%	1.47%	1.21%
Healthcare:					
Private Pay	47.64%	49.36%	51.88%	47.81%	49.88%
Medicare	11.26%	8.59%	9.08%	8.18%	3.29%
Medicaid	37.60%	35.42%	31.99%	37.90%	42.10%
Lifecare ⁽¹⁾	3.50%	6.63%	7.05%	6.11%	4.73%

Payor Mix	Fiscal Year Ended June 30,				Seven Months
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Ended January 31, 2017</u>
Rehabilitation:					
Private Pay	N/A	N/A	N/A	5.36%	8.93%
Medicare	N/A	N/A	N/A	91.07%	83.14%
Other	N/A	N/A	N/A	3.57%	7.93%

(1) As part of adding 135 new residential living units in 2009, the Village began offering Type A (Lifecare) contracts. In the ensuing years, residents who entered the Village under such contracts became in need of healthcare services; hence, the increasing life care percentages.

Marketing

Brethren Village uses a dual marketing and sales strategy focused on branding itself as the “Trusted Advisor” and delivering on that promise by offering “More Choices ... Your Choices” throughout the sales cycle. The Community’s marketing and sales strategy includes advertising, direct marketing, educational and social events, web content/social media and various promotional programs to lead its prospects through the awareness, visiting, applying and moving decision points. In its marketing, the Community leverages its location, vast array of products/services/financial plans, and the long history of the organization.

Admissions

Admission to independent living units is open to any person, 62 years of age or older (in the case of a couple, only one must meet this age requirement and the spouse must be at least 55 years of age or older) and demonstrates financial ability to meet asset and monthly income requirements. Persons may enter directly into personal care units or nursing beds on a per diem stay. The admission policies are non-discriminatory (except as to age and financial ability, and acuity of care if seeking a lifecare contract).

As of February 28, 2017, the Community has 662 applicants on its “wait list” for admission to independent living. These applicants have completed a preliminary application, including unit type preference and estimated date of entry and have paid a \$100 non-refundable application fee. Of those 662 applicants, there are 12 applicants who have paid a 5% deposit on an existing independent living unit and have received approval for admission, another 47 applicants who have paid a 10% deposit on a Northside Court apartment, another 2 who have a Northside Court reservation scheduled for March, and another 4 who have verbally committed to the Northside Court Project. The remaining 597 applicants are awaiting apartments that meet their timeframe, needs and preferences.

Residency Agreements and Entrance Fees, Monthly Fees and Other Charges

Upon entry into a cottage or apartment unit at the Village, residents pay a one-time, lump sum entrance fee (“Entrance Fee”) based on the type of apartment or cottage selected. If two people occupy an apartment or cottage, currently no additional Entrance Fee is required for the second resident. In addition to the Entrance Fee, residents pay a monthly service fee (“Monthly Fee”) and receive a package of services. The amount of the Monthly Fee paid by a resident is dependent upon the type of apartment or cottage selected, the number of residents to be occupying the unit and the type of contract selected (see “Monthly Fees” below).

The Village also offers a rental option with no Entrance Fee for certain apartments.

Entrance Fees. The Village currently offers a 90% refundable contract or a non-refundable contract. At various times, the Village has offered other refundable contracts which have ranged from 15% to 95% refundable. The refundable contracts have a guaranteed refund component and a non-refundable component. The non-refundable component, depending upon the terms of the contract, may not be refundable or may be refundable on a decreasing basis over a period of up to 5 years.

For all contracts executed before July 1, 2011, except the contracts related to the residential living apartments placed in service during 2009, refunds to residents are generally paid at the time of resale of the residential living unit. For resident contracts related to the residential living apartments placed in service during 2009 and for all other resident contracts executed after July 1, 2011, refunds to residents are generally paid only after the resident is no longer a resident of the Village and after the resale of the residential living unit.

The following table shows as of January 31, 2017 the number of independent living residents selecting each plan:

	Entrance Fee Plans - Minimum Refund Levels							Rental - no EF
	0%	15%	25%	40%	50%	90%	95%	
Studio	22	-	1	-	-	1	-	6
One Bedroom	118	-	10	-	1	25	5	10
One Bedroom w/Den	4	-	-	-	-	6	8	-
Two Bedroom	92	-	7	-	5	42	23	-
Cottage	<u>70</u>	<u>9</u>	<u>9</u>	<u>12</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total	306	9	27	12	6	75	36	16

Monthly Fees. The Village offers three types of contracts for residential living units placed in service since 2009: a “fee-for-service” contract; a “lifecare” contract; and a “modified lifecare” contract. The Monthly Fee depends on the type of contract selected and the unit in which the residents reside. An additional Monthly Fee is payable for a second resident in a residential living unit.

Under the fee-for-service contract, residents pay the current rate in effect based upon the unit and the level of care (independent living, personal care, rehabilitation, or skilled nursing) in which they reside. Under the lifecare contracts, residential living residents are entitled to personal care or skilled nursing care, as needed, at a reduced daily rate upon permanent transfer to those levels of care. Under the modified lifecare contract, residential living residents are entitled to a \$1,000 benefit per month, to a maximum of \$60,000, for personal care or skilled nursing care upon permanent transfer to those levels of care. Following the utilization of the \$60,000 benefit, personal care or skilled nursing care, as needed, is paid on a “fee-for-service” basis.

The Monthly Fee covers basic services, including:

- unit maintenance, including snow removal
- utilities (effective July 1, 2015, telephone, cable television & internet services are included)
- scheduled campus shuttle service and shopping trips
- a 24-hour emergency call system and security staff
- wellness programs, including heated indoor pool and fitness rooms
- various recreational, educational, cultural and social programs

Fees for Optional Services. Optional services are available for a fee to residential living unit residents, including housekeeping, beauty salon, laundry service for personal items, catering for special occasions, additional and guest meals and home health services.

Rate Increases. The Board reviews its entrance and monthly fee options annually, raising fees when appropriate for reasons ranging from inflation to covering certain identifiable expenses necessary to successfully operate the Community. Included below is a table illustrating the Village’s historical rate increases for independent living for the current and past five fiscal years:

<u>Fiscal Year Ended June 30</u>	<u>Monthly Fee Increase</u>	<u>Entrance Fee Increase</u>
2012	0% or 3.75% depending upon contract	5.00% for large units; 0% for all others
2013	2.00% or 3.75% depending upon contract	1.50% - Apartments 5.00% - Cottages
2014	3.50%	1.50%
2015	3.75%	3.00%
2016	3.75%	2.00%
2017	3.25%	2.00%

Termination and Refunds

Termination Prior to Occupancy. Prior to occupancy, a prospective resident may terminate his or her Reservation Agreement or Residency Agreement and withdraw his or her deposit in full within seven days of executing such Reservation Agreement or Residency Agreement. Following the seven-day rescission period, a prospective resident may terminate his or her Reservation Agreement or Residency Agreement prior to occupancy for any reason. Such a prospective resident will receive a refund of the Reservation Deposit and any Entrance Fee paid, with interest, within 30 days of termination; provided that except in cases of death or a change in health status preventing them from living independently, a \$250 administrative fee will be deducted.

Termination After Occupancy. A Residency Agreement may be terminated by the resident at any time by providing 30 days written notice of such termination to the Village. If two residents occupy an independent living unit, and one of the residents terminates the Residency Agreement and the other resident chooses to remain in the independent living unit, the Monthly Service Fee will be adjusted for single occupancy. In any case, residents are not eligible for a refund of the Entrance Fee until termination by both residents.

The Village may terminate a Residency Agreement (i) upon a resident’s death, if such resident is the only resident under the Residency Agreement, and upon the death of the surviving resident, if there are two residents; (ii) for medical reasons, including, but not limited to the following: a serious threat or danger to the life, health, or safety of resident or the life, safety or peaceful enjoyment of other residents or persons. (iii) for non-medical reasons, including, but not limited to the following: (a) a material misrepresentation or omission in the confidential data profile or related materials, (b) failure to comply with the policies of the Village or resident creates a situation detrimental to resident’s health or safety or the quiet enjoyment of the Village or that of other residents or the staff of the Village; (c) resident filing for protection under the bankruptcy laws of the United States, under any chapter, or conveyance of all resident’s assets for the benefit of creditors, or resident involuntarily files for bankruptcy law protection; (d) resident fails to pay the Monthly Service Fee or other amounts owed to the Village when due unless other mutually satisfactory arrangements have been made, and subject to any subsidy provided by the Village in accordance with the provisions of Residency Agreement; (e) resident materially breaches the terms or conditions of the Residency Agreement; (f) resident’s independent living unit is no longer fit for

occupancy and the Village elects not to restore the unit to a habitable condition; (g) resident's assets are transferred for less than fair market value or the size of resident's estate is reduced if the result is to compromise resident's ability to pay amounts due the Village.

Refund of Entrance Fees After Occupancy. The refund will be due upon the later of: (a) the effective date of the termination of the Residency Agreement; or (b) the date a new resident deposit is received by Brethren Village from a new resident and the new resident has taken occupancy of the independent living unit; or (c) the date on which Resident is permanently discharged or transferred from or permanently leaves the Village, including personal care and healthcare.

Residents may elect to move to another independent living unit, at their own expense, subject to availability. In such event, the Residency Agreement in force will be terminated and a new Residency Agreement will be executed. The resident will pay the then-current Entrance Fee and Monthly Service Fees for the new independent living unit. Any Entrance Fee refund due on the independent living unit will be paid subject to the terms of the prior agreement.

Actuarially Funded Status/Future Service Obligation

As a result of the introduction of lifecare and modified lifecare contracts during 2009, Brethren Village engages an actuary to calculate the present value of the net cost of future services and the use of facilities to be provided to current residents. The scope of the actuarial services includes formulation of demographic and economic assumptions including mortality rates, morbidity rates, transfer and withdrawal rates, which are applied to the current resident population in order to track the resident movements through various levels of care until death or move-out. The future service obligation calculation is used to determine whether a future liability exists which must be recognized. The liability was estimated to be \$-0- and approximately \$4,537,000 at June 30, 2016 and 2015, respectively.

Competition

General Market Area Analysis. The Village is located on an approximately 96-acre site along Lititz Pike (Route 501), Airport Road and Oregon Road (Route 722) in Manheim Township, Lancaster County, Pennsylvania. The site is located in southcentral Pennsylvania, approximately 35 miles southeast from downtown Harrisburg and 75 miles west of Philadelphia. Lancaster County is the sixth largest County in Pennsylvania and has a rich history in providing campus-style senior living services.

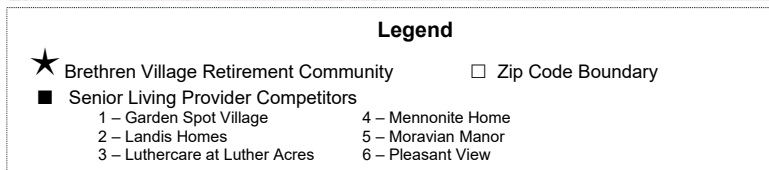
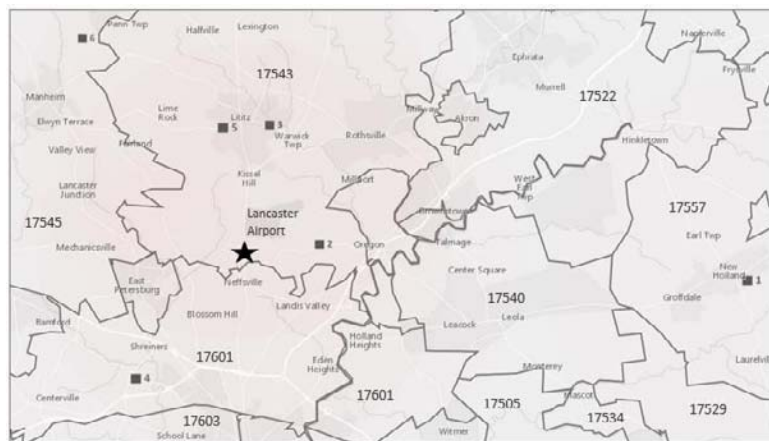
Competitive Communities. Prospective residents typically consider a number of communities located within the market area surrounding Brethren Village. The table below provides summary information on those communities considered most frequently by prospective residents applying for residency at Brethren Village.

<u>Senior Living Provider</u>	<u>Distance From Brethren Village</u>	<u>Estimated Number of Units</u>		
		<u>ILU</u>	<u>PC</u>	<u>SNF</u>
Garden Spot Village 433 S. Kinzer Ave. New Holland. PA 17557	14 miles	655	86	73
Landis Homes 1001 East Oregon Road Lititz, PA 17543	3 miles	448	124	103
LutherCare at Luther Acres 600 East Main Street Lititz, PA 17543	6 miles	347	70	106
Mennonite Home ⁽¹⁾ 2001 Harrisburg Pike Lancaster, PA 17601	3 miles	443	160	188
Moravian Manor ⁽²⁾ 300 West Lemon Street Lititz, PA 17543	4 miles	169	54	127
Pleasant View 544 North Penryn Road Manheim, PA 17545	8 miles	152	100	133

(1) An expansion project including 22 villas and 39 apartments is under construction.

(2) An expansion project including 80 carriage and townhomes and a 56-unit apartment building is under construction.

The map below shows the location of the Village’s primary competitors.



Source: ESRI, March 2017

The following table lists additional communities considered by Brethren Village to be secondary competitors:

<u>Senior Living Provider</u>	<u>Distance From Brethren Village</u>	<u>Estimated Number of Units</u>		
		<u>RL</u>	<u>PC</u>	<u>SNF</u>
Homestead Village ⁽¹⁾ 1800 Village Circle Lancaster, PA 17603	5 miles	NA	24	60
Willow Valley ⁽²⁾ 450 Willow Valley Lakes Dr. Willow Street, PA 17584	10 miles	1,535	262	283

(1) An expansion project including 98 new carriage homes is under construction.

(2) An expansion project including 53 apartments is under construction.

NORTHSIDE COURT INDEPENDENT LIVING EXPANSION PROJECT

Planning; General Description

Brethren Village has periodically added additional residential units to meet demand. Over the past 10 years, Brethren Village considered a number of possible uses for 17 undeveloped acres of the Brethren Village campus. Given the continued demand for independent living units, as evidenced by consistently high independent living occupancy and a large wait list for independent living units, the Board ultimately decided to pursue another phase of expansion by adding a senior living component that would optimize the use of this property. The new residential concept developed for the Northside Court Project is targeted toward the incoming Baby Boomer generation. Key considerations during the planning of the project included:

- Changing zoning of 17 acres from Industrial to Institutional to allow for residential housing.
- Designing new apartment styles contained within a small apartment building footprint that includes attached garages and is designed to accommodate “thriving in place.”
- Creating additional outdoor space on Brethren Village’s campus that would also be the impetus to expand outdoor space to the west/rear of the existing Fieldcrest building (i.e. amphitheater, outdoor dining, etc.).
- Creating an urban “face” for Brethren Village’s northern campus.
- Designing apartment buildings that would not significantly impede sight lines from the existing Fieldcrest building.

The Northside Court Project will include:

- Construction of 72 new independent living apartments (to be known as Northside Court) located within 9 two-story apartment buildings on a 17-acre lot.
- Each apartment building will include:
 - 4 ground floor two-bedroom, two bath apartments, each containing 1,240 sq. ft. of living space and a patio.

- 4 second floor apartments with 2 two-bedroom, two bath apartments containing 1,345 sq. ft. of living space and 2 two-bedroom, two bath with den apartments containing 1,428 sq. ft. of living space, each with a balcony.
 - 8 one-car garages (one per apartment) with indoor access through a ground floor hallway.
 - A full service elevator for 2nd floor access.
 - Fully integrated wireless security, emergency response and door access.
 - High end finishes in all apartments.
- An 80' x 900' outdoor promenade containing several gathering/social spaces.

The table below shows the independent living unit configuration of the Community before and after completion of the Northside Court Project:

<u>Unit/Bed Type</u>	<u>Existing Community</u>	<u>Northside Court</u>	<u>Upon Completion</u>
Studio Apartments	34	-	34
One Bedroom Apartments	175	-	175
One Bedroom with Den Apartments	19	-	19
Two Bedroom Apartments	172	-	172
Two Bedroom with Garage Apartments	-	72	72
Cottages	<u>105</u>	<u>-</u>	<u>105</u>
Total	<u>505</u>	<u>72</u>	<u>577</u>

Northside Court Entrance Fees

Entrance Fees for the Northside Court apartments were established using Brethren Village's existing independent living pricing model and evaluating competitors' pricing and are designed to encourage the selection of higher-refund entrance fee plans in order to reduce the financing risk of new construction. The Residency Agreements being offered for the Northside Court apartments include 40%, 60% and 90% refund plans, in contrast to the 0% and 90% refund plans offered for existing independent living units. Northside Court apartment pricing is as follows:

<u>Unit Type</u>	<u>Number of Units</u>	<u>40% Refund Plan</u>	<u>60% Refund Plan</u>	<u>90% Refund Plan</u>
Walden - 1,240 sq. ft. Ground Floor Apt.	36	\$232,500	\$261,500	\$290,500
Hawthorne - 1,345 sq. ft. Second Floor Apt.	18	\$240,500	\$270,500	\$298,500
Crestview - 1,428 sq. ft. Second Floor Apt.	18	\$249,500	\$284,000	\$318,500

Management of the Village projects that between \$17,500,000 and \$18,250,000 will be generated in entrance fees for Northside Court apartments based on a sampling of refund preferences among 50 prospective resident households. A number of prospective residents have indicated that they will likely switch to higher-refund plans after realizing net proceeds from the sale of their existing homes.

Northside Court Monthly Service Fees

Monthly Service Fees for Northside Court apartments were established using Brethren Village’s existing independent living pricing model, evaluating competitors’ pricing, and projecting to July 2018 levels since occupancy is expected to occur between October 2017 and June 2018. Initial Northside Court monthly service fees are as follows:

<u>Unit Type</u>	<u>Number of Units</u>	<u>Fee For Service Monthly Rate</u>	<u>Modified Monthly Rate</u>	<u>Lifecare Monthly Rate</u>
Walden - 1,240 sq. ft. Ground Floor Apt.	36	\$1,452	\$1,668	\$2,644
Hawthorne - 1,345 sq. ft. Second Floor Apt.	18	\$1,545	\$1,761	\$2,737
Crestview - 1,428 sq. ft. Second Floor Apt.	18	\$1,545	\$1,761	\$2,737
2 nd Person Fee		\$271	\$487	\$1,031

When the project is completed, it is projected that approximately \$1,450,000 of annual revenue will be generated through service fees, based on a sampling of service fee preferences among 50 prospective Resident households. The vast majority of prospective residents have indicated they will choose the fee-for-service plan and are 2 person households.

Marketing of Northside Court Project

Northside Court is being marketed as a new Brethren Village residential living choice that is stylish and private due to its design, location and proximity to the rest of the Brethren Village campus, making it a “community within a community.” Northside Court marketing strategies and tactics mirror what Brethren Village uses to market its existing residential units – targeting age and income qualified households with a branded media and public relations campaign, then guiding prospects through the various decision points that are required before becoming a resident, from initial contact with leads, through visits to the Community, the application process and finally move-in.

Brethren Village began marketing the Northside Court Project as it was being presented to municipal authorities for approval and a guaranteed maximum price for construction was being developed. During this timeframe, Brethren Village reached out to its existing waitlist and prospects and secured 50 verbal commitments from prospective residents. The Village began marketing to the general public in September 2016. In order to reserve an apartment in the Northside Court Project, a prospective resident must complete an application and sign a Reservation Agreement accompanied by a deposit equal to 10% of the Entrance Fee on the selected unit. The following table summarizes the number of Northside Court apartments reserved by month.

Month	Number of Apartments Reserved	Cancellations	Cumulative Apartments Reserved	Percentage of Total Units
July 2016	4	0	4	6%
August 2016	6	0	10	14%
September 2016	7	0	17	24%
October 2016	3	0	20	28%
November 2016	3	0	23	32%
December 2016	3	1	25	35%
January 2017	12	0	37	51%
February 2017	10	0	47	65%
March 2017 (through March 10 th)	2	0	49	68%

Four additional prospective residents have verbally committed to the Northside Court Project and have requested that a hold be put on designated units. One of the Northside Court units has been reserved by John Snader, President and CEO of the Corporation, and his wife.

A second 10% entrance fee deposit will be due when prospective residents make personalization selections (kitchen cabinets, flooring, paint, etc.). This process will begin one to two months before construction begins with respect to each building and continue throughout construction as dictated by the construction schedule. The remainder of the Entrance Fee is due prior to move-in. The expected construction schedule is as follows:

Site Work	Start – March, 2017	
Building 1	Start – April, 2017	Occupancy – October, 2017
Building 2	Start – May, 2017	Occupancy – November, 2017
Building 3	Start – June, 2017	Occupancy – December, 2017
Building 4	Start – July, 2017	Occupancy – January, 2018
Building 5	Start – August, 2017	Occupancy – February, 2018
Building 6	Start – September, 2017	Occupancy – March, 2018
Building 7	Start – October, 2017	Occupancy – April, 2018
Building 8	Start – November, 2017	Occupancy – May, 2018
Building 9	Start – December, 2017	Occupancy – June, 2018

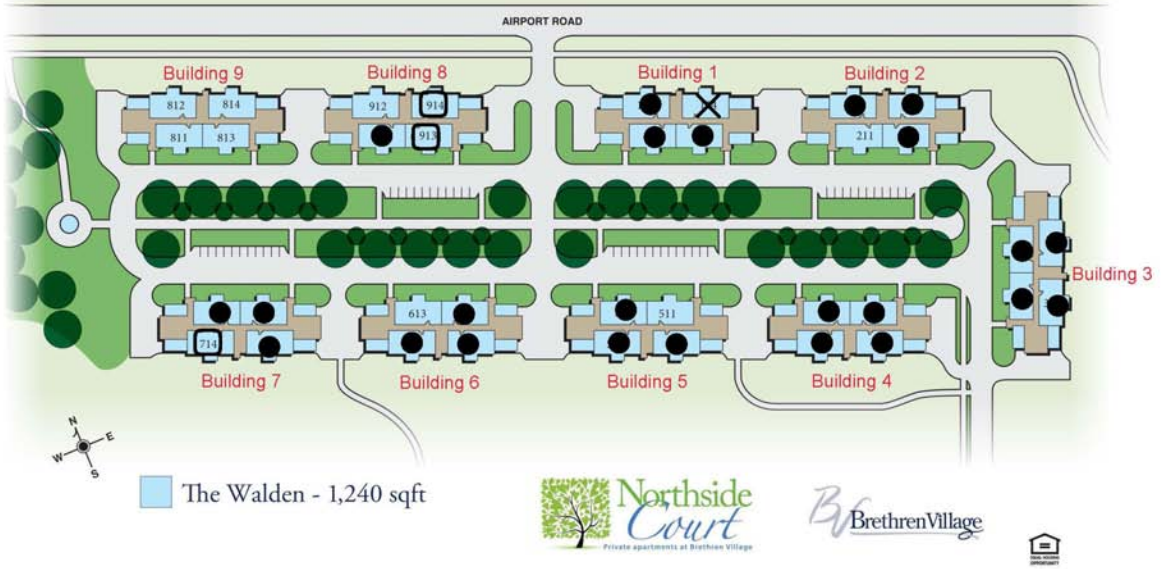
The illustration on the following page indicates the reservation status of the Northside Court units as of March 10, 2017. Of the 39 available units (not including the model unit) in the first five buildings to be constructed, 35 (or 90%) have been reserved with 10% deposits.

● - Deposits received (49)

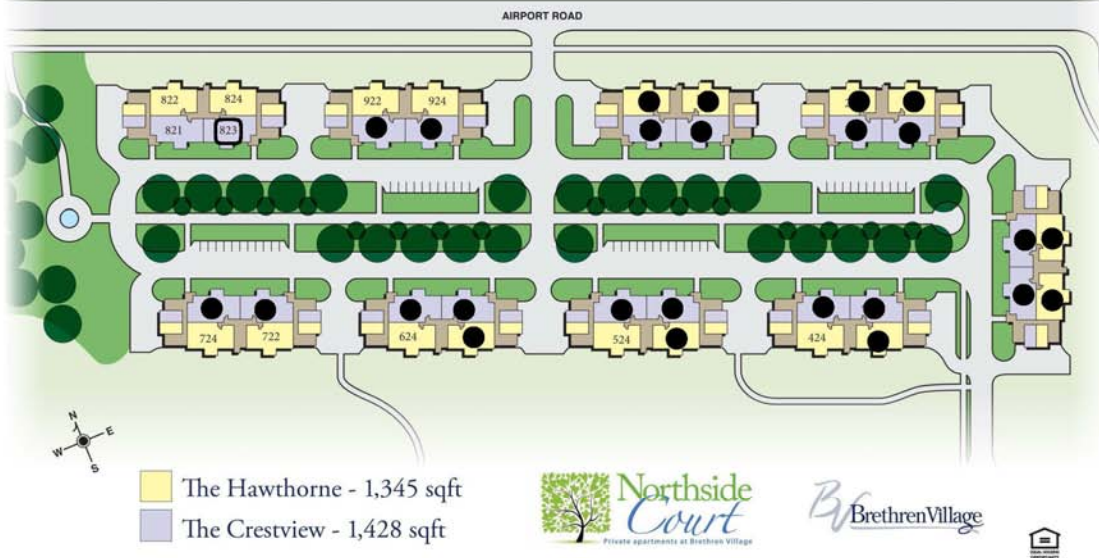
□ - Units on hold (4)

✕ - Model Unit

GROUND FLOOR



SECOND FLOOR



Permits and Approvals

Set forth below is the status of various permits and approvals required in connection with the Northside Court Project.

- Land Development Plan Approval has been obtained from Manheim Township
- NPDES – Soil Erosion Control plan has been accepted
- Water and sewer capacity has been confirmed
- Easements (Sidewalk and Stormwater) have been executed
- PennDot HOP (Highway Occupancy Permit) application is being processed (not required prior to commencing construction)
- Financial security has been posted for site and off-site improvements
- Street name accepted by Lancaster County Wide Communications, Lititz Post Office and Manheim Township. Addresses have been confirmed with Lititz Post Office and Manheim Township Assistant Zoning Officer.
- Impact fees established by Manheim Township have been paid
- Grading permit has been received

All permits and approvals needed to commence construction have been obtained except for building permits, which the Village will obtain with respect to each building in the Northside Court Project prior to commencement of construction of such building.

The Architect

Richard F. Mulá Architects LLC (the “Architect”), founded in 1999, is serving as the architect for the Northside Court Project. Richard F. Mulá, founding principal of the firm, continues to lead the firm’s architectural and planning efforts, including directing the firm’s strategic development and management, design, project management, business development and quality control. Mr. Mulá has 24 years of diverse architectural and multi-discipline experience encompassing design, urban planning, project management, and construction science.

The Architect has designed continuing care retirement communities for 20 years, including independent living cottages and apartments as well as assisted living (personal care), memory support/dementia and skilled nursing facilities. The table below provides a summary of the Architect’s Pennsylvania clients over the last 18 years.

Community	Number of Projects	Approximate Cost
Brethren Village Retirement Community	11	\$9,600,000
Masonic Villages Elizabethtown	3	\$28,500,000
Mennonite Home	5	\$4,500,000
St Anne’s Retirement Community	3	\$2,500,000
Luther Acres	15	\$14,000,000
Buffalo Valley Lutheran Village	7	\$5,000,000
Green Ridge Village	8	\$6,500,000
Oak Leaf Manor Inc.	4	\$8,000,000
SpiriTrust Lutheran Home	2	\$1,200,000

The General Contractor

The Village entered into a guaranteed maximum price construction contract dated as of June 18, 2016 and amended February 20, 2017 (the “Construction Contract”) with Benchmark Construction Company, Inc. (the “General Contractor”) for construction of the Northside Court Project. Over the past 30 years, the General Contractor has worked on over 160 projects in the senior living market sector. These projects have a construction value exceeding \$400 million and comprise over half of the General Contractor’s total volume of work annually. Additionally, 84% of these projects were for repeat clients, including Brethren Village. Benchmark Construction is a member of LeadingAge and LeadingAge PA and is committed to educating its staff and improving processes to better serve the ever-changing field of caring for the senior population.

The following summarizes Pennsylvania senior living or related projects performed by the General Contractor over the last 14 years.

Project Name/Community	Number of Projects	Approximate Cost
Brethren Village	3	\$14,131,733
Diakon Lutheran Social Ministries – Twining Village	1	\$3,413,528
Landis Homes	1	\$32,820,716
Presbyterian Senior Living – Vista Ridge	3	\$37,850,000
Presbyterian Senior Living – Long Community	1	\$42,128,629
Calvary Fellowship Homes	2	\$8,590,819
Luther Acres Muhlenberg Community Center	1	\$3,345,062
Cross Keys Village	2	\$11,218,357
Presbyterian Senior Living – Northwood Gardens	1	\$17,320,323
Diakon Lutheran Social Ministries – Frey Village	1	\$3,019,117
The Hickman – Sharpless-Hall Replacement	1	\$11,798,954
Sarah A. Todd – Health Center Addition	1	\$5,021,480
LutherCare Corporate Office	1	\$1,400,527
St. Anne’s Retirement Community – Memory Support Reno	1	\$1,499,175

Construction Contract

The Construction Contract provides that the sum of the cost of the Work (as defined therein) and the General Contractor’s Fee will not exceed a guaranteed maximum price (“GMP”) of \$24,879,693, subject to additions and deductions by change order as provided in the Construction Contract. The GMP includes the cost of payment and performance bonds, which have been obtained. The following table is a summary of the components of the GMP:

General Conditions and Requirements	\$ 1,445,560
Buildings and Sitework	21,392,301
General Contractor Contingency	574,697
Contractor Fees, Payment & Performance	
Bonds and Insurance	<u>1,467,135</u>
Total GMP	<u>\$24,879,693</u>

The General Contractor will be paid as work progresses based on the actual cost of the work completed. Substantial Completion of the Work (as defined in the Construction Contract) is required to be achieved by June 1, 2018. If Substantial Completion is not achieved within seven calendar days after such date, then the General Contractor will be liable for the payment of liquidated damages to Brethren Village in an amount equal to \$2,000 per day. All realized savings will be returned to Brethren Village upon final completion of the Work.

Cost Summary of Northside Court Project

The following table is a summary of the estimated costs of the Northside Court Project:

Construction Contract GMP	\$24,879,693
Off-site Improvements (1)	200,000
Technology Equipment	250,000
Architectural Services	315,550
Engineering Services	150,000
Other Professional Services	151,867
Permits/Fees/Insurance	406,445
Marketing of Northside Court Units	400,000
Contingency – Brethren Village	<u>634,539</u>
Total	<u>\$27,388,094</u>

(1) Of this amount, \$170,563 is allocated to pay for certain off-site road improvements. The total cost of such improvements is estimated to be approximately \$341,126. The improvements will also benefit a convenience store and gas station to be constructed by Sheetz, Inc. (“Sheetz”) at the same intersection and the Village and Sheetz have agreed to share equally the costs of the improvements. Construction of the Sheetz project is expected to commence in January 2018. If for any reason Sheetz abandons its project, the Village would be required to bear the entire cost of the road improvements. The additional cost would be paid from the Project contingency or other funds of the Village.

Impact on the Community

Management believes that the Northside Court Project will improve Brethren Village’s operating cash flow and profitability, strengthen its position as the life plan community in the Lancaster market with the most choices, add outdoor social spaces and provide a reasonable return on investment. The real estate market in Lancaster is strong and initial sales of Northside Court are very strong. Brethren Village has teamed with partners who are experienced in senior living construction and are committed to building a quality product that fits within Brethren Village’s master plan and meets the needs of its residents.

**SUMMARY OF FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL PERFORMANCE**

Summary Financial Information

The following financial information for the Obligated Group for each of the four fiscal years ended June 30, 2013 through June 30, 2016, has been derived by management from the consolidating schedules included in the audited consolidated financial statements of Brethren Village and its controlled affiliates. The financial statements of Brethren Village and its controlled affiliates for the years ended June 30, 2013 and 2014 were audited by ParenteBeard LLC. The financial statements of Brethren Village and its controlled affiliates for the years ended June 30, 2015 and 2016 were audited by Baker Tilly Virchow Krause, LLP. ParenteBeard LLC merged into Baker Tilly Virchow Krause, LLP on October 1, 2014. The following information summarizes, and should be read in conjunction with, the financial statements and related notes that are included in Appendix B to this Official Statement. The financial information set forth in the following table for the seven month periods ended January 31, 2016 and 2017 has been prepared by management of Brethren Village and has not been audited.

Statement of Operations Unrestricted Revenues and Other Support:	Fiscal Year Ended June 30				Seven Months Ended January 31	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
Net resident service revenues	\$33,828,899	\$34,884,309	\$35,835,289	\$37,253,305	\$21,810,773	\$22,927,954
Change in obligation to provide future services	3,801,000	8,929,000	1,277,000	4,537,000	-	-
Net assets released from restriction for:						
Interest expense	171,574	71,581	98,616	16,451	-	-
Benevolent Care	310,000	390,000	530,000	605,000	352,917	353,576
Operations	-	-	-	221,368	-	-
Unrestricted contributions	706,833	1,696,451	789,294	933,621	788,427	733,411
Other operating revenues	<u>309,098</u>	<u>366,509</u>	<u>352,805</u>	<u>467,490</u>	<u>283,602</u>	<u>333,090</u>
Total unrestricted revenues	<u>39,127,404</u>	<u>46,337,850</u>	<u>38,883,004</u>	<u>44,034,235</u>	<u>23,235,719</u>	<u>24,348,031</u>
Expenses:						
Healthcare	9,400,984	9,584,927	10,196,958	11,428,898	6,537,311	7,637,557
General and administrative	5,026,707	5,719,759	5,222,712	5,512,187	3,132,782	3,071,001
Plant operations	3,864,597	3,856,425	4,100,660	4,446,629	2,591,504	2,651,179
Dining services	3,561,364	3,605,075	3,861,458	4,267,691	2,431,203	2,807,496
Housekeeping	1,031,535	1,057,489	1,148,721	1,272,009	751,628	792,885
Home care	608,365	805,157	890,409	765,312	469,939	456,064
Social services and activities	419,702	626,160	688,301	810,030	461,463	479,698
Laundry	224,491	224,937	221,481	221,703	138,963	111,199
Barber and beauty shop	205,588	170,276	169,429	163,589	99,522	96,285
Depreciation	5,454,608	5,602,487	5,918,492	6,171,500	3,565,620	3,808,735
Amortization	350,277	348,771	347,180	356,315	207,850	214,133
Interest expense	<u>6,909,346</u>	<u>6,823,546</u>	<u>6,731,146</u>	<u>6,737,629</u>	<u>3,905,992</u>	<u>4,140,934</u>
Total expenses	<u>37,057,564</u>	<u>38,425,009</u>	<u>39,496,947</u>	<u>42,153,492</u>	<u>24,293,777</u>	<u>26,267,166</u>
Operating income (loss)	2,069,840	7,912,841	(613,943)	1,880,743	(1,058,058)	(1,919,135)

Statement of Operations	<u>Fiscal Year Ended June 30</u>				<u>Seven Months Ended January 31</u>	
Other Changes:						
Loss from investment in BV Realty, LLC	-	-	(17,441)	(25,025)	(177,114)	-
Loss on change in development plans	-	-	-	(180,014)	-	-
Investment income	<u>703,450</u>	<u>2,666,442</u>	<u>457,815</u>	<u>1,541,750</u>	<u>(343,005)</u>	<u>349,136</u>
Total other changes	<u>703,450</u>	<u>2,666,442</u>	<u>440,374</u>	<u>1,336,711</u>	<u>(520,119)</u>	<u>349,136</u>
 <i>Revenues in excess of (less than) expenses</i>	 <u>2,773,290</u>	 <u>10,579,283</u>	 <u>(173,569)</u>	 <u>3,217,454</u>	 <u>(1,578,177)</u>	 <u>(1,569,999)</u>

Management Discussion of Recent Financial Performance

Fiscal Year Ended June 30, 2013.

Total unrestricted revenues increased by \$2,161,000 or 6.52% from 2012 to 2013. In addition to net resident service revenue, which represents approximately 86.45% of 2013 total revenues, other components included unrestricted contributions, other revenue not resident service related, and net assets released from restrictions. Net resident service revenue grew by \$1,920,000, or 6.01%, during 2013. Occupancy is a primary driver of revenue and during fiscal 2013, our healthcare maintained its strong position of 97.50%; on average, 117 of the 120 beds were occupied. Personal care on a blended basis (new units opened in November 2010 combined with existing units) boasted an occupancy percentage of 97.86% or on average, 137 of the 140 units occupied. Residential living occupancy lagged slightly behind other areas of campus with overall occupancy of 93.16%.

Total expenses decreased by \$1,237,000, or 3.23%, from 2012 to 2013. The full impact of the operations review was evident in this year's fiscal results. Savings from a switch in skilled nursing staffing to 12 hours shifts, elimination of weekend program, transition to self-insured health plan, etc. contributed greatly to the reduced operating costs. This, coupled with enhanced revenues, produced a dramatic improvement in the operating loss.

Operating loss improved by \$3,398,000, or 66.25%, from an operating loss of \$5,129,000 in 2012 to an operating loss of \$1,731,000 in 2013.

Fiscal Year Ended June 30, 2014.

Total unrestricted revenues increased by \$7,210,000, or 18.43%, from 2013 to 2014. In addition to net resident service revenue, which represents approximately 75.28% of 2014 total revenues, other significant components included unrestricted contributions and change in future service obligation. Net resident service revenue grew by \$1,055,000, or 3.11%, during 2014. This modest growth was the result of increases in monthly service fees and per diems as there were no significant changes in volume. Unrestricted contributions for the year reflected the generosity of individuals, organizations, other groups such as our Auxiliary and in particular, two bequests totaling over \$900,000. The Village adopted new accounting guidance related to entry fees, specifically the calculation of our obligation to provide future services. As a result of introducing lifecare and modified lifecare contracts in 2009 and now under the new accounting guidance, the Village is required to calculate the present value of the net cost of future services and use of facilities to be provided to current residents and compare this amount with the balance of deferred revenues. Because the present value of the net cost exceeded the deferred revenues, a liability and corresponding charges to income were recognized on the financial statements – estimated amounts of \$5.8 million for fiscal year 2014 and \$14.7 million for fiscal year 2013. The accounting guidance required

a restatement which impacted the opening balances for fiscal year 2013. The change in this estimated liability, approximately \$8,900,000, has been reflected on the Obligated Group's statement of operations for 2014.

Total expenses increased by \$1,367,000, or 3.69%, from 2013 to 2014. Strategic investments, approximately \$403,000 and primarily in the form of labor, were made in areas such as the Village's Choice + and Home Care programs.

Operating income (loss) improved by \$5,843,000 from an operating income (loss) of \$2,070,000 in 2013.

Fiscal Year Ended June 30, 2015.

Total unrestricted revenues, excluding the change in obligation to provide future services, remained relatively flat compared to 2014 due to an increase in net resident revenues which was offset by a decrease in contribution revenues. Two significant bequests were received in 2014 causing the decrease in contribution revenue. Once again, we recognized income from the change in obligation to provide future services as the actuarial obligation or liability continues to decrease. Overall facility occupancy remained strong at 96% for both 2015 and 2014 with the payor mix in the health care center improving slightly.

Expenses increased approximately \$1.1 million or 2.8% from 2014 to 2015. The increase was driven by an increase in salaries, wages and related benefits of approximately \$500,000 and an increase in depreciation and amortization of approximately \$315,000.

Revenues less than expenses, excluding the impact of the change in the future service obligation liability for 2015, was (\$1.45) million which is a decrease of approximately \$3.1 million from the revenues in excess of expenses, excluding the impact of the change in future service obligations liability, of \$1.65 million in 2014. This decrease is driven primarily by a \$2.2 million decrease in investment income recognized in 2015.

Fiscal Year Ended June 30, 2016.

Unrestricted revenues, excluding the change in obligation to provide future services, increased by approximately \$1.9 million or 5% over 2015. The increase is driven by a \$1.4 million increase in net resident service revenues and a \$200K pledge received to offset the costs of opening the rehabilitation center. As of June 30, 2016, the actuarial liability for the obligation to provide future services had been reduced to \$-0-. Overall facility occupancy remained strong at 96% for both 2016 and 2015 with the payor mix in the health care center seeing a small shift towards medical assistance.

Expenses increased approximately \$2.7 million or 7% from 2015 to 2016. The increase was driven by an increase in salaries, wages and related benefits of approximately \$1.2 million, agency costs of \$450,000, therapy costs of \$325,000 and an increase in depreciation and amortization expense of approximately \$260,000. Also, during 2016 a loss of \$180,000 was recognized as a result of terminating the pursuit of a third affordable housing project.

Interim Period Seven Months ended January 31, 2017

Overall, the total unrestricted revenues were \$158K or 1% under budget. There are four variances of significance (based on \$ and %). Short-term rehabilitation revenue was under budget by \$225K as a result of lower than budgeted census (average of 12.6 vs. budget of 18) which was in large part caused by a delay in securing payor contracts. Ancillary services revenue was under budget by \$180K as a result of

therapy revenue being below budget. Other revenues are over budget by \$141K as a result of various one-time revenues received. Unrestricted contributions was over budget by \$162K primarily as a result of a \$100K anonymous contribution received in January.

It should be noted that during January, there was a period of time where the Village's skilled nursing and personal care facilities were under quarantine due to the flu which restricted admissions and had a negative impact on revenues.

Overall, expenses were \$397K or 1% over budget. Looking at the expenses on a functional basis (as shown in the financial statements) the only significant variance (based on \$ and %) noted was that therapy expenses are under budget by \$153K or 26% which is in line with the related revenue being under budget. Looking at the expenses on a natural classification (salaries, etc.), it is noted that Purchased and Contracted Services was over budget by \$640K or 15% and Utilities was under budget by \$182K or 12%. All other expenses were reasonably in line with budget. The driving factor for the Purchased and Contracted Services is that Agency costs were \$878K over budget. Utility costs were below budget due to the mild winter.

Dividends and interest income exceeded the budgeted amount by \$111K or 31%. The realized and unrealized gains and losses (which are unbudgeted) net out to a loss of \$127K.

Debt Service Coverage Ratio; Days Cash on Hand

Set forth in the table below is the Debt Service Coverage Ratio for the four fiscal years ended June 30, 2013 through June 30, 2016, and for the rolling twelve-month period ended January 31, 2017. The following table should be read in conjunction with the audited financial statements and related notes included in this Official Statement as Appendix B.

Debt Service Coverage Ratio	Fiscal Year Ended June 30,				Rolling 12 Months Ended January 31,
	2013	2014	2015	2016	2017
Net income	2,773,290	10,579,283	(173,569)	3,217,454	(1,297,301)
Depreciation	5,454,608	5,602,487	5,918,492	6,171,500	6,414,615
Amortization	350,277	348,771	347,180	356,315	362,598
Interest expense	6,909,346	6,823,546	6,731,146	6,737,629	6,972,570
Change in obligation to provide future services	(3,801,000)	(8,929,000)	(1,277,000)	(4,537,000)	-
Loss from investment in BV Realty, LLC	-	-	17,441	25,025	10,960
Loss on change in development plans	-	-	-	180,014	-
Bad debt expense	4,037	59,347	26,519	157,166	28,899
Net unrealized loss (gain)	317,007	(1,405,763)	729,080	(1,127,895)	(1,477,758)
Amortization of entrance fees	(3,318,047)	(3,661,216)	(3,958,981)	(4,207,018)	(4,012,528)
Net proceeds from entrance fees	<u>3,176,445</u>	<u>5,374,863</u>	<u>3,432,765</u>	<u>5,852,879</u>	<u>5,403,073</u>
Total income available for debt service	<u>11,865,963</u>	<u>14,792,318</u>	<u>11,793,073</u>	<u>12,826,069</u>	<u>12,405,128</u>
Maximum annual debt service	<u>8,427,346</u>	<u>8,427,346</u>	<u>8,427,346</u>	<u>9,029,958</u>	<u>9,029,958</u>
Debt service coverage ratio	<u>1.41</u>	<u>1.76</u>	<u>1.40</u>	<u>1.42</u>	<u>1.37</u>
Required Covenant	<u>1.20</u>	<u>1.20</u>	<u>1.20</u>	<u>1.20</u>	<u>1.20</u>

Set forth in the table below is the number of Days Cash on Hand as of the end of four fiscal years ended June 30, 2013 through June 30, 2016, and as of January 31, 2017, calculated pursuant to the Master Indenture. The following table should be read in conjunction with the audited financial statements and related notes included in this Official Statement as Appendix B.

Days Cash on Hand	Fiscal Year Ended June 30,				As of
	2013	2014	2015	2016	January 31, 2017
Cash and cash equivalents	8,583,999	11,440,945	9,122,258	10,503,902	10,218,337
Operating reserve fund	4,569,088	14,849,187	14,076,944	14,056,113	13,000,304
Board designated assets	<u>13,514,521</u>	<u>6,069,272</u>	<u>6,042,032</u>	<u>6,358,354</u>	<u>6,571,575</u>
Total unrestricted cash and investments	<u>26,667,608</u>	<u>32,359,404</u>	<u>29,241,234</u>	<u>30,918,369</u>	<u>29,790,216</u>
Total expenses	37,057,564	38,425,009	39,496,947	42,153,492	26,267,166
Depreciation	(5,454,608)	(5,602,487)	(5,918,492)	(6,171,500)	(3,808,735)
Amortization	(350,277)	(348,771)	(347,180)	(356,315)	(214,133)
Bad debt expense	<u>(4,037)</u>	<u>(59,347)</u>	<u>(26,519)</u>	<u>(157,166)</u>	<u>(12,291)</u>
Total cash expenses	<u>31,248,642</u>	<u>32,414,404</u>	<u>33,204,756</u>	<u>35,468,511</u>	<u>22,232,007</u>
Days in operating period	<u>365</u>	<u>365</u>	<u>365</u>	<u>366</u>	<u>215</u>
Daily cash operating expenses	<u>85,613</u>	<u>88,807</u>	<u>90,972</u>	<u>96,909</u>	<u>103,405</u>
Days cash on hand	<u>311</u>	<u>364</u>	<u>321</u>	<u>319</u>	<u>288</u>
Required Covenant	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>

Investment Policies

The Village has established an investment policy which reflects the objectives, and constraints of investments held in Brethren Village's Operating, Operating Reserve, Unitrust, Annuity, Board Endowment and Donor Endowment accounts. The policy defines and assigns responsibilities of all involved parties, specifically those of the investment managers, specifies investment goals and objectives for assets being held, provides parameters and limitations to the nature of investments selected and establishes a basis for evaluating investment results.

The vision, mission and core values of Brethren Village are long term in nature and call for prudent stewardship of all assets. Consequently, the investment of the Village's assets should have a long term focus. Overall, the investment goal of the portfolio is to preserve and enhance its real purchasing power through reinvestment of realized capital gains and earned income to the extent that such assets are not required for ongoing needs. This needs to be achieved over time through the combination of prudent investment management that generates optimal returns available within the imposed risk constraints and policy guidelines expressed herein in conjunction with an appropriate spending policy. The long term goal of the portfolio is to pursue investment objectives which are designed to maximize the returns without exposing undue risk.

The asset allocation philosophy varies by fund within the portfolio. The following represents the acceptable ranges of asset allocations by fund:

	<u>Operating</u>	<u>Unitrust</u>	<u>Annuity</u>	<u>Operating Reserve</u>	<u>Board Endowment</u>	<u>Donor Endowment</u>
Cash	0 to 15%	0 to 15%	0 to 15%	0 to 15%	0 to 7%	0 to 7%
Fixed Income	50 to 70%	50 to 70%	35 to 65%	35 to 65%	10 to 50%	10 to 50%
Equities	30 to 40%	30 to 40%	35 to 45%	35 to 45%	40 to 80%	40 to 80%
Other	0 to 5%	0 to 5%	0 to 5%	0 to 5%	0 to 5%	0 to 5%

The Village receives regular reports from the investment managers regarding its overall investment philosophy and strategy as a basis for evaluating performance.

Brethren Village Fund-Development Program

The Development Department provides opportunities to donors to support the mission of Brethren Village through financial gifts and contributions. It has developed a data base of donors consisting of individuals, local churches, family members, residents, community businesses, as well as leaders and foundations in the greater community. Fund-raising efforts are guided by a Development Committee comprised of appointed members of the Board of Directors.

Fund raising efforts on behalf of Brethren Village include a year-end Annual Appeal mailing and solicitation and special events including a spring banquet and a fall golf tournament. The Village also encourages individuals to consider planned gifts such as charitable gift annuities, charitable trusts, and bequests through estate plans or other planned giving vehicles.

Budgeting

The Village has established a budget proposal policy and procedure which clearly states the expectations for budgeting as well as defines the process for development of the annual budget. It is the Village's policy to develop a budget proposal that provides for financial stability and continued growth while maintaining focus on our mission and core values. The annual budget is presented to the Finance Committee at the April meeting and the Board at the May meeting.

Once approved, the annual budget is imported into the Village's accounting/general ledger system. On a monthly basis, management reports which detail actual results compared to last year's actual and current year's budget are generated and distributed to directors/managers. Similar information is also presented in our internal financial statements which are reviewed by the Finance Committee and Board.

Financial Assistance

If a resident of the Village can no longer pay the applicable Monthly Service Fee in full due to lack of funds for reasons beyond the control of the resident, the Village may subsidize, in whole or in part, the Monthly Service Fees and other charges, provided the ability of the Village to be operated on a sound financial basis for all residents is not materially impaired. The Village will review the matter with the resident by evaluating financial information which may or may not be accepted by the Village. If accepted, the Village may approve special financial consideration for the resident. In the event that financial assistance is provided by the Village, such amounts will be charged against the refund of the Entrance Fee owed to a resident upon termination of the Residency Agreement. The Village may also require a resident receiving financial assistance to move to a smaller or less expensive, yet comparable apartment or unit.

Furthermore, the Village maintains contractual relationships with third party payers whereby the amount received as payment for services may be less than gross charges. The variance is referred to as contractual adjustments.

The following table shows the amount of benevolent care provided at cost in excess of the reimbursement received over the past five fiscal years:

	<u>Fiscal Year Ended June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Personal Care	\$700,000	\$510,000	\$575,000	\$713,000	\$691,000
Skilled Nursing	\$1,900,000	\$1,300,000	\$1,100,000	\$1,009,000	\$1,356,000

APPENDIX B

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF BRETHERN VILLAGE
AND CONTROLLED AFFILIATES FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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**Brethren Village
and Controlled Entities**

Consolidated Financial Statements and
Supplementary Information

June 30, 2016 and 2015



Candor. Insight. Results.

Brethren Village and Controlled Entities

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June 30, 2016 and 2015

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Baker Tilly Virchow Krause, LLP
1650 Market St, Ste 4500
Philadelphia, PA 19103-7341
tel 215 972 0701
tel 800 267 9405
fax 888 264 9617
bakertilly.com

Independent Auditors' Report

Board of Directors
Brethren Village and Controlled Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Brethren Village and Controlled Entities, which comprise the consolidated balance sheet as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brethren Village and Controlled Entities as of June 30, 2016 and 2015, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information on pages 31 to 34 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and revenues in excess of (less than) expenses of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
September 29, 2016

Brethren Village and Controlled Entities

Consolidated Balance Sheet
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>
Assets			Liabilities and Net Assets (Deficit)		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 2,155,124	\$ 1,698,145	Current maturities of long-term debt	\$ 2,171,118	\$ 1,903,403
Assets whose use is limited	5,570,139	5,105,573	Accounts payable, trade	1,028,448	965,269
Accounts receivable, net	984,009	1,052,079	Accounts payable, construction	755,260	1,563,025
Entrance fees receivable	924,619	1,240,275	Accrued expenses:		
Pledges receivable, net	725,979	918,621	Interest	3,583,898	3,379,499
Prepaid expenses and other current assets	917,182	231,915	Health insurance	218,326	150,000
			Paid time off	697,423	592,379
			Salaries and wages	800,250	673,063
			Other	183,717	249,483
Total current assets	<u>11,277,052</u>	<u>10,246,608</u>	Total current liabilities	9,438,440	9,476,121
Assets Whose Use is Limited			Long-Term Debt	117,779,065	109,950,185
Board-designated	20,414,467	20,118,977	Refundable Fees and Deposits	27,927,591	27,549,611
Under trust indenture, held by trustee	2,348,335	305,344	Deferred Revenues from Entrance Fees	28,147,307	27,195,082
Statutory minimum liquid reserve	9,032,000	8,372,000	Obligation to Provide Future Services	-	4,537,000
Under regulatory agreements	615,306	944,088	Split-Interest Obligations	780,119	853,966
Total assets whose use is limited	<u>32,410,108</u>	<u>29,740,409</u>	Accrued Pension Cost	4,098,441	3,054,573
Long-Term Investments	8,642,382	7,838,786	Other Liabilities	<u>39,743</u>	<u>38,033</u>
Long-Term Investments Restricted By Donors	11,845,038	12,014,876	Total liabilities	<u>188,210,706</u>	<u>182,654,571</u>
Property and Equipment, Net	122,218,935	119,609,713	Net Assets (Deficit)		
Deferred Financing Costs, Net	1,868,143	1,512,479	Unrestricted	(10,525,112)	(12,410,654)
Costs of Acquiring Initial Continuing-Care Contracts, Net	1,134,734	1,386,896	Temporarily restricted	2,001,219	2,344,717
Other Assets	179,803	177,747	Permanently restricted	<u>10,939,592</u>	<u>11,071,618</u>
Beneficial Interest In Perpetual Trusts	1,050,210	1,132,738	Total net assets (deficit)	<u>2,415,699</u>	<u>1,005,681</u>
			Total liabilities and net assets (deficit)	<u>\$ 190,626,405</u>	<u>\$ 183,660,252</u>
Total assets	<u>\$ 190,626,405</u>	<u>\$ 183,660,252</u>			

See notes to consolidated financial statements

Brethren Village and Controlled Entities

Consolidated Statement of Operations
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Revenues		
Net resident service revenues	\$ 38,109,151	\$ 36,687,654
Change in obligation to provide future services	4,537,000	1,277,000
Net assets released from restrictions used for:		
Interest expense	16,451	98,616
Benevolent care	605,000	530,000
Operations	221,368	-
Unrestricted contributions	933,621	789,294
Other revenues	584,388	373,724
	<u>45,006,979</u>	<u>39,756,288</u>
Expenses		
Health care	11,428,898	10,196,958
Interest	6,969,282	6,910,558
Depreciation	6,674,850	6,353,183
General and administrative	5,737,486	5,452,497
Plant operations	4,834,637	4,716,739
Dining services	4,267,691	3,861,458
Housekeeping	1,272,009	1,148,721
Home care	765,312	890,409
Social services and activities	810,030	688,301
Amortization	358,701	349,566
Laundry	221,703	221,481
Barber and beauty	163,589	169,429
	<u>43,504,188</u>	<u>40,959,300</u>
Operating income (loss)	1,502,791	(1,203,012)
Loss on Change in Development Plans	(180,014)	-
Investment Income	<u>1,541,750</u>	<u>457,815</u>
Revenues in excess of (less than) expenses	2,864,527	(745,197)
Pension Liability Adjustment	(998,550)	(694,005)
Contributions for Property and Equipment	15,000	117,524
Net Assets Released from Restrictions Used for		
Principal payments on long-term debt	<u>4,565</u>	<u>24,174</u>
Change in unrestricted net deficit	<u>\$ 1,885,542</u>	<u>\$ (1,297,504)</u>

See notes to consolidated financial statements

Brethren Village and Controlled Entities

Consolidated Statement of Changes in Net Assets
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Change in Unrestricted Net Deficit	\$ 1,885,542	\$ (1,297,504)
Temporarily Restricted Net Assets		
Contributions	21,016	996,350
Investment income	479,537	226,601
Change in value of split-interest agreements	3,333	(167,171)
Net assets released from restrictions used for:		
Interest expense	(16,451)	(98,616)
Benevolent care	(605,000)	(530,000)
Principal payments on long-term debt	(4,565)	(24,174)
Operations	(221,368)	-
Change in temporarily restricted net assets	<u>(343,498)</u>	<u>402,990</u>
Permanently Restricted Net Assets		
Contributions	89,902	92,941
Valuation (loss) gain, beneficial interest in perpetual trusts	(82,528)	12
Change in value of split-interest agreements	<u>(139,400)</u>	<u>(66,464)</u>
Change in permanently restricted net assets	<u>(132,026)</u>	<u>26,489</u>
Change in net assets	1,410,018	(868,025)
Net Assets, Beginning of Year	<u>1,005,681</u>	<u>1,873,706</u>
Net Assets, Ending	<u>\$ 2,415,699</u>	<u>\$ 1,005,681</u>

See notes to consolidated financial statements

Brethren Village and Controlled EntitiesConsolidated Statement of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,410,018	\$ (868,025)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,033,551	6,702,749
Proceeds from non-refundable entrance fees and deposits, existing units	5,551,605	6,132,664
Amortization of entrance fees	(4,207,018)	(3,958,981)
Change in obligation to provide future services	(4,537,000)	(1,277,000)
Loss on change in development plans	180,014	-
Net realized and unrealized (gain) loss on investments	(965,504)	283,299
Pension liability adjustment	998,550	694,005
Change in value of split-interest agreements	136,067	233,635
Contributions restricted for long-term purposes	(104,902)	(1,206,815)
Change in value of pledges receivable	(52,229)	56,599
Valuation loss (gain), beneficial interest in perpetual trusts	82,528	(12)
Changes in assets and liabilities:		
Accounts receivable	68,070	(314,677)
Prepaid expenses and other current assets	(685,267)	59,851
Other assets	(2,056)	(41,364)
Accounts payable, trade	63,179	(105,924)
Accrued expenses	484,508	179,968
Other liabilities	1,710	1,163
Net cash provided by operating activities	<u>5,455,824</u>	<u>6,571,135</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(8,708,826)	(4,430,401)
Net (purchases) sales of investments	<u>(2,802,519)</u>	<u>1,011,706</u>
Net cash used in investing activities	<u>(11,511,345)</u>	<u>(3,418,695)</u>
Cash Flows from Financing Activities		
Repayment of long-term debt	(1,903,405)	(1,695,758)
Proceeds from long-term debt	10,000,000	-
Payment of deferred financing costs	(462,203)	-
Proceeds from refundable entrance fees and deposits, existing units	2,450,276	122,620
Refunds of entrance fees and deposits	(2,149,002)	(2,822,519)
Net payments of split-interest obligations	(209,914)	(336,496)
Payment of accounts payable, construction	(1,563,025)	(651,681)
Contributions restricted for long-term purposes	104,902	210,465
Collections, pledges receivable	<u>244,871</u>	<u>81,335</u>
Net cash provided by (used in) financing activities	<u>6,512,500</u>	<u>(5,092,034)</u>
Net change in cash and cash equivalents	456,979	(1,939,594)
Cash and Cash Equivalents, Beginning	<u>1,698,145</u>	<u>3,637,739</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,155,124</u>	<u>\$ 1,698,145</u>
Supplementary Disclosure of Cash Flow Information		
Interest paid	<u>\$ 6,764,883</u>	<u>\$ 6,956,917</u>
Noncash Investing and Financing Activities		
Acquisition of BV Realty, LLC:		
Land	-	(202,799)
Buildings	-	(1,297,201)
Long-term debt	-	1,500,000
Total	<u>\$ -</u>	<u>\$ -</u>
Obligations incurred for the acquisition of property and equipment, Accounts payable, construction	<u>\$ 755,260</u>	<u>\$ 1,563,025</u>

See notes to consolidated financial statements

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The consolidated financial statements include the accounts of Brethren Village, the controlling entity, Brethren Village Realty LLC, Rehabilitation Center at Brethren Village, LLC, Brethren Services, Inc., and Brethren Services II, Inc. (collectively, the "Corporation"). All significant intercorporate transactions and balances have been eliminated.

Brethren Village (the "Village") is a not-for-profit corporation that operates a continuing care retirement community ("CCRC") providing housing, health care, and other related services to elderly residents through the operation of a nursing facility and personal care and residential living units.

Brethren Village Realty LLC ("BV Realty") is a limited liability company whose sole member is the Village. BV Realty owns and leases a condominium unit on a tract of land contiguous to the Village's campus.

The Rehabilitation Center at Brethren Village, LLC ("BV Rehab") is a limited liability company whose sole member is the Village. BV Rehab operates a short term rehabilitation center which provides both inpatient and outpatient services.

Brethren Services, Inc. ("BS") is a not-for-profit corporation that provides housing for low income elderly or handicapped families. The entity operates under Section 8 of the National Housing Act and is regulated by the U.S. Department of Housing and Urban Development ("HUD") with respect to rental charges, operating expenses, distributions to officers or directors, and operating methods. A significant portion of its rental income is received from HUD.

Brethren Services II, Inc. ("BS II") is a not-for-profit corporation that provides housing for low income elderly families. The entity operates under Section 202 of the National Housing Act and is regulated by HUD with respect to rental charges, operating expenses, distributions to officers or directors, and operating methods. A significant portion of its rental income is received from HUD.

The Brethren Village Obligated Group is comprised of Brethren Village and Rehabilitation Center at Brethren Village, LLC. The Obligated Group is presented to comply with the requirements of the Master Trust Indenture of the revenue bonds issued on behalf of the Corporation (Note 7).

The Corporation's primary operations are located in Lancaster, Pennsylvania. Their primary service area is Lancaster, Pennsylvania and surrounding communities in Lancaster County, Pennsylvania.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents includes investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited, long-term investments, and long-term investments restricted by donors.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Accounts and Entrance Fees Receivable

Accounts and entrance fees receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections for accounts receivable is estimated based upon a periodic review of individual accounts. The allowance for doubtful collections for accounts receivable was \$105,000 and \$95,000 at June 30, 2016 and 2015, respectively. Management considers all entrance fees receivable to be collectible and, accordingly, no allowance for doubtful collections was recorded at June 30, 2016 and 2015.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. The fair value of substantially all securities is determined by quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated balance sheet could change materially in the near term.

Assets Whose Use is Limited

Assets whose use is limited include assets designated by the board of directors for benevolent care over which the board retains control and may, at its discretion, subsequently use for other purposes, assets held by a trustee under a trust indenture, which include assets designated to meet the statutory minimum liquid reserve requirements of Section 9 of the Commonwealth of Pennsylvania's Continuing Care Provider Registration and Disclosure Act ("Act 82"), and assets restricted under regulatory agreements executed with HUD. Amounts available to meet current liabilities are classified as current assets in the consolidated balance sheet.

Long-Term Investments

Long-term investments include assets available for the general use and purposes of the Village.

Long-Term Investments Restricted By Donors

Long-term investments restricted by donors include assets to be held by the Village in perpetuity and assets whose use by the Village has been limited by donors to specific purposes or time periods.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Property and Equipment

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. No impairment losses were recognized in 2016 or 2015.

Pledges Receivable

Pledges receivable represent unconditional promises to give that are expected to be collected in future years. The pledges are recorded as either temporarily or permanently restricted contributions at the present value of estimated future cash flows. The discounts on the pledged amounts approximate current market rates at initial recognition. Amortization of the discounts is reported as contributions in the temporarily or permanently restricted net asset class.

Deferred Financing Costs

Costs of \$2,896,481 and \$2,434,278 at June 30, 2016 and 2015, respectively, incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the related debt using the effective interest method. Accumulated amortization was \$1,028,338 and \$921,799 at June 30, 2016 and 2015, respectively.

Costs of Acquiring Initial Continuing-Care Contracts

Costs of \$2,773,795 incurred in connection with acquiring initial continuing-care contracts for new residential living apartments have been deferred and are being amortized over the average expected remaining lives of the initial residents under the contracts. Accumulated amortization was \$1,639,061 and \$1,386,899 at June 30, 2016 and 2015, respectively.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Entrance Fees

Under certain entrance fee plans for residential living units, the Village receives payments in advance. Residents currently have the option of selecting a 90% refundable contract or a nonrefundable contract. At various times the Village has also offered other refundable contracts which have ranged from 15% to 95% refundable. The refundable contracts have a guaranteed refund component and a nonrefundable component. The nonrefundable component, depending upon the terms of the contract, may not be refundable or may be refundable on a decreasing basis over a period of up to 5 years.

The guaranteed refund component of entrance fees received is classified as refundable fees and deposits in the consolidated balance sheet. The balance of entrance fees received is amortized to income using the straight-line method over the annually adjusted estimated remaining life expectancies of the residents and is classified as deferred revenues from entrance fees in the consolidated balance sheet.

For all resident agreements executed before July 1, 2011, except the agreements related to the residential living apartments placed in service during 2009, refunds to residents are generally paid at the time of resale of the residential living unit. For resident agreements related to the residential living apartments placed in service during 2009 and for all other resident agreements executed after July 1, 2011, refunds to residents are generally paid only after the resident is no longer a resident of the Village and after the resale of the residential living unit. At June 30, 2016, the gross amount of contractual refund obligations under existing resident agreements approximates \$39,753,000.

The majority of services provided to the Village's residential living residents, excluding the residents in the residential living apartments placed in service during 2009, are paid for on a "fee-for-service" basis and are not included under the entrance fee plans.

There are three different contract types for the residential living apartments placed in service during 2009: a "fee-for-service" contract, a "life care" contract, and a "modified life care" contract. Under the life care contracts, residential living residents are entitled to personal care or skilled nursing care, as needed, with only minor changes in the current monthly service fee. Under the modified life care contract, residential living residents are entitled to a \$1,000 benefit per month, to a maximum of \$60,000, for personal care or skilled nursing care, as needed. Following the accumulation of \$60,000, personal care or skilled nursing care, as needed, is paid for on a "fee-for-service" basis. The Village began offering these contract types to new residents in the Village's Fieldcrest residential living units in November 2011.

Obligation to Provide Future Services

The Village calculates the present value of the net cost of future services and the use of facilities to be provided to current residents ("FSO Calculation") and compares that amount with the balance of deferred revenues from entrance fees. If the present value of the net cost of future services and use of facilities (discounted at 5%) exceeds the deferred revenues from entrance fees, a liability is recorded with the corresponding charge to income. The present value of the net cost of future service and use of facilities did not exceed the balance of deferred revenues from entrance fees at June 30, 2016 and, as such, no liability was required at June 30, 2016. The liability was estimated to be approximately \$4,537,000 at June 30, 2015.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Split-Interest Agreements

The Village received as contributions various split-interest agreements, including charitable gift annuities and perpetual trusts.

Under the charitable gift annuity arrangements, donors transfer cash or investments to the Village and, in turn, receive a given amount payable monthly or semiannually for the remainder of their lives. The contributions received by the Village are the unconditional rights to receive the remainder interest of the gift annuities. The amount of the contribution is the difference between the cash or investments received by the Village and the present value of the estimated future payments to be distributed by the Village to the annuitants. These contributions are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the nature and existence of donor restrictions. Subsequent changes in the fair value are recorded as a change in value of split-interest agreements in the appropriate net asset class.

Under the perpetual trust arrangements, the Village recorded the assets and recognized permanently restricted contribution revenue at the fair market value of the Village's beneficial interest in the trust assets. Income earned on the trust assets and distributed to the Village is recorded as investment income in the consolidated statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair value are recorded as valuation gain, beneficial interest in perpetual trusts in the permanently restricted net asset class.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Village has been limited by donors to specific purposes or time periods. Permanently restricted net assets have been restricted by donors to be maintained by the Village in perpetuity.

Net Resident Service Revenues

Net resident service revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Net resident service revenues include amortization of entrance fees of \$4,207,018 in 2016 and \$3,958,981 in 2015.

Benevolent Care

The Village provides personal care services to residents who meet certain criteria at amounts less than its cost of providing care. The Village maintains records to identify and monitor the level of benevolent care it provides. The costs associated with the benevolent care services provided to personal care residents include both direct costs and estimated indirect costs, as calculated by management. The level of benevolent care provided by the Village, which represents the difference between the estimated cost of providing care and the payments received for services rendered, was approximately \$691,000 in 2016 and \$713,000 in 2015. The Village received contributions restricted for benevolent care of \$706,410 in 2016 and \$667,632 in 2015.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
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Medical Assistance Reimbursement and Cost of Providing Care

The Village provides nursing care to Medical Assistance program beneficiaries at amounts less than its cost of providing care. The Village maintains records to identify and monitor the difference between the cost of providing care to Medical Assistance program beneficiaries and the payments received for services rendered. The costs associated with the services provided to Medical Assistance program beneficiaries include both direct costs and estimated indirect costs, as calculated by management. The difference between the estimated cost of providing care to Medical Assistance program beneficiaries and the payments received for services rendered was approximately \$1,356,000 in 2016 and \$1,009,000 in 2015.

Donor-Restricted Gifts

The Village reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

Income Taxes

The Village, BS, and BS II are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on their exempt income under Section 501(a) of the IRC. BV Realty and BV Rehab are disregarded entities for tax reporting purposes and are therefore included in the Village's filings.

The Corporation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2016 or 2015.

Revenues In Excess of (Less Than) Expenses

The consolidated statement of operations includes the determination of revenues in excess of (less than) expenses. Changes in unrestricted net assets which are excluded from revenues in excess of (less than) expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), contributions restricted for principal payments on long-term debt, and pension liability adjustments.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through September 29, 2016, the date the consolidated financial statements were issued.

New Accounting Pronouncements

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. The Corporation may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Corporation is currently assessing the effect that ASU 2014-09 will have on its consolidated financial statements.

During April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in balance sheet as a direct deduction from the carrying amount of that debt liability instead of an asset. The recognition and measurement guidance for debt issuance costs are not affected by this update. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The Corporation does not believe that the adoption of ASU 2015-03 will have a material effect on its results of operations, financial position or cash flows.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Corporation is assessing the impact this standard will have on its consolidated financial statements.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2. Net Resident Service Revenues

The Village has agreements with third-party payors that provide for payments to the Village at amounts different from its established rates. A summary of the principal payment arrangements with major third-party payors follows:

Medical Assistance: Nursing services provided to Medical Assistance program beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 9% and 8% of the Village's net resident service revenues in 2016 and 2015, respectively, was derived from the Medical Assistance program.

Medicare: Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 4% of the Village's net resident service revenues in 2016 and 2015 was derived from the Medicare Part A program.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on the Village's clinical assessment of its residents. The Village is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medical Assistance and Medicare programs.

3. Assets Whose Use is Limited

The composition of assets whose use is limited is set forth in the following table:

	<u>2016</u>	<u>2015</u>
Board-designated:		
Cash and cash equivalents	\$ 508,969	\$ -
Certificates of deposit	736,730	859,993
U.S. government agency obligations	8,464	9,894
Corporate bonds and notes	7,117,815	7,237,056
Municipal bonds and notes	1,397,969	1,316,578
Foreign bonds and notes	387,745	-
Common stocks	10,256,775	10,695,456
	<u> </u>	<u> </u>
Total	<u>\$ 20,414,467</u>	<u>\$ 20,118,977</u>

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Under trust indenture, held by trustee:		
Cash and cash equivalents	\$ 8,988,152	\$ 5,532,781
Certificates of deposit	1,587,272	3,693,468
U.S. government agency obligations	<u>6,375,050</u>	<u>4,556,668</u>
Total	16,950,474	13,782,917
Less amounts available to meet current liabilities	5,570,139	5,105,573
Less amounts designated to meet statutory minimum liquid reserve requirements	<u>9,032,000</u>	<u>8,372,000</u>
Total	<u>\$ 2,348,335</u>	<u>\$ 305,344</u>
Under regulatory agreements, Cash and cash equivalents	<u>\$ 615,306</u>	<u>\$ 944,088</u>

Investment Return

Unrestricted investment income for assets whose use is limited, long-term investments, and cash and cash equivalents is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 829,707	\$ 757,910
Net realized (loss) gain on sales of securities	(415,852)	428,985
Net unrealized gain (loss) on investments	<u>1,127,895</u>	<u>(729,080)</u>
Total	<u>\$ 1,541,750</u>	<u>\$ 457,815</u>

Temporarily restricted investment income for long-term investments restricted by donors is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 226,076	\$ 209,805
Net realized (loss) gain on sales of securities	(208,071)	257,423
Net unrealized gain (loss) on investments	<u>461,532</u>	<u>(240,627)</u>
Total	<u>\$ 479,537</u>	<u>\$ 226,601</u>

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Statutory Reserve Disclosure - Village

Act 82 requires the Village to maintain a statutory minimum liquid reserve. The reserve amount was no more than \$9,032,000 and \$8,675,000 at June 30, 2016 and 2015, respectively. These amounts represent principal and interest due on long-term debt in the subsequent fiscal year. Because not all of the Village's residents are covered under Residence and Care Agreements, the actual amount of the reserve requirement is equal to the proportionate share of debt service for residents under Residence and Care Agreements. The liquid reserve requirement is funded with the balance in the debt service reserve fund, held by a trustee under the trust indenture for the 2008 Bonds (Note 7). The amount designated at June 30, 2016 was calculated as follows:

Budgeted operating expenses for the year ending June 30, 2016	\$ 44,349,000	
Less budgeted depreciation and amortization expense	<u>(6,640,000)</u>	
Expenses subject to minimum liquid reserve requirement	37,709,000	
Statutory requirement	<u>10</u>	%
Statutory minimum liquid reserve requirement	<u>\$ 3,771,000</u>	(a)
Debt service requirements for the year ending June 30, 2016 – 2008 Bonds and 2015 Bonds:		
Principal	\$ 2,000,000	
Interest	<u>7,032,000</u>	
Statutory minimum liquid reserve requirement	<u>\$ 9,032,000</u>	(b)
Greater of (a) or (b) above	<u>\$ 9,032,000</u>	

4. Long-Term Investments

The composition of long-term investments is set forth in the following table:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 723,609	\$ 218,050
Certificate of deposit	300,264	825,058
U.S. government agency obligations	33,855	39,578
Corporate bonds and notes	7,360,465	7,233,065
Municipal bonds and notes	1,515,193	1,545,486
Foreign bonds and notes	970,177	-
Common stocks	<u>9,583,857</u>	<u>9,992,425</u>
Total	20,487,420	19,853,662
Less amounts restricted by donors	<u>11,845,038</u>	<u>12,014,876</u>
Long-term investments	<u>\$ 8,642,382</u>	<u>\$ 7,838,786</u>

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

5. Property and Equipment

Property and equipment are as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,302,635	\$ 1,673,565
Land improvements	4,301,405	4,846,820
Buildings and building improvements	171,553,222	163,470,672
Equipment	19,243,183	18,071,908
Vehicles	1,017,832	922,677
	<u>198,418,277</u>	<u>188,985,642</u>
Total	198,418,277	188,985,642
Less accumulated depreciation	<u>76,666,395</u>	<u>71,260,342</u>
Total	121,751,882	117,725,300
Construction-in-progress	<u>467,053</u>	<u>1,884,413</u>
Property and equipment, net	<u>\$ 122,218,935</u>	<u>\$ 119,609,713</u>

Construction-in-progress at June 30, 2016 consists of expenditures related to various projects at the Village. During 2016, the Village entered into a construction contracts for renovations totaling approximately \$2,143,000 of which approximately \$87,000 has been paid or accrued as of June 30, 2016.

6. Line of Credit

The Village has a \$2,500,000 demand line of credit. The line of credit bears interest at the one-month LIBOR plus 235 basis points (2.80% at June 30, 2016) and is secured by a second mortgage lien on and security interest in the Village's property and equipment and a security interest in substantially all assets of the Village. There were no borrowings at June 30, 2016 and 2015. The line of credit also supports \$393,916 of letters of credit at June 30, 2016 (Note 14).

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

7. Long-Term Debt

Long-term debt is as follows:

	<u>2016</u>	<u>2015</u>
Lancaster County Hospital Authority Revenue Bonds Series 2008 A (the "2008 Bonds"), due in varying annual installments through 2040, plus interest payable semi-annually at rates ranging from 5.80% to 6.50%.	\$ 103,955,000	\$ 105,695,000
Lancaster County Hospital Authority Revenue Bonds Series 2015 (the "2015 Bonds") due in varying annual installments through 2046, plus interest payable semi-annually at rates ranging from 2.25% to 5.50%.	10,000,000	-
Mortgage note payable in monthly installments of \$17,196, including interest at 4.99% through 2048; secured by substantially all property and equipment of BS.	3,308,722	3,348,871
Mortgage notes payable to the Redevelopment Authority of the County of Lancaster. Except upon the occurrence of an event of default as defined in the loan documents, the loans will not bear interest and the entire unpaid principal balance of each loan, and any interest accrued thereon, will be due and payable on June 30, 2047. The loans are secured by a second mortgage on substantially all assets of BS II.	1,317,275	1,317,275
Mortgage note payable to Decatur Realty Investments, L.P. ("Decatur") payable in monthly installments of \$9,490, including interest at 4.5% through January 2, 2019; secured by a mortgage on the property of BV Realty. The mortgage note payable is due on January 2, 2019. BV Realty agreed to lease the property and equipment back to Decatur at \$9,490 a month until December 31, 2018.	1,369,186	1,492,442
Total	119,950,183	111,853,588
Less current maturities	2,171,118	1,903,403
Long-term debt	<u>\$ 117,779,065</u>	<u>\$ 109,950,185</u>

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The 2008 Bonds and 2015 Bonds have been issued under a Master Trust Indenture dated January 1, 2008, as supplemented, which secures the obligations of the Obligated Group and includes a security interest in substantially all assets of the Obligated Group, as defined.

Scheduled principal repayments on long-term debt are as follows:

Years ending June 30:	
2017	\$ 2,171,118
2018	2,289,195
2019	3,382,044
2020	2,408,999
2021	2,546,500
Thereafter	<u>107,152,327</u>
Total	<u>\$ 119,950,183</u>

8. Defined Benefit Pension Plan

The Village sponsors a defined benefit pension plan for its employees. The plan provides benefits based on years of service and final average salary. On September 16, 2010, the Village's Board of Directors adopted an amendment to cease all benefit accruals under the plan effective December 31, 2010.

The following table sets forth the change in the projected benefit obligation, the change in fair value of plan assets, and the accumulated benefit obligation:

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 8,743,319	\$ 8,150,166
Interest cost	357,580	326,288
Actuarial loss	787,844	594,665
Benefits paid	<u>(367,421)</u>	<u>(327,800)</u>
Projected benefit obligation, end of year	<u>9,521,322</u>	<u>8,743,319</u>

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	\$ 5,688,746	\$ 5,668,229
Actual return on plan assets (net of expense)	(58,444)	128,317
Employer contributions	160,000	220,000
Benefits paid	(367,421)	(327,800)
	<u>5,422,881</u>	<u>5,688,746</u>
Fair value of plan assets, end of year		
	<u>\$ 4,098,441</u>	<u>\$ 3,054,573</u>
Funded status, end of year		
Accumulated benefit obligation	<u>\$ 9,521,322</u>	<u>\$ 8,743,319</u>

The funded status of the plan is reflected in the consolidated balance sheet as accrued pension cost of \$4,098,441 and \$3,054,573 at June 30, 2016 and 2015, respectively.

The following table sets forth the components of net periodic pension cost:

	<u>2016</u>	<u>2015</u>
Interest cost	\$ 357,580	\$ 326,288
Expected return on plan assets	(419,498)	(415,557)
Amortization of net loss	267,236	187,900
	<u>\$ 205,318</u>	<u>\$ 98,631</u>
Net periodic pension cost		

The measurement dates used to determine the pension plan asset and benefit obligation information were June 30, 2016 and 2015.

A net loss of \$4,010,768 and \$3,012,218 represents the unrecognized net periodic pension cost included in unrestricted net deficit at June 30, 2016 and 2015, respectively. Amortization of the net loss of \$382,330 is expected to be recognized in net periodic pension cost in 2017.

Assumptions

The discount rates used to determine benefit obligations are 3.39% and 4.18% at June 30, 2016 and 2015, respectively.

The assumptions used to determine net periodic pension cost are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4.18 %	4.09 %
Expected long-term return on plan assets	7.50	7.50

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Plan Assets

The following table sets forth the actual asset allocation and target asset allocation for plan assets:

	<u>2016</u>	<u>2015</u>	<u>Target Asset Allocation</u>
Asset category:			
Equity securities	58 %	58 %	60 %
Debt securities	39	39	40
Cash and cash equivalents	1	3	-
Asset-backed securities	2	-	-
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The plan's investment strategy is to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment markets outlook utilizes both historical-based and forward-looking return forecasts to establish future return expectations and correlations for various asset classes. These return and risk expectations are used to develop a core asset allocation based on the funding level and the census of the plan. The core asset allocation utilizes investment portfolios of various asset classes and multiple managers in order to maximize the plan's return while providing multiple layers of diversification to help minimize the capital market risk as well as protect the funded level of the plan.

Fair Value of Plan Assets

The following table sets forth by level, within the fair value hierarchy (Note 17), the plan assets at fair value at June 30, 2016 and 2015:

	<u>2016</u>	
	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>
Cash and cash equivalents	\$ 87,791	\$ -
Exchange traded funds	3,131,975	-
Corporate bonds	-	1,996,632
Other	-	206,483
Total	<u>\$ 3,219,766</u>	<u>\$ 2,203,115</u>

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

	2015	
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Cash and cash equivalents	\$ 179,247	\$ -
Exchange traded funds	3,298,073	-
Corporate bonds	-	2,183,394
Other	-	28,032
Total	<u>\$ 3,477,320</u>	<u>\$ 2,211,426</u>

At June 30, 2016 and 2015, the plan did not have any assets whose fair values were measured using level 3 inputs.

The corporate bonds seek maximum return consistent with preservation of capital and prudent investment management.

Exchange traded funds seek to provide a relatively high level of current income and long-term growth of income and capital in both domestic and foreign markets.

The following is a description of the valuation methodologies used to determine fair value:

Pension assets are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, and exchange traded funds or estimated using quoted prices for similar securities for corporate bonds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Village believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash Flows

The Village expects to make contributions to the plan of approximately \$222,000 during 2016.

The estimated future benefits payments are as follows:

Years ending June 30:	
2017	\$ 403,857
2018	419,278
2019	425,860
2020	423,147
2021	445,456
2022 - 2026	2,454,883

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

9. Defined Contribution Retirement Plan

The Village sponsors a 403(b) tax-deferred defined contribution retirement plan for its employees. Contributions to the plan were \$201,780 in 2016 and \$212,772 in 2015.

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are generally available for, or related to, the following:

	<u>2016</u>	<u>2015</u>
Benevolent care	\$ 1,139,058	\$ 1,261,006
Split-interest agreements	58,550	58,733
Capital expenditures	745,527	966,894
Finance a portion of entrance fees for residents of limited financial means	<u>58,084</u>	<u>58,084</u>
Total	<u>\$ 2,001,219</u>	<u>\$ 2,344,717</u>

The Village conducted a capital campaign related to an expansion/renovation project. The campaign was designed to ensure the availability of additional financial resources so that the Village may meet its current and future debt obligations. During 2016 and 2015, the Village released \$21,016 and \$122,790 of campaign proceeds received from restriction, respectively. In 2016, \$16,451 was used for the payment of interest expense and \$4,565 was used for the payment of principal on the 2008 Bonds. In 2015, \$98,616 was used for the payment of interest expense and \$24,174 was used for the payment of principal on the 2008 Bonds.

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to investments to be held in perpetuity. Substantially all income from these investments is expendable for benevolent care for Village residents.

11. Donor-Restricted Endowment Fund

The Village's endowment fund includes only donor-restricted endowment funds at the current time. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The purpose of the donor-restricted endowment fund is to provide the Village with a perpetual source of support beyond resident fees. Specifically, it is for the provision of benevolent care to residents who are unable to pay the full cost of care.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The Village's investment and spending policies require the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result, the Village classifies as permanently restricted net assets (a) the original value of gifts donated as permanent endowments; (b) the original value of subsequent gifts to the permanent endowments; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as either unrestricted or temporarily restricted net assets, depending upon the donor designation.

The Village adopted an investment policy for its donor-restricted endowment fund that attempts to preserve the capital and achieve sufficient total return to achieve its objectives. The primary objectives are to (1) preserve and increase the real value of the Village's assets and (2) provide a stable source of income for the Village's programs in accordance with the Village's spending policy. A total-return objective consistent with prudent risk-limits allows the investments to satisfy long-term objectives. In a total return strategy, investment results are achieved through capital appreciation and current yield. Asset allocation guidelines ensure adequate diversification in order to reduce the volatility of investment returns.

Under the Village's spending policy, as approved by the board of directors, the donor-restricted endowment funds are invested in a manner that is intended to meet the board approved annual distribution, which ranges from 2% - 7% of the average market value over the past three years. Actual returns in any given year may vary from these amounts. Distributions from the donor-restricted endowment fund are primarily for the provision of benevolent care to residents who are unable to pay the full cost of care.

The Village's spending policy balances the desire for stability and predictability of budget funding and the variability of market returns. The Village expects the current spending policy to allow its endowment funds to preserve the fair value of the original gifts which is consistent with the objectives of maintaining the purchasing power of the endowment assets held in perpetuity, as well as to provide additional growth through new gifts and investment return.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Changes in permanently restricted endowment net assets are comprised of the following:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning	\$ 9,938,880	\$ 9,912,403
Contributions	89,902	92,941
Change in value of split-interest agreements	<u>(139,400)</u>	<u>(66,464)</u>
Endowment net assets, ending	<u>\$ 9,889,382</u>	<u>\$ 9,938,880</u>

Changes in temporarily restricted endowment net assets are comprised of the following:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning	\$ 1,261,006	\$ 1,556,776
Investment return	483,052	234,230
Releases of endowment net assets	<u>(605,000)</u>	<u>(530,000)</u>
Endowment net assets, ending	<u>\$ 1,139,058</u>	<u>\$ 1,261,006</u>

12. Government Grant and Contingency

On June 30, 2006, BS II entered into a contract in the amount of \$5,808,809 to construct a 60-unit apartment building to provide housing for low income elderly families ("Fairview Meadows"). Construction was completed in May 2007. The construction of Fairview Meadows was financed by a \$5,475,200 capital advance from HUD under the Section 202 Capital Advance Program (the "Capital Advance").

The Capital Advance requires no repayment and bears no interest so long as housing remains available to low-income elderly families for at least 40 years. Failure to keep the housing available to low-income elderly families would result in the repayment of the entire note plus interest since the date of the first advance. The Capital Advance grants HUD a security interest in substantially all property and equipment and gross revenues of Fairview Meadows.

13. Medical Malpractice Claims Coverage

The Village maintains professional liability coverage on a claims-made basis. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Village's insurance coverage or will have a material adverse effect on the consolidated financial statements.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

14. Commitments and Contingencies

Insurance Programs

In connection with the Corporation's insurance program, the Corporation is a member of CARE, Ltd. ("CARE"), a multi-provider captive reinsurance company. In connection with the reinsurance provided by CARE, the Corporation is contingently obligated to make payments to CARE up to a predetermined percentage of its annual premiums. The Corporation maintains \$393,916 in irrevocable stand-by letters of credit to secure its future obligations under the terms of its insurance program.

Employee Health Insurance

The Village participates in a self-insured program for health insurance. The Village holds a stop-loss policy that limits the maximum liability for benefits payable under such claims at \$125,000. Accrued expenses on the consolidated balance sheet include \$218,326 and \$150,000 as of June 30, 2016 and 2015, respectively, for reserves for unpaid claims related to the health plan. Prepaid insurance related to the health plan were \$492,621 as of June 30, 2016. There was no prepaid insurance balance at June 30, 2015. The Village does not anticipate any significant change in loss trends, settlements, or other costs that would cause a significant change in net assets.

Payment in Lieu of Taxes

In July 2009, using the services of legal counsel, the Village filed for exemption from real estate taxation with the County of Lancaster's Board of Assessment Appeals. Such exemption was granted. As part of filing for real estate tax exemption, the Village entered into agreements with the local taxing authorities (County of Lancaster, Manheim Township, and Manheim Township School District) in June 2010 whereby a payment in lieu of real estate taxes would be made to each taxing authority. The agreements commenced on January 1, 2010 for the County of Lancaster and Manheim Township and on July 1, 2010 for Manheim Township School District. Each agreement has an initial 10-year term and automatically renews and continues in effect thereafter for additional 10-year terms until terminated by either party upon a one year's advance written notice provided within the 9th year of the initial term or the then-current renewal term, as the case may be. Payments under the agreements are calculated using current assessed values of the exempt property and mutually agreed upon percentages which vary by taxing authority.

Other

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effects of this matter on the Corporation, if any, are not presently determinable.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

15. Concentrations of Credit Risk

The Corporation grants credit without collateral to their residents, some of whom are insured under third-party payor arrangements primarily with Medicare, Medical Assistance, and various commercial insurance companies.

The Corporation maintains cash accounts, which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

16. Functional Expenses

The Corporation provides housing, healthcare, and other related services to residents within their geographic location. Expenses related to providing these services are as follows:

	<u>2016</u>	<u>2015</u>
Resident services	\$ 37,766,702	\$ 35,506,803
General and administrative	5,737,486	5,452,497
Total	<u>\$ 43,504,188</u>	<u>\$ 40,959,300</u>

17. Fair Value of Financial Instruments

Fair Value Measurements

The Corporation measures its assets whose use is limited, long-term investments, long-term investments restricted by donors, and beneficial interests in perpetual trusts at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets.

Level 2 - Significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The fair value of the Corporation's cash and cash equivalents, assets whose use is limited, long-term investments, long-term investments restricted by donors, beneficial interest in perpetual trusts, and 2008 Bonds were determined with the following inputs at June 30, 2016 and 2015:

	June 30, 2016			
	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value:				
Assets:				
Assets whose use is limited (Note 3):				
Cash and cash equivalents	\$ 10,112,427	\$ 10,112,427	\$ -	\$ -
Certificates of deposit	2,324,002	2,324,002	-	-
U.S. government agency obligations	6,383,514	-	6,383,514	-
Corporate bonds and notes	7,117,815	-	7,117,815	-
Municipal bonds and notes	1,397,969	-	1,397,969	-
Foreign bonds and notes	387,745	-	387,745	-
Common stocks	10,256,775	10,256,775	-	-
Total	37,980,247	22,693,204	15,287,043	-
Long-term investments (Note 4):				
Cash and cash equivalents	723,609	723,609	-	-
Certificate of deposit	300,264	300,264	-	-
U.S. government agency obligations	33,855	-	33,855	-
Corporate bonds and notes	7,360,465	-	7,360,465	-
Municipal bonds and notes	1,515,193	-	1,515,193	-
Foreign bonds and notes	970,177	-	970,177	-
Common stocks	9,583,857	9,583,857	-	-
Total	20,487,420	10,607,730	9,879,690	-
Beneficial interest in perpetual trusts	1,050,210	-	-	1,050,210
Total	\$ 59,517,877	\$ 33,300,934	\$ 25,166,733	\$ 1,050,210
Disclosed at Fair Value:				
Cash and cash equivalents	\$ 2,155,124	\$ 2,155,124	\$ -	\$ -
Bonds (Carrying value: \$113,955,000)	\$ 117,246,260	\$ -	\$ 117,246,260	\$ -

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

	June 30, 2015			
	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value:				
Assets:				
Assets whose use is limited (Note 3):				
Cash and cash equivalents	\$ 6,476,869	\$ 6,476,869	\$ -	\$ -
Certificates of deposit	4,553,461	4,553,461	-	-
U.S. government agency obligations	4,566,562	-	4,566,562	-
Corporate bonds and notes	7,237,056	-	7,237,056	-
Municipal bonds and notes	1,316,578	-	1,316,578	-
Common stocks	10,695,456	10,695,456	-	-
Total	34,845,982	21,725,786	13,120,196	-
Long-term investments (Note 4):				
Cash and cash equivalents	218,050	218,050	-	-
Certificate of deposit	825,058	825,058	-	-
U.S. government agency obligations	39,578	-	39,578	-
Corporate bonds and notes	7,233,065	-	7,233,065	-
Municipal bonds and notes	1,545,486	-	1,545,486	-
Common stocks	9,992,425	9,992,425	-	-
Total	19,853,662	11,035,533	8,818,129	-
Beneficial interest in perpetual trusts	1,132,738	-	-	1,132,738
Total	\$ 55,832,382	\$ 32,761,319	\$ 21,938,325	\$ 1,132,738
Disclosed at Fair Value:				
Cash and cash equivalents	\$ 1,698,145	\$ 1,698,145	\$ -	\$ -
Bonds (Carrying value: \$105,695,000)	\$ 109,546,970	\$ -	\$ 109,546,970	\$ -

Brethren Village and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Assets whose use is limited and long-term investments are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, certificates of deposit, and common stocks or estimated using quoted prices for similar securities for U.S. government agency obligations, corporate bonds and notes and municipal bonds and notes.

The beneficial interest in perpetual trusts is valued at fair value based on the Corporation's interest in the fair values of the underlying assets, which approximate the present value of estimated future cash flows to be received from the trusts.

The fair value of the bonds are based on quoted market prices for the same or similar issues. It is generally not practicable to estimate the fair value of the Corporation's other long-term debt, since terms could not be duplicated in the market and estimating fair values may result in inappropriate amounts.

Brethren Village and Controlled Entities

 Consolidating Schedule, Balance Sheet
 June 30, 2016 (With Comparative Totals for June 30, 2015)

	Brethren Village	Rehabilitation Center at Brethren Village, LLC	Eliminations	Obligated Group	Brethren Services, Inc.	Brethren Services II, Inc.	Brethren Village Realty, LLC	Eliminations	Consolidated	
									2016	2015
Assets										
Current Assets										
Cash and cash equivalents	\$ 1,860,520	\$ 1,000	\$ -	\$ 1,861,520	\$ 31,982	\$ 42,819	\$ 218,803	\$ -	\$ 2,155,124	\$ 1,698,145
Assets whose use is limited	5,570,139	-	-	5,570,139	-	-	-	-	5,570,139	5,105,573
Accounts receivable, net	797,772	181,688	-	979,460	2,983	2	1,564	-	984,009	1,052,079
Entrance fees receivable	924,619	-	-	924,619	-	-	-	-	924,619	1,240,275
Pledges receivable, net	725,979	-	-	725,979	-	-	-	-	725,979	918,621
Prepaid expenses and other current assets	908,757	-	-	908,757	5,801	-	2,624	-	917,182	231,915
Due from affiliate	864,472	-	(815,458)	49,014	-	-	-	(49,014)	-	-
Total current assets	11,652,258	182,688	(815,458)	11,019,488	40,766	42,821	222,991	(49,014)	11,277,052	10,246,608
Assets Whose Use is Limited										
Board-designated	20,414,467	-	-	20,414,467	-	-	-	-	20,414,467	20,118,977
Under trust indenture, held by trustee	2,348,335	-	-	2,348,335	-	-	-	-	2,348,335	305,344
Statutory minimum liquid reserve	9,032,000	-	-	9,032,000	-	-	-	-	9,032,000	8,372,000
Under regulatory agreements	-	-	-	-	178,245	437,061	-	-	615,306	944,088
Total assets whose use is limited	31,794,802	-	-	31,794,802	178,245	437,061	-	-	32,410,108	29,740,409
Long-Term Investments	8,642,382	-	-	8,642,382	-	-	-	-	8,642,382	7,838,786
Long-Term Investments Restricted By Donors	11,845,038	-	-	11,845,038	-	-	-	-	11,845,038	12,014,876
Property and Equipment, Net	113,991,002	456,937	-	114,447,939	1,677,832	4,132,688	1,960,476	-	122,218,935	119,609,713
Deferred Financing Costs, Net	1,791,208	-	-	1,791,208	76,935	-	-	-	1,868,143	1,512,479
Costs of Acquiring Initial Continuing-Care Contracts, Net	1,134,734	-	-	1,134,734	-	-	-	-	1,134,734	1,386,896
Investment in BV Realty, LLC	814,281	-	-	814,281	-	-	-	(814,281)	-	-
Other Assets	139,749	-	-	139,749	19,465	20,589	-	-	179,803	177,747
Beneficial Interest in Perpetual Trusts	1,050,210	-	-	1,050,210	-	-	-	-	1,050,210	1,132,738
Total assets	\$ 182,855,664	\$ 639,625	\$ (815,458)	\$ 182,679,831	\$ 1,993,243	\$ 4,633,159	\$ 2,183,467	\$ (863,295)	\$ 190,626,405	\$ 183,660,252

Brethren Village and Controlled Entities

 Consolidating Schedule, Balance Sheet
 June 30, 2016 (With Comparative Totals for June 30, 2015)

	Brethren Village	Rehabilitation Center at Brethren Village, LLC	Eliminations	Obligated Group	Brethren Services, Inc.	Brethren Services II, Inc.	Brethren Village Realty, LLC	Eliminations	Consolidated	
									2016	2015
Liabilities and Net Assets (Deficit)										
Current Liabilities										
Current maturities of long-term debt	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ 42,199	\$ -	\$ 128,919	\$ -	\$ 2,171,118	\$ 1,903,403
Accounts payable, trade	1,020,207	-	-	1,020,207	4,435	3,806	-	-	1,028,448	965,269
Accounts payable, construction	755,260	-	-	755,260	-	-	-	-	755,260	1,563,025
Accrued expenses:										
Interest	3,570,139	-	-	3,570,139	13,759	-	-	-	3,583,898	3,379,499
Health insurance	218,326	-	-	218,326	-	-	-	-	218,326	150,000
Paid time off	697,423	-	-	697,423	-	-	-	-	697,423	592,379
Salaries and wages	782,840	-	-	782,840	8,970	8,440	-	-	800,250	673,063
Other	171,689	-	-	171,689	12,028	-	-	-	183,717	249,483
Due to affiliate	-	815,458	(815,458)	-	26,815	22,199	-	(49,014)	-	-
Total current liabilities	9,215,884	815,458	(815,458)	9,215,884	108,206	34,445	128,919	(49,014)	9,438,440	9,476,121
Long-Term Debt	111,955,000	-	-	111,955,000	3,266,523	1,317,275	1,240,267	-	117,779,065	109,950,185
Refundable Fees and Deposits	27,927,591	-	-	27,927,591	-	-	-	-	27,927,591	27,549,611
Deferred Revenues from Entrance Fees	28,147,307	-	-	28,147,307	-	-	-	-	28,147,307	27,195,082
Obligation to Provide Future Services	-	-	-	-	-	-	-	-	-	4,537,000
Split-Interest Obligations	780,119	-	-	780,119	-	-	-	-	780,119	853,966
Accrued Pension Cost	4,098,441	-	-	4,098,441	-	-	-	-	4,098,441	3,054,573
Other Liabilities	-	-	-	-	19,154	20,589	-	-	39,743	38,033
Total liabilities	182,124,342	815,458	(815,458)	182,124,342	3,393,883	1,372,309	1,369,186	(49,014)	188,210,706	182,654,571
Net Assets (Deficit)										
Unrestricted	(12,209,489)	(175,833)	-	(12,385,322)	(1,400,640)	3,260,850	814,281	(814,281)	(10,525,112)	(12,410,654)
Temporarily restricted	2,001,219	-	-	2,001,219	-	-	-	-	2,001,219	2,344,717
Permanently restricted	10,939,592	-	-	10,939,592	-	-	-	-	10,939,592	11,071,618
Total net assets (deficit)	731,322	(175,833)	-	555,489	(1,400,640)	3,260,850	814,281	(814,281)	2,415,699	1,005,681
Total liabilities and net assets (deficit)	\$ 182,855,664	\$ 639,625	\$ (815,458)	\$ 182,679,831	\$ 1,993,243	\$ 4,633,159	\$ 2,183,467	\$ (863,295)	\$ 190,626,405	\$ 183,660,252

Brethren Village and Controlled Entities

Consolidating Schedule, Revenues In Excess of (Less Than) Expenses
 Year Ended June 30, 2016
 (With Comparative Totals for the Year Ended June 30, 2015)

	Brethren Village	Rehabilitation Center at Brethren Village, LLC	Eliminations	Obligated Group	Brethren Services, Inc.	Brethren Services II, Inc.	Brethren Village Realty, LLC	Eliminations	Consolidated	
									2016	2015
Unrestricted Revenues										
Resident service revenues:										
Nursing	\$ 14,873,475	\$ 181,688	\$ -	\$ 15,055,163	\$ -	\$ -	\$ -	\$ -	\$ 15,055,163	\$ 14,107,535
Personal care and independent living	22,367,716	-	-	22,367,716	-	-	-	-	22,367,716	21,469,501
Ancillary services	3,523,273	-	-	3,523,273	-	-	-	-	3,523,273	2,708,302
Home health care	713,941	-	-	713,941	-	-	-	-	713,941	820,512
Other	1,479,340	-	-	1,479,340	551,922	303,924	-	-	2,335,186	2,389,726
Total	42,957,745	181,688	-	43,139,433	551,922	303,924	-	-	43,995,279	41,495,576
Less contractual adjustments and benevolent care										
	5,886,128	-	-	5,886,128	-	-	-	-	5,886,128	4,807,922
Net resident service revenues	37,071,617	181,688	-	37,253,305	551,922	303,924	-	-	38,109,151	36,687,654
Change in obligation to provide future services										
Net assets released from restrictions used for:										
Interest expense	16,451	-	-	16,451	-	-	-	-	16,451	98,616
Benevolent care	605,000	-	-	605,000	-	-	-	-	605,000	530,000
Operations	221,368	-	-	221,368	-	-	-	-	221,368	-
Unrestricted contributions	933,621	-	-	933,621	-	-	-	-	933,621	789,294
Other revenues	647,410	-	(179,920)	467,490	224	1,232	115,442	-	584,388	373,724
Total unrestricted revenues	44,032,467	181,688	(179,920)	44,034,235	552,146	305,156	115,442	-	45,006,979	39,756,288

Brethren Village and Controlled Entities

Consolidating Schedule, Revenues In Excess of (Less Than) Expenses
 Year Ended June 30, 2016
 (With Comparative Totals for the Year Ended June 30, 2015)

	Brethren Village	Rehabilitation Center at Brethren Village, LLC	Eliminations	Obligated Group	Brethren Services, Inc.	Brethren Services II, Inc.	Brethren Village Realty, LLC	Eliminations	Consolidated	
									2016	2015
Expenses										
Health care:										
Nursing care	\$ 6,622,006	\$ 451,649	\$ -	\$ 7,073,655	\$ -	\$ -	\$ -	\$ -	\$ 7,073,655	\$ 5,959,234
Personal care	2,931,416	-	-	2,931,416	-	-	-	-	2,931,416	2,752,232
Physical, occupational, speech, and recreational therapy	1,225,253	-	-	1,225,253	-	-	-	-	1,225,253	1,246,292
Pharmaceuticals	198,574	-	-	198,574	-	-	-	-	198,574	239,200
Total	10,977,249	451,649		11,428,898	-	-	-	-	11,428,898	10,196,958
General and administrative	5,512,187	179,920	(179,920)	5,512,187	112,766	111,945	588	-	5,737,486	5,452,497
Plant operations	4,446,629	-	-	4,446,629	205,436	182,572	-	-	4,834,637	4,716,739
Dining services	4,267,691	-	-	4,267,691	-	-	-	-	4,267,691	3,861,458
Housekeeping	1,272,009	-	-	1,272,009	-	-	-	-	1,272,009	1,148,721
Home care	765,312	-	-	765,312	-	-	-	-	765,312	890,409
Social services and activities	810,030	-	-	810,030	-	-	-	-	810,030	688,301
Laundry	221,703	-	-	221,703	-	-	-	-	221,703	221,481
Barber and beauty shop	163,589	-	-	163,589	-	-	-	-	163,589	169,429
Total expenses excluding depreciation, amortization, and interest	28,436,399	631,569	(179,920)	28,888,048	318,202	294,517	588	-	29,501,355	27,345,993
Operating income before depreciation, amortization, and interest	15,596,068	(449,881)	-	15,146,187	233,944	10,639	114,854	-	15,505,624	12,410,295
Depreciation	6,164,998	6,502	-	6,171,500	139,549	289,543	74,258	-	6,674,850	6,353,183
Amortization	356,315	-	-	356,315	2,386	-	-	-	358,701	349,566
Interest	6,737,629	-	-	6,737,629	166,032	-	65,621	-	6,969,282	6,910,558
Total	13,258,942	6,502	-	13,265,444	307,967	289,543	139,879	-	14,002,833	13,613,307
Operating income (loss)	2,337,126	(456,383)	-	1,880,743	(74,023)	(278,904)	(25,025)	-	1,502,791	(1,203,012)
Loss from Investment in BV Realty, LLC	(25,025)	-	-	(25,025)	-	-	-	25,025	-	-
Loss on Change in Development Plans	(180,014)	-	-	(180,014)	-	-	-	-	(180,014)	-
Investment Income	1,541,750	-	-	1,541,750	-	-	-	-	1,541,750	457,815
Transfers (to) from Affiliates	(280,550)	280,550	-	-	-	-	-	-	-	-
Revenues in excess of (less than) expenses	\$ 3,393,287	\$ (175,833)	\$ -	\$ 3,217,454	\$ (74,023)	\$ (278,904)	\$ (25,025)	\$ 25,025	\$ 2,864,527	\$ (745,197)

APPENDIX C
FINANCIAL FORECAST

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Brethren Village Obligated Group

Special-Purpose Consolidated Forecasted
Financial Statements
For the Five Years Ending
June 30, 2021
and
Independent Accountants' Report



Candor. Insight. Results.

Brethren Village Obligated Group

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Independent Accountants' Report

Board of Directors
Brethren Village

We have examined the accompanying special-purpose consolidated forecasted balance sheets and statements of operations and changes in net assets (deficit) and cash flows of Brethren Village (the Village) and its controlled entity, Rehabilitation Center at Brethren Village, LLC (BV Rehab) as of and for each of the five years ending June 30, 2021. The Brethren Village Obligated Group (the Obligated Group) is comprised of Brethren Village and BV Rehab. The Obligated Group's management is responsible for the special-purpose consolidated forecast. Our responsibility is to express an opinion on the special-purpose consolidated forecast based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the special-purpose consolidated forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying special-purpose consolidated forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's special-purpose consolidated forecast.

The accompanying special-purpose consolidated forecasted schedule of debt service coverage ratio and days cash on hand on page 2 is presented for purposes of additional analysis and is not a required part of the special-purpose consolidated financial forecast. Such information has been subjected to procedures applied in the examination of the special-purpose consolidated financial forecast, and in our opinion, is fairly stated in all material respects in relation to the special-purpose consolidated financial forecast taken as a whole.

However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
March 15, 2017

Brethren Village Obligated Group

Special-Purpose Consolidated Forecasted Schedule of Debt Service Coverage Ratio and Days Cash on Hand

As of and For Each of the Years Ending June 30, 2017 - 2021

(In thousands of dollars)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Debt Service Coverage Ratio					
Revenues available for debt service:					
Revenues less than expenses	\$ (6,009)	\$ (1,489)	\$ (1,271)	\$ (1,011)	\$ (771)
Depreciation	6,743	6,896	7,282	7,232	7,146
Amortization	372	344	380	380	254
Interest	6,812	6,162	6,608	6,358	6,206
Loss on refunding	2,770	-	-	-	-
Proceeds from entrance fees and deposits, existing units, net	5,349	5,462	5,573	5,686	5,794
Amortization of entrance fees	<u>(4,044)</u>	<u>(4,601)</u>	<u>(5,112)</u>	<u>(5,153)</u>	<u>(5,200)</u>
Revenues available for debt service	<u>\$ 11,993</u>	<u>\$ 12,774</u>	<u>\$ 13,460</u>	<u>\$ 13,492</u>	<u>\$ 13,429</u>
Maximum annual debt service (1)	<u>\$ 8,489</u>	<u>\$ 8,490</u>	<u>\$ 9,411</u>	<u>\$ 9,411</u>	<u>\$ 9,411</u>
Debt service coverage ratio (2)	<u>1.41</u>	<u>1.50</u>	<u>1.43</u>	<u>1.43</u>	<u>1.43</u>
Days Cash on Hand					
Total expenses	\$ 45,018	\$ 46,070	\$ 48,211	\$ 48,927	\$ 49,577
Less:					
Depreciation	6,743	6,896	7,282	7,232	7,146
Amortization	<u>372</u>	<u>344</u>	<u>380</u>	<u>380</u>	<u>254</u>
Total cash operating expenses	37,903	38,830	40,549	41,315	42,177
365/366 days	<u>365</u>	<u>365</u>	<u>365</u>	<u>366</u>	<u>365</u>
Daily cash operating expenses	<u>\$ 104</u>	<u>\$ 106</u>	<u>\$ 111</u>	<u>\$ 113</u>	<u>\$ 116</u>
Unrestricted cash and investments:					
Cash and cash equivalents	\$ 2,130	\$ 2,238	\$ 2,325	\$ 2,388	\$ 2,464
Board-designated assets whose use is limited	20,297	26,248	27,594	28,929	30,283
Long-term investments	<u>8,815</u>	<u>8,992</u>	<u>9,171</u>	<u>9,355</u>	<u>9,542</u>
Total unrestricted cash and investments	<u>\$ 31,242</u>	<u>\$ 37,478</u>	<u>\$ 39,090</u>	<u>\$ 40,672</u>	<u>\$ 42,289</u>
Days cash on hand (3)	<u>300</u>	<u>354</u>	<u>352</u>	<u>360</u>	<u>365</u>

Notes:

- (1) The determination of maximum annual debt service in 2017 and 2018 excludes the commercial bank loan. The determination of maximum annual debt service in 2019 excludes \$5,000,000 of principal payments made on the commercial bank loan in 2019 using the proceeds from entrance fees.
- (2) The debt service coverage ratio is calculated by dividing revenues available for debt service by maximum annual debt service.
- (3) Days cash on hand is calculated by dividing unrestricted cash and investments by daily cash operating expenses.

Brethren Village Obligated Group

Special-Purpose Consolidated Forecasted Balance Sheets

June 30, 2017 - 2021

(In thousands of dollars)

	2017	2018	2019	2020	2021
Assets					
Current Assets					
Cash and cash equivalents	\$ 2,130	\$ 2,238	\$ 2,325	\$ 2,388	\$ 2,464
Assets whose use is limited	1,855	10,671	5,964	6,041	6,121
Accounts receivable, residents, net	828	888	934	957	984
Entrance fees receivable	951	970	989	1,006	1,029
Pledges receivable, net	526	326	126	-	-
Prepaid expenses and other current assets	277	303	315	322	331
Due from affiliate	49	49	49	49	49
Total current assets	6,616	15,445	10,702	10,763	10,978
Assets Whose Use Is Limited					
Board-designated	20,297	26,248	27,594	28,929	30,283
Under trust indenture, held by trustee	3,574	-	-	-	-
Statutory minimum liquid reserve	4,915	9,070	9,334	9,329	9,320
Total assets whose use is limited	28,786	35,318	36,928	38,258	39,603
Long-Term Investments	8,815	8,992	9,171	9,355	9,542
Long-Term Investments Restricted by Donors	12,082	12,324	12,570	12,821	13,078
Property and Equipment, Net	117,117	135,336	130,348	125,609	120,943
Deferred Financing Costs, Net	1,986	1,894	1,802	1,710	1,619
Costs of Acquiring Initial Continuing Care Contracts, Net	1,213	1,030	742	454	291
Investment in BV Realty, LLC	814	814	814	814	814
Other Assets	140	140	140	140	140
Beneficial Interest in Perpetual Trusts	1,050	1,050	1,050	1,050	1,050
Total assets	\$ 178,619	\$ 212,343	\$ 204,267	\$ 200,974	\$ 198,058
Liabilities and Net Assets (Deficit)					
Current Liabilities					
Current maturities of long-term debt	\$ 165	\$ 7,438	\$ 2,909	\$ 3,053	\$ 3,203
Accounts payable	554	607	630	645	661
Accrued expenses:					
Interest	1,690	3,233	3,055	2,988	2,918
Salaries, wages, and benefits	1,373	1,625	1,687	1,735	1,794
Other	185	202	210	215	221
Total current liabilities	3,967	13,105	8,491	8,636	8,797
Long-Term Debt	117,619	125,192	122,283	119,230	116,027
Refundable Fees and Deposits	28,060	36,925	37,064	37,205	37,348
Deferred Revenue from Entrance Fees	29,345	38,715	39,056	39,465	39,939
Split-interest Obligations	780	780	780	780	780
Accrued Pension Cost	3,958	3,944	3,927	3,916	3,678
Total liabilities	183,729	218,661	211,601	209,232	206,569
Net Assets (Deficit)					
Unrestricted	(18,087)	(19,337)	(20,399)	(21,448)	(21,958)
Temporarily restricted	2,038	2,080	2,126	2,251	2,508
Permanently restricted	10,939	10,939	10,939	10,939	10,939
Total net assets (deficit)	(5,110)	(6,318)	(7,334)	(8,258)	(8,511)
Total liabilities and net assets (deficit)	\$ 178,619	\$ 212,343	\$ 204,267	\$ 200,974	\$ 198,058

See Independent Accountants' Report and Summary of Significant Forecast Assumptions and Accounting Policies

Brethren Village Obligated Group

Special-Purpose Consolidated Forecasted Statements of Operations and Changes in Net Assets (Deficit)

For Each of the Years Ending June 30, 2017 - 2021

(In thousands of dollars)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Unrestricted Revenues					
Net resident service revenues	\$ 38,988	\$ 41,753	\$ 43,995	\$ 45,030	\$ 45,987
Net assets released from restrictions	805	708	708	634	508
Unrestricted contributions	900	918	936	955	974
Other revenues	477	486	496	506	516
Total unrestricted revenues	<u>41,170</u>	<u>43,865</u>	<u>46,135</u>	<u>47,125</u>	<u>47,985</u>
Expenses					
Salaries and wages	14,461	14,861	15,325	15,708	16,100
Payroll taxes and employee benefits	4,338	4,607	4,904	5,184	5,474
Contracted services - nurse agency	1,244	1,299	1,332	1,369	1,399
Physical, occupational, and speech therapy	1,380	1,616	1,654	1,695	1,731
Pharmaceuticals	318	407	417	428	438
Contracted services	1,761	1,848	1,925	1,975	2,022
Real estate taxes	307	358	365	373	380
Food	1,479	1,531	1,570	1,612	1,649
Utilities	1,494	1,619	1,733	1,785	1,839
Maintenance and repair	111	120	128	131	134
Insurance	323	344	373	382	392
Other	3,563	3,744	3,901	4,001	4,099
Nursing home assessment	312	314	314	314	314
Depreciation	6,743	6,896	7,282	7,232	7,146
Amortization	372	344	380	380	254
Interest	6,812	6,162	6,608	6,358	6,206
Total expenses	<u>45,018</u>	<u>46,070</u>	<u>48,211</u>	<u>48,927</u>	<u>49,577</u>
Operating loss	(3,848)	(2,205)	(2,076)	(1,802)	(1,592)
Investment Income	609	716	805	791	821
Loss on Refunding	(2,770)	-	-	-	-
Revenues less than expenses	(6,009)	(1,489)	(1,271)	(1,011)	(771)
Pension Liability Adjustment	307	239	209	(38)	261
Change in unrestricted net deficit	<u>(5,702)</u>	<u>(1,250)</u>	<u>(1,062)</u>	<u>(1,049)</u>	<u>(510)</u>
Temporarily Restricted Net Assets					
Investment income	237	242	246	251	257
Contributions	605	508	508	508	508
Net assets released from restrictions for operations	(805)	(708)	(708)	(634)	(508)
Change in temporarily restricted net assets	<u>37</u>	<u>42</u>	<u>46</u>	<u>125</u>	<u>257</u>
Change in net assets (deficit)	(5,665)	(1,208)	(1,016)	(924)	(253)
Net Assets (Deficit), Beginning	<u>555</u>	<u>(5,110)</u>	<u>(6,318)</u>	<u>(7,334)</u>	<u>(8,258)</u>
Net Deficit, Ending	<u>\$ (5,110)</u>	<u>\$ (6,318)</u>	<u>\$ (7,334)</u>	<u>\$ (8,258)</u>	<u>\$ (8,511)</u>

See Independent Accountants' Report and Summary of Significant Forecast Assumptions and Accounting Policies

Brethren Village Obligated Group

Special-Purpose Consolidated Forecasted Statements of Cash Flows
For Each of the Years Ending June 30, 2017 - 2021
(In thousands of dollars)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Cash Flows from Operating Activities					
Change in net assets (deficit)	\$ (5,665)	\$ (1,208)	\$ (1,016)	\$ (924)	\$ (253)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:					
Depreciation and amortization	7,115	7,240	7,662	7,612	7,400
Loss on refunding	2,770	-	-	-	-
Proceeds from nonrefundable entrance fees and deposits, existing units	5,760	5,881	6,000	6,122	6,238
Amortization of entrance fees	(4,044)	(4,601)	(5,112)	(5,153)	(5,200)
Pension liability adjustment	(307)	(239)	(209)	38	(261)
Changes in assets and liabilities:					
Accounts receivable, residents	151	(60)	(46)	(23)	(27)
Prepaid expenses and other current assets	632	(26)	(12)	(7)	(9)
Accounts payable, trade	(466)	53	23	15	16
Accrued expenses	(146)	494	262	4	88
Accrued interest	(249)	1,543	(178)	(67)	(70)
Net cash provided by operating activities	<u>5,551</u>	<u>9,077</u>	<u>7,374</u>	<u>7,617</u>	<u>7,922</u>
Cash Flows from Investing Activities					
Net sales (purchases) of investments and assets whose use is limited	6,313	(15,767)	2,672	(1,842)	(1,869)
Purchases of property and equipment	(9,412)	(25,115)	(2,294)	(2,493)	(2,480)
Payment of costs of acquiring initial continuing care contacts	(331)	(69)	-	-	-
Net cash provided by (used in) investing activities	<u>(3,430)</u>	<u>(40,951)</u>	<u>378</u>	<u>(4,335)</u>	<u>(4,349)</u>
Cash Flows from Financing Activities					
Repayment of long-term debt	(2,000)	(165)	(7,438)	(2,909)	(3,053)
Deposit into trustee-held escrow	(105,245)	-	-	-	-
Proceeds from long-term debt	107,944	15,011	-	-	-
Payment of deferred financing costs	(1,586)	-	-	-	-
Proceeds from refundable entrance fees and deposits, existing units	1,679	1,713	1,747	1,782	1,818
Proceeds from entrance fees and deposits, new units	-	17,355	-	-	-
Refunds of entrance fees and deposits	(2,090)	(2,132)	(2,174)	(2,218)	(2,262)
Collections, pledges receivable	200	200	200	126	-
Payment of accounts payable, construction	(755)	-	-	-	-
Net cash provided by (used in) financing activities	<u>(1,853)</u>	<u>31,982</u>	<u>(7,665)</u>	<u>(3,219)</u>	<u>(3,497)</u>
Net increase in cash and cash equivalents	268	108	87	63	76
Cash and Cash Equivalents, beginning of year	<u>1,862</u>	<u>2,130</u>	<u>2,238</u>	<u>2,325</u>	<u>2,388</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,130</u>	<u>\$ 2,238</u>	<u>\$ 2,325</u>	<u>\$ 2,388</u>	<u>\$ 2,464</u>
Supplemental Disclosure of Cash Flow Information					
Interest paid, net of capitalized interest	<u>\$ 7,084</u>	<u>\$ 4,750</u>	<u>\$ 6,632</u>	<u>\$ 6,425</u>	<u>\$ 6,276</u>

See Independent Accountants' Report and Summary of Significant Forecast Assumptions and Accounting Policies

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Background of the Obligated Group

Brethren Village is the controlling entity of Rehabilitation Center at Brethren Village, LLC, Brethren Village Realty LLC, Brethren Services, Inc., and Brethren Services II, Inc. (collectively, the Corporation).

Brethren Village (the Village) is a not-for-profit corporation that operates a continuing care retirement community (CCRC) providing housing, health care, and other related services to elderly residents through the operation of a nursing facility and personal care and residential living units.

Rehabilitation Center at Brethren Village, LLC (BV Rehab) is a limited liability company whose sole member is the Village. BV Rehab operates a short-term rehabilitation center which provides both inpatient and outpatient services.

Brethren Village Realty LLC (BV Realty) is a limited liability company whose sole member is the Village. BV Realty owns and leases a condominium unit on a tract of land contiguous to the Village's campus.

Brethren Services, Inc. (BS) is a not-for-profit corporation that provides housing for low income elderly or handicapped families. The entity operates under Section 8 of the National Housing Act and is regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges, operating expenses, distributions to officers or directors, and operating methods. A significant portion of its rental income is received from HUD.

Brethren Services II, Inc. (BS II) is a not-for-profit corporation that provides housing for low income elderly families. The entity operates under Section 202 of the National Housing Act and is regulated by HUD with respect to rental charges, operating expenses, distributions to officers or directors, and operating methods. A significant portion of its rental income is received from HUD.

The Brethren Village Obligated Group (the Obligated Group) is comprised of the Village and BV Rehab. The Obligated Group is presented to comply with the requirements of the Master Trust Indenture in connection with the Obligated Group's long-term debt.

The Obligated Group's primary operations are located in Lancaster, Pennsylvania. It's primary service area is Lancaster, Pennsylvania and surrounding communities in Lancaster County, Pennsylvania.

Basis of Presentation

The special-purpose consolidated financial forecast does not reflect the financial position, results of operations, or cash flows of BV Realty, BS, and BS II. As such, the special-purpose consolidated forecasted financial statements do not reflect the consolidated financial position, results of operations, or cash flows of the Corporation in accordance with accounting principles generally accepted in the United States of America.

The accompanying special-purpose consolidated financial forecast presents to the best of the knowledge and belief of management of the Obligated Group (Management), the expected financial position, results of operations, changes in net assets (deficit), and cash flows of the Obligated Group as of and for each of the five years ending June 30, 2021. Accordingly, the special-purpose consolidated financial forecast reflects Management's judgment as of March 15, 2017, the date of this special-purpose consolidated forecast, of the expected conditions and Management's expected course of action during the forecast period.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

All significant intercompany transactions and balances have been eliminated.

The assumptions disclosed herein are those Management believes are significant to the special-purpose consolidated financial forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Description of the Project

Management has planned an expansion project which has been assumed to include 72 residential living units called Northside Court (the Project). The Project will consist of 9 buildings with eight residential living unit (RLU) apartments in each building.

Depositor Information

As of February 28, 2017, 47 prospective residents for the Project RLUs signed an Agreement and paid a ten percent entrance fee deposit (Depositors). This represents 65 percent of the 72 Project RLUs. Of the Depositors, 91 percent, 5 percent, and 4 percent chose the fee-for-service, modified Lifecare, and traditional Lifecare plan, respectively. In addition, of the Depositors, 77 percent chose the 40 percent refundable plan, 19 percent chose the 90 percent refundable plan, and 4 percent chose the 60 percent refundable plan.

Market Area Real Estate Trends

Management believes that the majority of residents moving into the Project will sell their primary residence prior to residency, based on historical patterns at the existing Village campus. The ability of prospective residents to sell their homes timely and at expected prices may have an impact on the occupancy level for the Project's RLUs. The following table summarizes real estate trends for Lancaster County, Pennsylvania.

Table 1
Real Estate Trends for Lancaster County

	2015	2016	Percent Change
Number of homes sold	5,565	6,095	9.5%
Average sales price	\$195,062	\$202,357	3.7%
Median sales price	\$175,000	\$182,000	4.0%
Average Days on Market:			
Less than 120 Days	78%	81%	
Greater than 120 Days	22%	19%	

Source: Lancaster County Association of Realtors, House Calls Vol. 2 Issue 19, February, 2017.

Additionally, the 5 year Average Sales Price for Lancaster County was \$192,419.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Unit Complement

The table below illustrates the changes in the Obligated Group's unit complement by level of care as a result of the Project.

Table 2
Unit Complement by Level of Care

	<u>Prior to Project</u>	<u>Project Changes</u>	<u>After Project</u>
RLUs:			
Apartments	400	72	472
Villas / Homes	105	-	105
Personal Care - Village Manor	80	-	80
Personal Care - Terrace Crossing	61	-	61
Nursing	120	-	120
Short-term Rehab ⁽¹⁾	20	-	20
Total	786	72	858

Source: Management.

Note:

(1) Short-term rehab beds were placed in service in April 2016.

Timing of the Project

Management has projected the following timetable for the Project:

Table 3
Project Timetable

<u>Event</u>	<u>Date</u>	<u>Number of Months</u>
Close on bank financing	March 31, 2017	-
Begin construction - 72 RLUs	March 1, 2017	-
Complete construction - 72 RLUs	June 1, 2018	16
Move-ins begin - 72 RLUs ⁽¹⁾	October 1, 2017	-
72 RLUs reach 96% occupancy	July 1, 2018	9
First Fiscal Year of Stabilized Operations	2019	-

Source: Management.

Note:

(1) Management assumes 9 buildings with 8 RLUs per building. Construction is expected to be completed on one building per month beginning October 1, 2017. Move-ins are assumed to commence upon completion of each building.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Refinancing and Project Financing

Management assumes that the proceeds from the issuance of \$102,955,000 Revenue Bonds (Brethren Village Project), Series 2017 (the Series 2017 Bonds) will be used to refund existing long-term debt (Series 2008 Bonds). The Series 2017 Bonds are assumed to be tax-exempt fixed rate bonds rated BB+ by Fitch. The Series 2017 Bonds are assumed to be issued by the Lancaster County Hospital Authority (the Authority) on or around April 1, 2017. On or around March 31, 2017, management also expects to enter into a \$20,000,000 tax-exempt commercial bank loan (\$15,000,000 permanent financing) for the financing of the Project.

A summary of the estimated sources and uses of funds to finance the Project and refund \$102,115,000 of Series 2008 Bonds, as provided by Management and Herbert J. Sims & Co., Inc. and B.C. Ziegler (the Underwriters) is presented in the following table.

Table 4
Estimated Project Sources and Uses of Funds
(in thousands of dollars)

Sources of Funds	
Series 2017 Bonds (A)	\$ 102,955
Commercial bank loan (B)	20,000
Series 2008 Bonds trustee held funds (C)	11,699
Equity contribution (D)	6,987
	<u>\$ 141,641</u>
Uses of Funds	
Construction costs (E)	\$ 24,880
Architect, engineering, and other (F)	1,024
Project contingency (G)	634
Offsite improvements (H)	200
Furniture, accessories, and equipment (F)	250
Debt service reserve funds (I)	7,822
Financing costs (J)	1,586
Refund Series 2008 Bonds and payment of accrued interest (K)	105,245
	<u>105,245</u>
Total uses of funds	<u>\$ 141,641</u>

Source: Management and Underwriters.

Notes:

- A. The Series 2017 Bonds are assumed to yield an average annual interest rate of 5.5 percent.
- B. The Obligated Group plans to use proceeds from a tax-exempt commercial bank loan to finance Project costs. The commercial bank loan is assumed to bear interest at 3.08 percent. Management assumes interest only payments will be made semi-annually for two years. Prior to March 31, 2019, Management assumes \$5,000,000 of proceeds from entrance fees from the Project RLUs will be used to pay principal on the commercial bank loan. Beginning March 31, 2019, the loan is assumed to be amortized over a 23-year period with monthly principal and interest payments.
- C. The Obligated Group will use \$11,699,000 of Series 2008 Bonds trustee held funds as a source of funding for the refunding of the Series 2008 Bonds.
- D. The Obligated Group will use \$6,987,000 of its unrestricted cash and investments as a source of funding for the Project.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

- E. Construction costs are based on a construction contract with a guaranteed maximum price (GMP) of \$24,879,693, as provided by Benchmark Construction Company, Inc.
- F. Architect, engineering, and other costs, and furniture, accessories, and equipment represent estimates by Management for such items which are not included in the GMP.
- G. Management has included a Project contingency for additional unexpected costs. The Project contingency is estimated to approximate 2.5 percent of the GMP; architect, engineering, and other costs; and furniture, accessories, and equipment.
- H. Offsite improvements of \$200,000 represent estimates by Management for additional offsite improvements contemplated in the Project that are not included in the GMP.
- I. The debt service reserve funds represent maximum annual debt service (principal and interest) on the Series 2017 Bonds.
- J. Financing costs includes underwriting fees, legal fees, financial forecast fees, and other fees related to issuance of the Series 2017 Bonds.
- K. The Series 2017 Bonds will be used to refund the Series 2008 Bonds.

Description of the Residency Agreement and Residential Living, Personal Care, and Skilled Nursing Services

Residency Agreement

In order to be accepted for residency in one of the Village's residential living units, prospective residents must generally be at least 62 years of age (in the case of a couple, only one must meet this age requirement and the spouse must be at least 55 years of age or older), complete an application including disclosure of financial and medical information, and pay an application fee in the amount of \$100. Upon acceptance of the application, a prospective resident is required to execute a Residency Agreement (the Agreement) and pay a deposit equal to five percent of the entrance fee for the unit selected. The Agreement requires the remaining balance of the entrance fee to be paid on or before occupancy of the unit.

Residents may rescind the Agreement with or without cause within seven days following execution (Rescission Period) by providing written notice to the Village. Residents terminating the Residency Agreement during the Rescission Period will receive a full refund of any entrance fee payments. Residents may also terminate the Agreement with or without cause after the Rescission Period by providing written notice to the Village. Residents terminating the Agreement after the Rescission Period but prior to occupancy or the designated occupancy date, whichever is earlier, will generally receive a refund of any entrance fee payments, with interest. Residents may also terminate the Agreement with or without cause after occupancy by providing written notice to the Village. Further, the Agreement is considered to be terminated upon a resident's death or transfer to another level of care. For Agreements terminated after occupancy, residents may receive a refund of a portion of the entrance fee paid, as outlined in the Agreement.

Under certain entrance fee plans for RLUs, the Village receives payments in advance. Residents currently have the option of selecting a 90% refundable contract or a nonrefundable contract for existing RLUs. At various times the Village has also offered other refundable contracts which have ranged from 15% to 95% refundable. For Project RLUs, residents have the option of selecting a 40%, 60%, or 90% refundable contract. The refundable contracts have a guaranteed refund component and a nonrefundable component. The nonrefundable component, depending upon the terms of the contract, may not be refundable or may be refundable on a decreasing basis over a period of up to 5 years.

The guaranteed refund component of entrance fees received is classified as refundable fees and deposits in the special-purpose consolidated forecasted balance sheets. The balance of entrance fees received is amortized to income using the straight-line method over the annually adjusted estimated remaining life expectancies of the residents and is classified as deferred revenue from entrance fees in the special-purpose consolidated forecasted balance sheets.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

For all Agreements executed before July 1, 2011, except the Agreements related to the residential living apartments placed in service during 2009, refunds to residents are generally paid at the time of resale of the residential living unit. For Agreements related to the residential living apartments placed in service during 2009 and for all other Agreements executed after July 1, 2011, refunds to residents are generally paid only after the resident is no longer a resident of the Village and after the resale of the residential living unit.

The majority of services provided to the Village's residential living residents, excluding the residents in the residential living apartments placed in service during 2009, are paid for on a "fee-for-service" basis and are not included under the entrance fee plans.

There are three different contract types for the residential living apartments placed in service during 2009: a "fee-for-service" contract, a "life care" contract, and a "modified life care" contract. Under the life care contracts, residential living residents are entitled to personal care or skilled nursing care, as needed, with only minor changes in the current monthly service fee. Under the modified life care contract, residential living residents are entitled to a \$1,000 benefit per month, to a maximum of \$60,000, for personal care or skilled nursing care, as needed. Following the accumulation of \$60,000, personal care or skilled nursing care, as needed, is paid for on a "fee-for-service" basis. The Village also began offering these contract types to new residents in the Village's Fieldcrest residential living units beginning November 2011.

The Village also offers a rental option with no entrance fee for certain residential living apartments.

All ancillary services and miscellaneous charges not covered or included in the monthly fee are charged to and shall be paid by residents. A description of the ancillary services not covered or included in the monthly fee is provided to residents upon admission.

Residential Living Services

Under the Agreement, in exchange for payment of the respective monthly fee and, in most cases, the respective entrance fee, the Village will provide the following services and amenities to residential living residents:

- Unit maintenance, including snow removal and annual cleaning
- All utilities (effective July 1, 2015, telephone, cable television, and internet services are included)
- Scheduled campus shuttle service and shopping trips
- A 24-hour emergency call system and security staff
- Wellness programs, including heated indoor pool and fitness rooms
- Various recreational, educational, cultural, and social programs
- Parking
- Priority admission to the personal care units so long as space is available

Additional services including meals, housekeeping services, beauty salon, non-scheduled transportation, and other ancillary services not covered by the Agreement are available to residential living residents for an additional fee.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Personal Care and Skilled Nursing Services

Personal care and skilled nursing (including short-term rehabilitation) services are offered on a fee-for-service basis. Personal care residents receive three meals per day as well as assistance with administration of medication and activities of daily living (ADLs), which include bathing, dressing, grooming, toileting, transferring, and eating. Skilled nursing services include all of the services provided in personal care with additional assistance with ADLs and nursing care. Such services are provided pursuant to an admissions agreement for the respective level of care.

Forecasted Utilization

The following tables summarize the utilization of services for each level of care:

Table 5
Utilization of Residential Living Units

	<u>Average Available Units</u>	<u>Average Occupied Units</u>	<u>Total Average % Occupancy</u>
Historical:			
2014	499	481	96%
2015	505	483	96%
2016	505	482	95%
Forecasted:			
2017 ⁽¹⁾	505	485	96%
2018 ⁽²⁾	534	514	96%
2019 - 2021	577	554	96%

Source: Management.

Notes:

- (1) Year-to-date occupancy through February 28, 2017 is 96%.
- (2) Management assumed that 72 RLUs become available for occupancy at a rate of 8 units per month beginning in October 2017.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Management assumed double occupancy for approximately 37 percent of the existing RLUs and 50 percent of the Project RLUs.

Table 6
Utilization of Personal Care Units – Village Manor

	<u>Average Available Units</u>	<u>Average Occupied Units</u>	<u>Total Average % Occupancy</u>
Historical:			
2014	80	77	96%
2015	80	76	95%
2016	80	77	96%
Forecasted, 2017 - 2021 ⁽¹⁾	80	78	97%

Source: Management.

Note:

(1) Year-to-date occupancy through February 28, 2017 is 96%.

Table 7
Utilization of Personal Care Units – Terrace Crossing

	<u>Average Available Units</u>	<u>Average Occupied Units</u>	<u>Total Average % Occupancy</u>
Historical, 2014 - 2016	61	59	96%
Forecasted: 2017 - 2021 ⁽¹⁾	61	59	96%

Source: Management.

Note:

(1) Year-to-date occupancy through February 28, 2017 is 95%.

Management assumed approximately 900 second person days annually for the personal care units.

Table 8
Utilization of Skilled Nursing Beds

	<u>Average Available Beds</u>	<u>Average Occupied Beds</u>	<u>Total Average % Occupancy</u>
Historical:			
2014	120	118	98%
2015	120	117	97%
2016	120	118	98%
Forecasted: 2017 - 2021 ⁽¹⁾	120	118	98%

Source: Management.

Note:

(1) Year-to-date occupancy through February 28, 2017 is 97%.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Table 9
Utilization of Short-Term Rehabilitation Beds

	Average Available Beds	Average Occupied Beds	Total Average % Occupancy
Historical, 2016 ⁽¹⁾	4	1	31%
Forecasted: 2017 ⁽²⁾	20	13	63%
2018 - 2021	20	17	83%

Source: Management.

Notes:

- (1) 20 short-term rehabilitation beds were available for occupancy on April 15, 2016.
- (2) Year-to-date occupancy through February 28, 2017 is 63%.

Forecasted Move-Ins

The following table summarizes the forecasted move-in schedule for the Project RLUs:

Table 10
**Project Residential Living Units
Move-In Schedule**

Month / Year	Number of Move-Ins	Total Move-Ins
2017		
October	7	7
November	8	15
December	8	23
2018		
January	8	31
February	8	39
March	8	47
April	8	55
May	8	63
June	6	69

Source: Management.

Note:

- (1) Project RLUs are forecasted to be occupied as they become available.

Forecasted Resident Attrition

Management assumed that 45 of the existing RLUs would be vacated each year throughout the forecast period as a result of independent living residents transferring from independent living due to resident attrition, termination of the Agreement, or permanent transfer to personal care. Management also assumed that new Agreements would be executed each year for the vacated RLUs.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the special-purpose consolidated forecasted financial statements, cash and cash equivalents includes investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited, long-term investments, and long-term investments restricted by donors.

Accounts and Entrance Fees Receivable

Accounts and entrance fees receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections for accounts and entrance fees receivable is estimated based upon a periodic review of individual accounts.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the special-purpose consolidated forecasted balance sheets. The fair value of substantially all securities is determined by quoted market prices. Investment income (primarily interest and dividends) is included in revenues less than expenses unless the income or loss is restricted by donor or law. Management has not included any unrealized or realized gains or losses in the special-purpose consolidated forecasted financial statements.

The Obligated Group's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the special-purpose consolidated forecasted balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the special-purpose consolidated forecasted balance sheets could change materially during the forecast period.

Assets Whose Use is Limited

Assets whose use is limited include assets designated by the board of directors for benevolent care over which the board retains control and may, at its discretion, subsequently use for other purposes and assets held by a trustee under a trust indenture, both of which may include assets designated to meet the statutory minimum liquid reserve requirements of Section 9 of the Commonwealth of Pennsylvania's Continuing Care Provider Registration and Disclosure Act (Act 82). Amounts available to meet current liabilities are classified as current assets in the special-purpose consolidated forecasted balance sheets.

Long-Term Investments

Long-term investments include assets available for the general use and purposes of the Village.

Long-Term Investments Restricted By Donors

Long-term investments restricted by donors include assets to be held by the Village in perpetuity and assets whose use by the Village has been limited by donors to specific purposes or time periods.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as part of the cost of acquiring those assets.

Impairment of Property and Equipment

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. Management has not forecasted any impairment losses during the forecast period.

Pledges Receivable

Pledges receivable represent unconditional promises to give that are expected to be collected in future years. The pledges are recorded as temporarily restricted contributions at the present value of estimated future cash flows. The discounts on the pledged amounts approximate current market rates at initial recognition. Amortization of the discounts is reported as contributions in the temporarily restricted net asset class. Management has assumed collections of pledges receivable of \$200,000 in 2017 through 2019 and \$126,000 in 2020.

Deferred Financing Costs

Deferred financing costs include financing fees related to the Series 2017 and Series 2015 Bonds and commercial bank loan. Deferred financing costs are classified as an asset rather than a reduction of long-term debt, so that long-term debt only reflects borrowings net of payments. The deferred financing costs are amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Amortization expense is forecasted to be \$120,000 in 2017, \$92,000 in 2018 through 2020, and \$91,000 in 2021.

Costs of Acquiring Initial Continuing-Care Contracts

Costs of acquiring initial continuing-care contracts are assumed to include \$400,000 of costs incurred in connection with acquiring initial continuing-care contracts for the new RLUs, in addition to previously incurred costs in connection with acquiring initial continuing-care contracts. These costs are forecasted to be amortized over the average expected remaining lives of the initial residents under the contracts. Amortization commences when the new RLUs are substantially occupied. Amortization expense is forecasted to be \$252,000 in 2017 and 2018, \$288,000 in 2019 and 2020, and \$163,000 in 2021.

Entrance Fees

See Description of the Residency Agreement on page 10.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Obligation to Provide Future Services

The Village calculates the present value of the net cost of future services and the use of facilities to be provided to current residents (FSO Calculation) and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities (discounted at 5%) exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. Management has not forecasted any liability related to the FSO Calculation in the special-purpose consolidated forecasted balance sheets.

Split-Interest Agreements

The Village received as contributions various split-interest agreements, including charitable gift annuities and perpetual trusts.

Under the charitable gift annuity arrangements, donors transfer cash or investments to the Village and, in turn, receive a given amount payable monthly or semiannually for the remainder of their lives. The contributions received by the Village are the unconditional rights to receive the remainder interest of the gift annuities. The amount of the contribution is the difference between the cash or investments received by the Village and the present value of the estimated future payments to be distributed by the Village to the annuitants. These contributions are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the nature and existence of donor restrictions.

Under the perpetual trust arrangements, the Village recorded the assets and recognized permanently restricted contribution revenue at the fair market value of the Village's beneficial interest in the trust assets. Income earned on the trust assets and distributed to the Village is recorded as investment income in the special-purpose consolidated forecasted statements of operations and changes in net assets (deficit), unless otherwise restricted by the donor.

Management has not forecasted any activity (new contributions, changes in values, etc.) with respect to split-interest agreements during the forecast period.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Village has been limited by donors to specific purposes or time periods. Permanently restricted net assets have been restricted by donors to be maintained by the Village in perpetuity. Management assumed a decrease in temporarily restricted net assets of \$200,000 in 2017 through 2019 and \$126,000 in 2020. Management assumed no activity in permanently restricted net assets throughout the forecast period.

Net Resident Service Revenues

Net resident service revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Net resident service revenues include amortization of entrance fees of \$4,044,000 in 2017, \$4,601,000 in 2018, \$5,112,000 in 2019, \$5,153,000 in 2020, and \$5,200,000 in 2021.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Benevolent Care

The Village provides personal care services to residents who meet certain criteria at amounts less than its cost of providing care. The Village maintains records to identify and monitor the level of benevolent care it provides. Benevolent care was forecasted to be approximately 10% of personal care revenues each year during the forecast period. The level of benevolent care forecasted to be provided by the Village is \$884,000 in 2017, \$912,000 in 2018, \$940,000 in 2019, \$972,000 in 2020, and \$1,002,000 in 2021. Management has forecasted contributions restricted for benevolent care and corresponding net assets released from restrictions of \$605,000 in 2017 and \$508,000 in 2018 through 2021.

Donor-Restricted Gifts

The Village reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the special-purpose consolidated forecasted statements of operations and changes in net assets (deficit) as net assets released from restrictions.

Income Taxes

The Village is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC. BV Rehab is a disregarded entity for tax reporting purposes and is therefore included in the Village's filings.

Revenues Less Than Expenses

The special-purpose consolidated forecasted statements of operations and changes in net assets (deficit) includes the determination of revenues less than expenses. Changes in unrestricted net assets which are excluded from revenues less than expenses, consistent with industry practice, include pension liability adjustments.

New Accounting Pronouncements

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which provides comprehensive guidance on recognizing revenues from contracts and related costs. The guidance will not become effective until 2019. At the time this forecast was prepared, there was uncertainty as to how, if at all, the guidance would affect the manner in which the Obligated Group recognizes revenue. Accordingly, the special-purpose consolidated forecast continues the entity's current accounting principles related to revenue recognition throughout the forecast period.

In 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in balance sheet as a direct deduction from the carrying amount of that debt liability instead of an asset. The recognition and measurement guidance for debt issuance costs are not affected by this update. ASU 2015-03 is effective for 2017. At the time this forecast was prepared, Management has determined the impact of this standard is immaterial to the special-purpose consolidated forecasted financial statements. Accordingly, the special-purpose consolidated forecast continues the entity's historical accounting principles related to debt issuance costs.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

In 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The guidance will not become effective until 2019. At the time this forecast was prepared, Management was still assessing the impact this standard will have on its financial statements. Accordingly, the special-purpose consolidated forecast continues the entity's current accounting principles related to presentation of financial statements.

Assets Whose Use is Limited

Assets whose use is limited assumed to be held by a bond trustee under a trust indenture for the Series 2017 and 2015 Bonds are listed below. Earnings on the funds are assumed generally to be used to pay debt service on the Series 2017 and 2015 Bonds.

Debt Service Funds

The Obligated Group is required to make monthly deposits into the respective bond principal and interest accounts at amounts approximately equal to one-sixth of the next semi-annual interest payment and one-twelfth of the next annual principal payment for the Series 2017 and 2015 Bonds.

Debt Service Reserve Funds

At closing, a portion of the proceeds of the Series 2017 Bonds and other sources of funds are forecasted to be deposited into a Debt Services Reserve Fund. The Debt Service Reserve Funds requirement is assumed to be equal to the maximum annual debt service on the Series 2017 and 2015 Bonds using the Bonds' bond year which ends on July 1 of each year. Management assumes the average annual interest earnings on the assets held in the Debt Service Reserve Funds will be 0.25 percent per annum.

Statutory Reserve Disclosure – Brethren Village

Act 82 requires the Village to maintain a statutory minimum liquid reserve. The reserve amount was no more than \$4,915,000, \$9,070,000, \$9,334,000, \$9,329,000 and \$9,320,000 at June 30, 2017, 2018, 2019, 2020, and 2021, respectively. These amounts as of June 30, 2017 and June 30, 2019 through 2021 represent principal and interest (excluding capitalized interest) due on long-term debt in the subsequent fiscal year. The amount as of June 30, 2018 represents principal and interest due on long-term debt in 2019, excluding an expected principal payment of \$5,000,000 on the commercial bank loan Management assumes will be made with the proceeds from entrance fees from the Project RLUs. Because not all of the Village's residents are covered under Agreements, the actual amount of the reserve requirement is equal to the proportionate share of debt service for residents under Agreements.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Property and Equipment

Management assumes the useful lives of depreciable assets range from 5 to 40 years. For purposes of the forecast, Management assumed weighted average useful lives of approximately 27 years and 10 years for Project related assets and other capital expenditures, respectively. Property and equipment, capital expenditures, and depreciation expense are forecasted as follows:

Table 11
Property and Equipment, Capital Expenditures, and Depreciation Expense
(in thousands of dollars)

	2017	2018	2019	2020	2021
Property and equipment:					
Land	\$ 1,338	\$ 1,338	\$ 1,338	\$ 1,338	\$ 1,338
Land improvements	4,276	7,722	7,722	7,722	7,722
Buildings and building improvements	166,000	190,900	192,055	193,268	194,541
Furniture, fixtures, and equipment	18,503	19,884	21,023	22,303	23,510
Construction in progress	5,079	467	467	467	467
Subtotal	195,196	220,311	222,605	225,098	227,578
Accumulated depreciation	(78,079)	(84,975)	(92,257)	(99,489)	(106,635)
Property and equipment, net	<u>\$ 117,117</u>	<u>\$ 135,336</u>	<u>\$ 130,348</u>	<u>\$ 125,609</u>	<u>\$ 120,943</u>
Capital expenditures:					
Project related assets	\$ 4,612	\$ 22,634	\$ -	\$ -	\$ -
Other capital expenditures	4,800	2,481	2,294	2,493	2,480
Total	<u>\$ 9,412</u>	<u>\$ 25,115</u>	<u>\$ 2,294</u>	<u>\$ 2,493</u>	<u>\$ 2,480</u>
Depreciation expense	<u>\$ 6,743</u>	<u>\$ 6,896</u>	<u>\$ 7,282</u>	<u>\$ 7,232</u>	<u>\$ 7,146</u>

Source: Management.

Management assumes that interest expense capitalized into property and equipment approximates \$23,000 in 2017 and \$235,000 in 2018.

Project related assets are assumed to be transferred out of construction in progress and placed in service beginning in October 2017 through June 2018.

Line of Credit

The Village has a \$2,500,000 demand line of credit. The line of credit bears interest at the one-month LIBOR plus 235 basis points and is secured by a second mortgage lien on and security interest in the Village's property and equipment and a security interest in substantially all assets of the Village. No borrowings are forecasted on the line of credit during the forecast period.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Long-Term Debt and Interest Expense

Series 2017 Bonds

Management assumes that on or around April 18, 2017, the Authority will issue, on behalf of the Obligated Group, \$102,955,000 of Revenue Bonds. The proceeds from the Series 2017 Bonds and other sources of funds will be used to refund \$102,115,000 of Series 2008 Bonds, fund the Debt Service Reserve Fund, and pay certain costs in connection with the issuance of the Series 2017 Bonds.

The proposed Series 2017 Bonds are assumed to be Fitch BB+ rated, tax-exempt, fixed rate bonds. The proposed Series 2017 Bonds are assumed to be comprised of serial and term bonds due in varying annual installments, issued at an average annual interest rate of 5.50 percent with final maturity of July 2040.

Interest on the Series 2017 Bonds is assumed to be payable semiannually on January 1 and July 1 of each year. Principal on the Series 2017 Bonds is assumed to be paid annually on July 1 with the first principal payment on July 1, 2018.

Series 2015 Bonds

The Authority issued, on behalf of the Obligated Group, tax-exempt, fixed rate Series 2015 Bonds totaling \$10,000,000 payable in varying annual installments through 2046, plus interest payable semiannually at rates ranging from 2.625 percent to 5.50 percent.

Interest on the Series 2015 Bonds is payable semiannually on January 1 and July 1 of each year. Principal on the Series 2015 Bonds is paid annually on July 1.

Series 2008 Bonds

The Authority issued, on behalf of the Obligated Group, Series 2008 Bonds totaling \$122,715,000 payable in varying annual installments through 2040. The outstanding balance of the Series 2008 Bonds is assumed to be refunded with the proceeds from the Series 2017 Bonds and called for redemption and redeemed on July 1, 2017.

Commercial Bank Loan

Management assumes that on or around March 31, 2017, the Obligated Group will enter into a tax-exempt commercial bank loan in the amount of \$20,000,000. The proceeds from the commercial bank loan will be primarily used to finance the construction and equipping of the Project.

It has been assumed that draws on the commercial bank loan will begin in March 2017 and will end in January 2018, at which point the Obligated Group will use its equity contribution to fund remaining Project costs.

Interest on the commercial bank loan is assumed to be fixed at 3.08 percent and paid semi-annually beginning in September 2017 for two years. Management assumes \$5,000,000 of entrance fee proceeds from the Project RLUs will be used to pay principal on the commercial bank loan on or prior to March 31, 2019. After the two-year period, principal and interest payments on the commercial bank loan are assumed to be paid in monthly installments beginning in March 2019 based on a 23-year amortization period.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Long-Term Debt Summary

The following is a summary of long-term debt as of June 30:

Table 12
Summary of Long-Term Debt
(in thousands of dollars)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Series 2017 Bonds	\$ 102,955	\$ 102,955	\$ 100,800	\$ 98,525	\$ 96,125
Series 2015 Bonds	9,840	9,675	9,505	9,330	9,150
Commercial Bank Loan	4,989	20,000	14,887	14,428	13,955
Total-long term debt	117,784	132,630	125,192	122,283	119,230
Less: current portion of long-term debt	165	7,438	2,909	3,053	3,203
Long- term debt	<u>\$ 117,619</u>	<u>\$ 125,192</u>	<u>\$ 122,283</u>	<u>\$ 119,230</u>	<u>\$ 116,027</u>

Source: Management.

Annual Principal and Interest Payments

The following table presents the forecasted annual principal and interest payments on long-term debt.

Table 13
Forecasted Annual Debt Service
(in thousands of dollars)

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Years Ending June 30:			
2017 ⁽¹⁾	\$ 2,000	\$ 7,084	\$ 9,084
2018 ⁽²⁾	165	4,854	5,019
2019 ⁽³⁾	7,438	6,786	14,224
2020	2,909	6,425	9,334
2021	3,053	6,276	9,329
Thereafter	119,230	81,723	200,953
Total	<u>\$ 134,795</u>	<u>\$ 113,148</u>	<u>\$ 247,943</u>

Source: Management.

Notes:

- (1) Principal amount excludes long-term debt of \$102,115,000 refunded with proceeds from the Series 2017 Bonds.
- (2) Interest amount includes payment of capitalized interest of \$104,000 and excludes \$3,262,000 of accrued interest paid with the proceeds from the Series 2017 Bonds (of which \$1,631,000 is for the period 4/1/17 – 6/30/17).
- (3) Principal amount includes \$5,000,000 payment on commercial bank loan from entrance fee proceeds. Interest amount includes payment of capitalized interest of \$154,000.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Loss on Refunding

The refunding of the Series 2008 Bonds resulted in an accounting loss in 2017. The loss on refunding is reported in the accompanying special-purpose consolidated forecasted statement of operations and changes in net assets (deficit) and was determined as follows:

Deposit – trustee-held escrow	\$ 105,245,000
Principal	(102,115,000)
Accrued interest	<u>(1,631,000)</u>
Subtotal	1,499,000
Unamortized issuance costs	<u>1,271,000</u>
Loss on refunding	<u>\$ 2,770,000</u>

Defined Benefit Pension Plan

The Village sponsors a defined benefit pension plan for its employees. The plan provides benefits based on years of service and final average salary. On September 16, 2010, the Village's Board of Directors adopted an amendment to cease all benefit accruals under the plan effective December 31, 2010.

The following table is a summary of the plan's forecasted funded status and net periodic pension cost recognized in the special-purpose consolidated forecasted financial statements:

Table 14
Forecasted Funded Status of the Village's Defined Benefit Pension Plan
(in thousands of dollars)

For the Years Ending June 30	2017	2018	2019	2020	2021
Projected Benefit Obligation	\$ 9,490	\$ 9,442	\$ 9,385	\$ 9,329	\$ 9,248
Fair Value of Assets	<u>5,532</u>	<u>5,498</u>	<u>5,458</u>	<u>5,413</u>	<u>5,570</u>
Funded Status	<u>\$ (3,958)</u>	<u>\$ (3,944)</u>	<u>\$ (3,927)</u>	<u>\$ (3,916)</u>	<u>\$ (3,678)</u>
Net Periodic Pension Cost	<u>\$ 326</u>	<u>\$ 385</u>	<u>\$ 352</u>	<u>\$ 324</u>	<u>\$ 291</u>
Expected Benefit Payments	<u>\$ 420</u>	<u>\$ 430</u>	<u>\$ 429</u>	<u>\$ 433</u>	<u>\$ 452</u>
Expected Contributions	<u>\$ 160</u>	<u>\$ 160</u>	<u>\$ 160</u>	<u>\$ 373</u>	<u>\$ 268</u>

Source: Management.

Management assumed a discount rate of 4.0% and a long-term rate of return on plan assets of 7.0% throughout the forecast period.

Revenues

Revenues are primarily generated from monthly and daily fees received from residents and others for residential living, personal care, and skilled nursing (including short-term rehabilitation) services.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Management assumes that monthly revenues for existing RLUs will increase 2.5 percent each year during the forecast period. Management assumes that monthly fees for Project RLUs will increase 3 percent each year during the forecast period. Management assumes that daily private pay fees for personal care and skilled nursing (including short-term rehabilitation) services and daily Lifecare fees for personal care and skilled nursing services will increase 3.25 percent each year during the forecast period. Management assumes that the Medicare daily rates for skilled nursing and short-term rehabilitation services will increase 1 percent each year during the forecast period. Management assumes that the Medical Assistance daily rates for skilled nursing services will not increase during the forecast period.

Management assumes that entrance fees for all RLUs will increase 2 percent each year during the forecast period.

Management also assumes that home health revenue will increase 1 percent each year and ancillary and other resident service revenues and unrestricted contributions will increase 2 percent each year during the forecast period.

Entrance Fees

Entrance fees for existing RLUs are based on the following price schedule provided by Management.

Table 15
Entrance Fees – Residential Living Units - Existing
(in 2017 Dollars)

Type of Unit	Square Footage	# Units	Non-Refundable Entrance Fees	90% Refundable Entrance Fees (1) (2) (3)
Studio	320 - 594	34	\$31,000-\$61,500	\$81,800-\$98,400
One Bedroom	548 - 900	175	\$61,500-\$127,000	\$98,400-\$203,200
One Bedroom w/ Den	995 - 1,256	19	\$143,600-\$160,100	\$229,800-\$256,200
Two Bedroom	950 - 1,700	172	\$116,800-\$226,300	\$221,000-\$362,100
Cottage	776 - 2,236	105	\$88,800-\$327,500	\$142,100-\$524,000
Total/Weighted Average Fees (4)		505	\$142,307	\$236,556

Source: Management.

Notes:

- (1) The same entrance fee is charged for each type of contract (i.e. Traditional Lifecare, Modified Lifecare, or Fee-for-Service).
- (2) Management has not assumed any second person entrance fee for existing RLUs.
- (3) The 90% refundable plan is not offered for 24 studio units.
- (4) Management has assumed 75 percent and 25 percent of entrance fee plans are non-refundable and 90% refundable, respectively, resulting in an overall blended weighted average entrance fee of \$165,869.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Entrance fees for Project RLUs are based on the following price schedule provided by Management.

Table 16
Entrance Fees – Residential Living Units - Project
(in 2017 Dollars)

Type of Unit	Square Footage	# Units	40% Refundable Entrance Fees	60% Refundable Entrance Fees	90% Refundable Entrance Fees
Small	1,240	36	\$232,500	\$261,500	\$290,500
Medium	1,345	18	\$240,500	\$270,500	\$298,500
Large	1,428	18	\$249,500	\$284,500	\$318,500
Total/Weighted Average Fees		72	\$238,750	\$269,500	\$299,500

Source: Management.

Notes:

- (1) The same entrance fee is charged for each type of contract (i.e. Traditional Lifecare, Modified Lifecare, or Fee-for-Service).
- (2) Management has not assumed any second person entrance fee for Project RLUs.
- (3) Management has assumed 77 percent, 4 percent, and 19 percent of entrance fee plans will be 40% refundable, 60% refundable, and 90% refundable, respectively, based on contract reservations through February 28, 2017, resulting in an overall blended weighted average entrance fee of \$251,522.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Monthly Fees

Monthly fees for existing RLUs are based on the following price schedule provided by Management.

Table 17
Monthly Fees
(in 2017 Dollars)

Type of Unit	Square Footage	# Units	Monthly Fees ⁽¹⁾
Type A Contract:			
Studio	320 - 594	9	\$2,041-\$2,131
One Bedroom	548 - 900	98	\$2,131-\$2,282
One Bedroom w/ Den	995 - 1,256	19	\$2,355-\$2,549
Two Bedroom	950 - 1,700	145	\$2,355-\$2,817
Cottage	776 - 2,236	105	\$2,222-\$3,083
Total/Weighted Average Fees – Type A		376	\$2,429
Type B Contract:			
Studio	320 - 594	9	\$1,100-\$1,190
One Bedroom	548 - 900	98	\$1,190-\$1,341
One Bedroom w/ Den	995 - 1,256	19	\$1,414-\$1,608
Two Bedroom	950 - 1,700	145	\$1,414-\$1,876
Cottage	776 - 2,236	105	\$1,281-\$2,142
Total/Weighted Average Fees – Type B		376	\$1,417
Type C Contract:			
Studio	320 - 594	34	\$806-\$981
One Bedroom	548 - 900	175	\$981-\$1,132
One Bedroom w/ Den	995 - 1,256	19	\$1,205-\$1,399
Two Bedroom	950 - 1,700	172	\$1,205-\$1,667
Cottage	776 - 2,236	105	\$1,072-\$1,933
Total/Weighted Average Fees – Type C		505	\$1,211
Type D (Rental) Contract:			
Studio	320 - 594	34	\$1,156-\$1,673
One Bedroom	548 - 900	68	\$1,673-\$2,076
Total/Weighted Average Fees – Type D		102	\$1,702
Total/Weighted Average Fees ⁽²⁾		505	\$1,366

Source: Management.

Notes:

- (1) Second person monthly fee for existing RLUs is \$994, \$470, \$261, and \$262 for Type A, Type B, Type C, and Type D contracts, respectively. Management assumes 37% double occupancy throughout the forecast period.
- (2) Management assumes contract mix of 11 percent Type A, 3 percent Type B, 83 percent Type C, and 3 percent Type D throughout the forecast period.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Monthly fees for Project RLUs are based on the following price schedule provided by Management.

Table 18
Monthly Fees
(in 2017 Dollars)

Type of Unit	Square Footage	# Units	Monthly Fees ⁽¹⁾
Type A Contract:			
Small	1,240	36	\$2,644
Medium	1,345	18	\$2,737
Large	1,428	18	\$2,737
Total/Weighted Average Fees - Type A		72	\$2,691
Type B Contract:			
Small	1,240	36	\$1,668
Medium	1,345	18	\$1,761
Large	1,428	18	\$1,761
Total/Weighted Average Fees - Type B		72	\$1,715
Type C Contract:			
Small	320 - 594	36	\$1,452
Medium	548 - 900	18	\$1,545
Large	776 - 2,236	18	\$1,545
Total/Weighted Average Fees - Type C		72	\$1,499
Total/Weighted Average Fees ⁽²⁾		72	\$1,567

Source: Management.

Notes:

- (1) Second person monthly fee for Project RLUs is \$1,031, \$487, and \$271 for Type A, Type B, and Type C contracts, respectively.
- (2) Management assumes contract mix of 5 percent Type A, 4 percent Type B, and 91 percent Type C throughout the forecast period, based on contract reservations through February 28, 2017.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Daily Fees

Daily fees for personal care services are based on the following pricing schedule provided by Management:

Table 19
Personal Care - Daily Fees
(in 2017 Dollars)

Type of Unit	# Units	Daily Fees ⁽¹⁾⁽²⁾
Village Manor		
Standard	44	\$149
Medium	22	\$156
Large	10	\$181
Suite	4	\$194
Total/Weighted Average Fees - Village Manor		
	<u>80</u>	<u>\$157</u>
Terrace Crossing		
One Bedroom	32	\$215
Two Bedroom	4	\$266
Total/Weighted Average Fees - Terrace Crossing		
	<u>36</u>	<u>\$220</u>
Terrace Crossing - Memory Care		
Standard Private Suite	24	\$241
Large Private Suite	1	\$274
Total/Weighted Average Fees - Terrace Crossing Memory Support		
	<u>25</u>	<u>\$242</u>
Total/Weighted Average Fees - Personal Care		
	<u>141</u>	<u>\$188</u>

Source: Management.

Notes:

- (1) Second person daily fee for personal care is \$115.
- (2) Lifecare (Type A and B contracts) rate for permanent transfers to personal care is \$122 per day.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Daily fees for nursing care and short-term rehabilitation services are based on the following pricing schedule provided by Management:

Table 20
Skilled Nursing and Short-Term Rehabilitation - Daily Fees
(in 2017 Dollars)

Type of Unit	# Beds	Daily Fees
Skilled Nursing		
Private	78	\$345
Semi-Private	42	\$364
Total / Weighted Average Fees	120	\$357
Medicare		\$473
Medical Assistance		\$195
Short-term Rehabilitation		
Private		\$414
Medicare		\$516
Total beds	20	

Source: Management.

Note:

(1) Lifecare (Type A and B contracts) rate for permanent transfers to personal care is \$122 per day.

Skilled Nursing and Short-Term Rehabilitation Payor Mix

The historical and forecasted payor mix for the skilled nursing beds is presented in the following table.

Table 21
Skilled Nursing Payor Mix – Existing

	Private Pay	Lifecare	Medicare	Medicaid
Historical:				
2014	49%	7%	9%	35%
2015	52%	7%	9%	32%
2016	48%	6%	8%	38%
Projected,				
2017 - 2021 ⁽¹⁾	49%	6%	4%	41%

Source: Management.

Note:

(1) Year-to-date payor mix through February 28, 2017 is 50% private pay, 5% Lifecare (Type A and B contracts), 4% Medicare, and 41% Medicaid.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

The historical and forecasted payor mix for the short-term rehabilitation beds is presented in the following table.

Table 22
Short-Term Rehabilitation Payor Mix - Existing

	<u>Private Pay</u>	<u>Medicare</u>
Historical, 2016	6%	94%
Forecasted, 2017 ⁽¹⁾	7%	93%
2018 - 2021	6%	94%

Source: Management.

Note:

(1) Year-to-date payor mix through February 28, 2017 is 9% private pay and 91% Medicare.

Personal Care Payor Mix

The historical and forecasted payor mix for the Village's existing personal care units is presented in the following tables.

Table 23
Personal Care – Village Manor Payor Mix – Existing

	<u>Private Pay</u>	<u>Lifecare</u>
Historical:		
2014	97%	3%
2015	99%	1%
2016	99%	1%
Projected, 2017 - 2021 ⁽¹⁾	99%	1%

Source: Management.

Note:

(1) Year-to-date payor mix through February 28, 2017 is 99% private pay, 1% Lifecare (Type A and B contracts).

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Table 24
Personal Care – Terrace Crossing Payor Mix - Existing

	<u>Private Pay</u>	<u>Lifecare</u>
Historical:		
2014	91%	9%
2015	87%	13%
2016	87%	13%
Projected,		
2017 - 2021 ⁽¹⁾	88%	12%

Source: Management.

Note:

(1) Year-to-date payor mix through February 28, 2017 is 90% private pay and 10% Lifecare (Type A and B contracts).

Investment Income

Management assumes that investment income will equal 2.0 percent of the balance in non-trustee held funds and 0.25 percent of the balance in the debt service reserve funds each year during the forecast period.

Expenses

Operating expenses have been forecasted based upon Management's anticipated costs at the forecasted occupancy levels, historical operating experience, and anticipated costs of the Project. Further, certain expenses have been forecasted by Management contemplating the continued expansion of the Obligated Group.

Management assumes that the Obligated Group will require approximately 407 full-time-equivalent (FTE) employees in 2021. Salaries and wages, which were forecasted based on historical operating experience and the needs of the Project, were assumed to increase at a rate of 2 percent in 2017 and 2.5 percent per year in 2018 to 2021. Payroll taxes and employee benefit costs, which were forecasted based on historical operating experience and future expectations, were assumed to equal 30 percent, 31 percent, 32 percent, 33 percent, and 34 percent of salaries and wages in 2017 through 2021, respectively.

Utilities and real estate taxes were assumed to increase 3 percent and 2 percent, respectively, each year during the forecast period. All other operating expenses were generally assumed to increase 2.5 percent each year during the forecast period.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

The following is a schedule of forecasted FTEs, by department, and the average salary per FTE for 2017 and 2021:

Table 25
Projected Staffing Levels (FTEs)

	<u>FTEs 2017</u>	<u>Incremental FTEs</u>	<u>FTEs 2021</u>
Healthcare	188.5	-	188.5
Dining Services	74.4	-	74.4
Housekeeping	30.9	1.5	32.4
Home Care	14.1	-	14.1
Social Services and Activities	13.2	-	13.2
Laundry	7.0	-	7.0
Barber and Beauty	0.5	-	0.5
Plant Operations	35.1	3.0	38.1
General and Administrative	38.8	-	38.8
	<u>402.5</u>	<u>4.5</u>	<u>407.0</u>
Average salary per FTE	<u>\$35,900</u>		<u>\$39,600</u>

Source: Management

Medical Malpractice Claims Coverage

The Village maintains professional liability coverage on a claims-made basis. Other than for premiums forecasted to be paid under this policy, no provision has been made for estimated losses throughout the forecast period. Management believes no incidents have occurred or will be asserted that will exceed the Village's insurance coverage or will have a material adverse effect on the special-purpose consolidated forecasted financial statements during the forecast period.

Commitments and Contingencies

Insurance Programs

In connection with the Obligated Group's insurance program, the Obligated Group was a member of CARE, Ltd. ("CARE"), a multi-provider captive reinsurance company through September 30, 2016. The Obligated Group is required to maintain \$329,499 in irrevocable stand-by letters of credit to secure its future obligations under the terms of its insurance program.

Employee Health Insurance

The Village participates in a self-insured program for health insurance. The Village holds a stop-loss policy that limits the maximum liability for benefits payable under such claims at \$125,000. The Village does not anticipate any significant change in loss trends, settlements, or other costs that would cause a material adverse effect on the special-purpose consolidated forecasted financial statements during the forecast period .

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

Payment in Lieu of Taxes

In July 2009, using the services of legal counsel, the Village filed for exemption from real estate taxation with the County of Lancaster's Board of Assessment Appeals. Such exemption was granted. As part of filing for real estate tax exemption, the Village entered into agreements with the local taxing authorities (County of Lancaster, Manheim Township, and Manheim Township School District) in June 2010 whereby a payment in lieu of real estate taxes would be made to each taxing authority. The agreements commenced on January 1, 2010 for the County of Lancaster and Manheim Township and on July 1, 2010 for Manheim Township School District. Each agreement has an initial 10-year term and automatically renews and continues in effect thereafter for additional 10-year terms until terminated by either party upon a one year's advance written notice provided within the 9th year of the initial term or the then-current renewal term, as the case may be. Payments under the agreements are calculated using current assessed values of the exempt property and mutually agreed upon percentages which vary by taxing authority. Management assumes the current agreements will remain in effect during the forecast period.

Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effects of this matter on the Obligated Group, if any, are not presently determinable.

Regulatory Considerations

With the enactment of Patient Protection and Affordable Care Act (H.R. 3590) and Health Care and Education Affordability Reconciliation Act of 2010 (H.R. 4872) (collectively referred to herein as HC Reform), there are a number of potential future changes to the current care delivery and reimbursement systems which may have a significant impact on the utilization of long-term care services. Examples of potential changes resulting from HC Reform include, but are not limited to, the following:

- Development of programs and incentives to reimburse for services provided to seniors in their home instead of in an institutional setting;
- Changing reimbursement systems to reward and/or penalize providers based on indicators of quality and effectiveness of clinical outcomes; and
- Formation of Accountable Care Organizations, which are integrated delivery systems designed to provide a full continuum of health care and related services in exchange for a bundled form of reimbursement.

Brethren Village Obligated Group

Summary of Significant Forecast Assumptions and Accounting Policies

In addition to the numerous potential impacts of HC Reform, budgetary pressures at both the State and Federal levels have the potential to limit funding for Medical Assistance and Medicare reimbursement for nursing services. While there is anecdotal information available on the potential impacts to the industry in general as a result of HC Reform, and the potential impacts resulting from government budgetary pressures, very little specific information is available as of the date of this report to estimate the specific impact on an individual provider or entity. Therefore, Management has relied upon historical operating experience to project future demand for nursing care and personal care services and future reimbursement rates for services rendered to Medical Assistance and Medicare program beneficiaries.

Sensitivity Analyses

Management identified two sensitive assumptions relating to fill up and occupancy of the Project and occupancy of the Obligated Group as a whole. Sensitivity Analysis I reflects certain financial information if the Project only fills to and remains at 70 percent occupancy for the remainder of the forecast period. Sensitivity Analysis II reflects the level of occupancy at which the Obligated Group's debt service coverage ratio would approximate 1.0 in 2021.

Table 26
Sensitivity Analysis I
For the Years Ending June 30

	Forecast		Change in Project RLU Occupancy %	
	2020	2021	2020	2021
	Average occupied Project RLUs	69	69	50
Change in unrestricted net deficit	\$ (1,049)	\$ (510)	\$ (1,775)	\$ (1,238)
Debt service coverage ratio	1.43	1.43	1.38	1.37
Days cash on hand	360	365	307	308

Source: Management.

Table 27
Sensitivity Analysis II
For the Years Ending June 30

	Forecast		Estimated Break-Even Occupancy	
	2020	2021	2020	2021
	Average occupancy %:			
Skilled nursing	98%	98%	83%	83%
Short-term rehabilitation	83%	83%	83%	83%
PC – Village Manor	97%	97%	83%	83%
PC – Terrace Crossing	96%	96%	83%	83%
Residential living – Existing	96%	96%	83%	83%
Residential living - Project	96%	96%	83%	83%
Change in unrestricted net deficit	\$ (1,049)	\$ (510)	\$ (5,217)	\$ (4,857)
Debt service coverage ratio	1.43	1.43	0.99	0.97
Days cash on hand	360	365	233	205

Source: Management.

APPENDIX D

**DEFINITIONS OF CERTAIN TERMS AND
SUMMARY OF BOND INDENTURE, LOAN AGREEMENT AND MORTGAGE**

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**DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF CERTAIN DOCUMENTS
RELATING TO THE SERIES OF 2017 BONDS**

This Appendix contains only certain definitions and summarizes only certain key provisions of the Bond Indenture and the Loan Agreement relating to the Series of 2017 Bonds and the Mortgage granted to the Master Trustee as security for the Obligation issued thereunder. The full text of such documents should be read to obtain a complete understanding of their terms and provisions; a copy of such documents may be obtained from the Underwriters prior to the issuance of the Series of 2017 Bonds or from the Bond Trustee following issuance of the Series of 2017 Bonds.

Certain Definitions

The following defined terms are used in the Indenture of Trust and Security Agreement (which is referred to herein as the “Indenture” or the “Bond Indenture”) and the Loan Agreement (which is referred to herein as the “Loan Agreement”) and have the same meaning when used in this Summary:

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “*control*” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether by contract, through the ownership of voting securities or the power to appoint and remove directors or trustees, or otherwise; and the terms “*controlling*” and “*controlled*” have meanings correlative to the foregoing.

“*Bankruptcy Code*” means Title 11, United States Code, as now or hereafter constituted.

“*Bond*” means a bond authenticated and delivered under the Indenture.

“*Bond Counsel*” means, with respect to the Bonds, Rhoads & Sinon LLP, Harrisburg, Pennsylvania, or any other firm of attorneys experienced in the matters covered by the advice or opinion to be given and selected by the Borrower and not unacceptable to the Issuer or the Trustee.

“*Bond Fund*” means the fund by that name created under the Indenture.

“*Bondholder*” means a Holder of a Bond.

“*Bonds*” means all bonds authenticated and delivered under the Indenture.

“*Borrower*” means Brethren Village, a Pennsylvania corporation not-for-profit, and its successors.

“*Borrower Consent*,” “*Borrower Order*,” and “*Borrower Request*” mean, respectively, a written consent, direction, order, or request signed in the name of the Borrower by the Chairman or Vice Chairman of the Board of Directors, the Chief Executive Officer, or its President or any Vice President and by any other Vice President, the Treasurer, the Chief Executive Officer, an Assistant Treasurer, the Secretary, or an Assistant Secretary of the Borrower, and delivered to the Trustee.

“*Business Day*” for the Bonds or any portion thereof means any day other than (1) a Saturday or a Sunday, (2) a legal holiday or the equivalent on which banking institutions generally are authorized or required to close in the Place of Payment therefor or in the city in which is located the principal corporate trust office of the Trustee, or (3) a day on which the New York Stock Exchange is closed.

“*Code*” means the Internal Revenue Code of 1986, as amended and in force and effect on the Issue Date.

“*Cost*” when used with respect to the Project means and includes any and all costs of such Project.

“*Debt Service Requirements*” shall mean, with respect to any Fiscal Year, the sum of amounts required to be set aside in such Fiscal Year for payment of interest on and principal of Bonds and amounts required to be deposited in such Fiscal Year to the credit of any sinking, purchase, redemption or analogous fund established for such Bonds;

“*Default*” means the occurrence of an Event of Default or an event which, after notice or lapse of time or both, would become an Event of Default. A Default shall “*exist*” if a Default shall have occurred and be continuing.

“*Determination of Taxability*” means, and a “*Determination of Taxability*” shall be deemed to have occurred on the date when, (a) the Issuer receives notice from the Trustee or any current or former registered owner or beneficial owner of any of the Bonds that the Internal Revenue Service has included interest on Bonds in the gross income of such owner for Federal income tax purposes (together with evidence satisfactory to the Issuer of such inclusion by the Internal Revenue Service), which inclusion has resulted from the occurrence of an Event of Taxability, or (b) the Issuer receives notice from the Commissioner or any District Director of the Internal Revenue Service that the Internal Revenue Service has determined the interest on the Bonds to be includable in gross income for Federal income tax purposes, which determination has resulted from the occurrence of an Event of Taxability; provided, however, that in either case of (a) or (b) above, no Determination of Taxability shall be deemed to occur until the Borrower is offered the opportunity to control the contest thereof, provided that the Borrower shall have agreed to bear all expenses in connection therewith and until the expiration of all periods for judicial review or appeal.

“*Eligible Investments*” means any of the following securities:

(1) ***Governments***: Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(2) ***Full Faith Agencies***: Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) the Export-Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association (“GNMA”), (d) the Rural Economic Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration;

(3) ***Government Agencies***: Investments in direct obligations in any of the following agencies which obligations are not fully guaranteed by the full faith and credit of the United States: (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation (“FHLMC”) or senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association (“FNMA”), (c) obligations of the Resolution Funding

Corporation ("REFCORP") or (d) senior debt obligations of the Student Loan Marketing Association ("SLMA") (excluding securities that do not have a fixed par value/or whose terms do not promise a fixed dollar amount at maturity or call date);

(4) **Certificates of Deposit, Etc.:** Investments in (a) U.S. dollar denominated deposit accounts, federal funds, banker's acceptances, and certificates of deposit of any bank whose short term debt obligations are rated "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as the rating of the bank) or (b) certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation ("FDIC");

(5) **Money Market Funds:** Investments in money market funds rated "AAAm" or "AAAm-G" by S&P;

(6) **Commercial Paper:** Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(7) **Pre-refunded Municipals:** Pre-refunded municipal obligations, defined as follows: any bonds or other obligations rated "AA" by S&P and "Aa" by Moody's (based on an irrevocable escrow account or fund) of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice;

(8) **Municipals:** Municipal obligations rated "Aa/AA" or general obligations of States with a rating of "A1/A+" or higher by both Moody's and S&P;

(9) **Repurchase Agreements:** Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and "A2" by Moody's; or (b) any broker-dealer with "retail customers" or a related affiliate thereof which broker dealer has, or the parent company (which guarantees the provider) of which has, long term debt rated at least "A" by S&P and "A2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least "A" by S&P and "A2" by Moody's, provided that:

- (a) the repurchase agreement is collateralized with the obligations described in paragraphs (1) or (2) above, or with obligations described in paragraph (3) (a) and (b) above;
- (b) the Trustee on a third-party valuation agent will value the collateral securities at least weekly and the Trustee will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two (2) business days;
- (c) the market value of the collateral must be maintained at 104% of the total principal of the repurchase agreement for obligations described in paragraphs (1) and (2), or 105% of the total principal of the repurchase agreement for obligations described in paragraph (3) (a) and (b) above;

- (d) the Trustee or a third party acting solely as agent therefor or for the Issuer or the Borrower (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);
- (e) the repurchase agreement shall state, and an Opinion of Counsel shall be rendered at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof; and
- (f) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-“ by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the Issuer, the Borrower or the Trustee, within 10 days following receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer, the Borrower or the Trustee.

(10) Investment Agreements: Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guarantee of the provider’s obligations under the agreement, the long-term debt of the guarantor, is rated at least “AA” by S&P and “Aa2” by Moody’s; or (b) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least “AA” by S&P and “Aa2” by Moody’s; provided, that in all cases, by the terms of the investment agreement,

- (a) interest payments are to be made to the Trustee at least one business day prior to debt service payment dates on the Bonds and in such amounts as are necessary to pay debt service (or, if the investment agreement is for the Proceeds Fund, draws on the Proceeds Fund);
- (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date);
- (c) the investment agreement states that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;
- (d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture;
- (e) the term of the investment agreement does not exceed seven years or, if the investment agreement is for the Reserve Fund, the final maturity date of the Bonds;
- (f) the Issuer, the Borrower and the Trustee receive the opinion of domestic counsel (which opinion shall be addressed to the Issuer, the Borrower

and the Trustee that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed, to the Issuer, the Borrower and the Trustee;

- (g) if during the term of the investment agreement:
 - (1) the provider's (or, if applicable, the guarantor's) rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider must, at the direction of the Issuer, the Borrower or the Trustee, within 10 days following receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") Permitted Collateral which is free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above shall be that of the Issuer, the Borrower or the Trustee, as appropriate); and
 - (2) the provider's (or, if applicable, the guarantor's) rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, respectively, the provider must, at the direction of the Issuer, the Borrower or the Trustee, within 10 days following receipt of such direction, repay the principal of and accrued but unpaid interest on the investment with no penalty or premium to the Issuer, the Borrower or the Trustee;
- (h) The investment agreement states, and an Opinion of Counsel shall be rendered, that the Trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Trustee is in possession); and
- (i) if during the term of the investment agreement:
 - (1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer, the Borrower or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer, the Borrower or the Trustee, as appropriate;
 - (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer, the Borrower or the Trustee, as appropriate;

- (3) the provider fails to perform any of its obligations under the investment agreement (other than obligations related to payment or rating) and such breach continues for ten (10) business days or more after written notice thereof is given by the Trustee, the Issuer or the Borrower to the provider, it shall be an Event of Default; or
- (4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it shall be an Event of Default.

Permitted Collateral for investment agreements (“Permitted Collateral”) shall include only:

- A. direct U.S. Treasury obligations,
- B. Senior debt and/or mortgage backed obligations of GNMA, FNMA or FHLMC and other government sponsored agencies backed by the full faith and credit of the U.S. government.
- C. Collateral levels must be 104% of the total principal deposited under the investment agreement for direct U.S. Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC obligations.
- D. The collateral must be held by a third party, segregated and market to market at least weekly.

“Escrow Agent” means Fulton Bank, National Association, in its capacity as trustee under the Refunded Bonds Indenture and escrow agent under the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement, dated as of April 1, 2017, but effective as of the Issue Date, by and among the Escrow Agent, the Issuer and the Borrower and providing for the redemption and retirement of the Refunded Bonds.

“Event of Taxability” means the occurrence or existence of any fact, event or circumstance which has the effect of causing the interest on the Bonds to be included in gross income for Federal income tax purposes.

“Excluded Obligors” means the Issuer, the Borrower, the Obligated Affiliates, all Affiliates of the Borrower known to the Trustee, and all other Persons to the extent that such Persons, to the knowledge of the Trustee, own a Bond or portion thereof as nominee or for the benefit of any of the foregoing.

“Exempt Person” means any organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) of the Code, the District of Columbia, any State of the United States, any possession of the United States, and any political subdivision of any such State or possession

if such political subdivision has more than an insubstantial amount of any of the power to tax, the power of eminent domain, or the police power.

“**Fiscal Year**” means the calendar period of 12 months beginning on July 1 of each year, and also shall mean the period from actual execution of the Indenture to and including June 30, 2016.

“**Governmental Obligations**” means investments described in Clause (1) of the definition of Eligible Investments.

“**Holder**”, when used with respect to any Bond, means the Person in whose name such Bond is registered in the Bond Register maintained by the Trustee.

“**Interest Payment Date**” for any Bond or portion thereof means the Stated Maturity of an installment of interest thereon.

“**Issue Date**” means the date on which the Bonds are delivered initially in exchange for the original purchase price thereof.

“**Issuer**” means Lancaster County Hospital Authority, *until* a successor entity shall have become such pursuant to the applicable provisions of the Indenture, and thereafter “**Issuer**” shall mean such successor entity.

“**Loan Agreement**” means the Loan Agreement between the Issuer and the Borrower, as originally executed at the time of execution and delivery of the Indenture or as such Loan Agreement may from time to time be supplemented, modified, or amended by one or more instruments supplemental thereto entered into in accordance with the applicable provisions thereof.

“**Loan Payments**” means those certain payments in respect of the principal of, interest on and redemption premium, if any, due and payable on the Bonds which the Borrower has agreed to make pursuant to the Loan Agreement and the Note.

“**Master Indenture**” means that certain Master Trust Indenture, dated as of January 1, 2008, between the Borrower and the Master Trustee, as trustee, as it may from time to time be supplemented, modified, or amended by one or more indentures or other instruments supplemental thereto entered into pursuant to the applicable provisions thereof.

“**Master Trustee**” means Fulton Bank, National Association, successor to Fulton Financial Advisors, National Association, as trustee under the Master Indenture and its successors as trustee under the Master Indenture.

“**Maturity**”, when used with respect to any Bond, means the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration or call for redemption or otherwise.

“**Maximum Annual Debt Service Requirements**” shall mean, as of the date in question, the largest Debt Service Requirements (excluding, however, any Debt Service Requirements provided for from proceeds of sale of the Bonds) required to be paid in the then current or any succeeding Fiscal Year on all Bonds Outstanding; provided, however, that Required Balance in the Reserve Fund shall be a credit against the Debt Service Requirements on the Bonds for the final Bond Year, so long as the Reserve Fund is being maintained in accordance with the Indenture.

“**Moody’s**” means Moody’s Investors Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “**Moody’s**” shall be deemed to refer to any other nationally recognized securities rating service designated by Borrower Order.

“**Note**” means the promissory note made by the Borrower to evidence the obligation of the Borrower to make Loan Payments, *i.e.*, Obligation No. 3 issued, executed, delivered and secured by the Borrower in accordance with the Master Indenture

“**Obligated Affiliate**” means each Person which has assumed the obligations of a “*Member of the Obligated Group*,” as therein defined, pursuant to the Master Indenture, until such Person shall have ceased to be such a “*Member of the Obligated Group*” or a successor shall have become such pursuant to the applicable provisions of the Master Indenture, and thereafter “**Obligated Affiliate**” shall include any such successor.

“**Officers’ Certificate**” of any Person means a certificate signed by the Chairman or Vice Chairman of the Board of Directors, the Chief Executive Officer, the President, or any Vice President and by any other Vice President, the Chief Financial Officer, the Treasurer, an Assistant Treasurer, the Controller, an Assistant Controller, the Secretary, or an Assistant Secretary of such Person and delivered to the Trustee.

“**Opinion of Counsel**” means a written opinion of counsel who may (except as otherwise expressly provided in the Indenture) be counsel for one or more of the Issuer, the Borrower or any Obligated Affiliate and shall not be unsatisfactory to the Trustee and, when given with respect to the status of interest on any Bond under federal income tax law, shall be counsel of nationally recognized standing in the field of municipal bond law and, when given with respect to any matter under the Bankruptcy Code, shall be counsel of recognized standing in the field of bankruptcy law.

“**Outstanding**” when used with respect to Bonds means, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture, *except*, without duplication:

- (1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Bonds for the payment or redemption of which money in the necessary amount is deposited with the Trustee or any Paying Agent at or after the Maturity thereof in trust for the Holders of such Bonds in accordance with the Indenture;
- (3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Indenture;
- (4) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in the Indenture; and
- (5) Bonds for the payment of the principal of (and premium, if any) and interest on which money or Governmental Obligations or both are held by the Trustee or an escrow agent with the effect specified in the Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent, or waiver

hereunder, Bonds owned by the Issuer, the Borrower, an Obligated Affiliate, or any Affiliate of any such Person shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Issuer, the Borrower, an Obligated Affiliate, or any Affiliate of any such Person.

“Outstanding Secured Bonds” means, as of the date of determination, (1) all Bonds then Outstanding and (2) all Bonds, if any, alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in the Indenture, but whose ownership and enforceability by the Holder thereof have been established by a court of competent jurisdiction or other competent tribunal or otherwise established to the satisfaction of the Trustee.

“Paying Agent” means any Person authorized by the Issuer or the Trustee with the approval of the Borrower to pay the principal of (and premium, if any) or interest on any Bonds on behalf of the Issuer.

“Place of Payment” for Book-Entry Only Bonds and for other Bonds or portions thereof means a city, municipality or political subdivision in which the Paying Agent maintains an office which it has designated as the place for the payment of principal of and interest on the Bonds.

“Proceeds Fund” means the fund by that name created under the Indenture.

“Project” means the project financed in whole or in part with proceeds of the Bonds.

“Rating Service” means each nationally recognized securities rating service which at the time has a credit rating assigned to the Bonds.

“Rebate Fund” means the fund by that name created under the Indenture.

“Redemption Date” when used with respect to any Bond or portion thereof to be redeemed means the date fixed for such redemption pursuant to the Indenture.

“Redemption Price” when used with respect to any Bond or portion thereof to be redeemed means the price at which it is to be redeemed pursuant to the Indenture, excluding installments of interest whose Stated Maturity is on or before the Redemption Date.

“Refunded Bonds” means the Issuer's outstanding Revenue Bonds (Brethren Village Project), Series A of 2008.

“Refunded Bonds Indenture” means the Series A Indenture of Trust and Security Agreement, dated as of January 1, 2008, between the Issuer and Fulton Financial Advisors, National Association, now succeeded by Fulton Bank, National Association, as trustee, under which the Refunded Bonds were issued and are secured.

“Reserve Fund” means the fund by that name to be established and maintained with the Trustee as security for payment of the Bonds.

“Retained Rights” means, with respect to the Issuer’s assignment of the Loan Agreement to the Trustee, the following rights of the Issuer under the Loan Agreement: (1) rights to receive indemnification, (2) rights to receive certain financial and other information from the Borrower, (3) rights to give or withhold consent to amendments or supplements to the Loan Agreement, (4) rights to assert the limitation upon its liability and the liability of its members, officers, directors and employees under the terms of the Loan Agreement, (5) the right to approve changes to the Project, (6) the rights to enforce the obligations of the Borrower under the Loan Agreement to pay the costs, fees and expenses of the Trustee and the Borrower’s waiver of rights of set-off, recoupment, counterclaim or abatement with respect to the Loan Payments and other amounts payable under the Loan Agreement, and (7) the right to enforce all provisions of the Loan Agreement giving rise to any Retained Rights.

“S&P” means S&P Global Ratings (successor Standard & Poor’s Ratings Services), its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, **“S&P”** shall be deemed to refer to any other nationally recognized securities rating service designated by Borrower Order.

“Stated Maturity”, when used with respect to any Bond or any installment of interest thereon, means the date specified in such Bond as the fixed date on which the principal of such Bond or the day on which such installment of interest is due and payable.

“Trustee” means Fulton Financial Advisors, National Association, in its capacity as trustee under the Indenture, or its successor as trustee under the Indenture.

THE BOND INDENTURE

The Trust Estate

Under the Indenture, the Issuer assigns and grants to the Trustee the following (referred to herein as the “Trust Estate”), as security for the Bonds:

(A) (1) all right, title, and interest of the Issuer in and to the Loan Agreement, including without limitation, the Loan Payments and the Note by which the rights to such Loan Payments are evidenced, (2) the rights and benefits of the obligee under the Loan Agreement and the holder of such Note under the Master Indenture, (3) any and all security granted or held for the payment of amounts owing under the Loan Agreement or, in respect of the Loan Agreement or such Note, under the Master Indenture and the related mortgage upon property of the Borrower, and (4) the present and continuing right to bring actions and proceedings under the Loan Agreement and the Master Indenture or for the enforcement thereof, and to do any and all things which the Issuer, as issuer of the Bonds, is or may become entitled to do thereunder, *but excluding* the Retained Rights;

(B) All estate, right, title, and interest of the Issuer in and to all money, instruments, securities, and other investments held for the credit of the funds and accounts established by or under the Indenture;

(C) All the rents, issues, profits, revenues, and other income and proceeds of the property subjected or required to be subjected to the lien of the Indenture, and all estate, right, title, and interest of every nature whatsoever of the Issuer in and to the same and every part thereof; and

(D) Any and all property that may, from time to time, by delivery or by writing of any kind, be subjected to the lien and security interest of the Indenture by the Issuer or by anyone in

its behalf, which subjection to the lien and security interest of the Indenture of any such property as additional security may be made subject to any reservations, limitations, or conditions which shall be set forth in a written instrument executed by the Issuer or the Person so acting in its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof.

Limitation on Liability of Issuer; No Pledge of General Credit or Taxing Power.

The performance by the Issuer of all duties and obligations under the Indenture and the liability of the Issuer for all warranties and other covenants in the Indenture are limited solely to the money and revenue received from the payments by the Borrower and the Obligated Affiliates in respect of the Note and under the Loan Agreement, moneys attributable to the proceeds of Bonds, and income from the investment thereof. The Indenture does not pledge the general credit of the Issuer, of the County of Lancaster, Pennsylvania, or of the Commonwealth of Pennsylvania or of any political subdivision thereof, nor does the Indenture pledge the taxing power of the County of Lancaster, Pennsylvania, or of the Commonwealth of Pennsylvania or of any political subdivision thereof. The Issuer has no taxing power. The Issuer is not generally liable for the debt or any portion of the debt evidenced by the Bonds or for the payment of any interest thereon.

No recourse under or upon any obligation, covenant, or agreement contained in the Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present, or future director, member, officer, or employee, as such, of the Issuer, or of any successor corporation.

Bond Fund

The money deposited to the Bond Fund, together with all investments thereof and investment income therefrom, shall be held in trust by the Trustee and applied solely as provided in the Indenture. The Indenture requires the Trustee to deposit to the credit of the Bond Fund, immediately upon receipt, all Loan Payments made by the Borrower or any Obligated Affiliate to the Trustee for the account of the Issuer. The Trustee shall apply the money in the Bond Fund on each Interest Payment Date and on each Maturity of Bonds to set aside or deposit in trust with the Paying Agent sufficient money to pay the interest on the Bonds then coming due, whether by reason of the Stated Maturity of such interest, declaration of acceleration, or call for redemption, and to pay the principal of (and premium, if any, on) the Bonds then coming due, whether by reason of the Stated Maturity thereof, declaration of acceleration, or call for redemption.

Proceeds Fund

The Indenture specifies that the Trustee deposit to the credit of the Proceeds Fund (1) all cash received by the Trustee in respect of the initial authentication and delivery of Bonds and (2) all other amounts paid to the Trustee by the Borrower specifically for deposit to the credit of the Proceeds Fund.

Upon issuance of the Bonds, the Trustee shall withdraw from the Proceeds Fund and transfer (1) to the Escrow Agent for deposit into the Escrow Fund, the amount required, in addition to available money held by the Refunded Bonds Trustee, to provide for the redemption and retirement of the Refunded Bonds as contemplated by the Escrow Agreement, and (2) to the Reserve Fund, the amount required to fund the Reserve Fund. (See “**Reserve Fund**” below.) Additionally, the Trustee shall, upon issuance of the Bonds or from time to time thereafter, withdraw from the Proceeds Fund and disburse, upon Borrower Order, amounts to pay, or to reimburse the Borrower for, Costs of the Project and related costs and expenses, including costs of issuance of the Bonds.

Upon certification of completion of the Project, the Trustee shall apply all remaining amounts held for the credit of the Proceeds Fund upon Borrower Order in any manner which in the Opinion of Counsel will not result in the interest on any Bond becoming includable in the gross income of the owner thereof for federal income tax purposes and will not violate the provisions of applicable law, or if such Borrower Order and Opinion of Counsel are not received within 60 days after such certification of completion has been received by the Trustee, (a) to transfer funds to the Bond Fund to pay interest on the Bonds, to the extent of income from investment of such amounts, and (b) to redeem (or to acquire for a price which does not exceed 100% of the principal amount of) and cancel Bonds.

The Trustee shall also transfer amounts held for the credit of the Proceeds Fund, upon Borrower Order, to the Rebate Fund.

Rebate Fund

The Trustee is to deposit or transfer to the credit of the Rebate Fund the amounts paid by the Borrower under the Loan Agreement in respect of any rebatable arbitrage with respect to the Bonds, together with any amounts which the Borrower directs the Trustee to transfer to the Rebate Fund from the Proceeds Fund. The Trustee shall withdraw funds from the Rebate Fund to make payment of arbitrage rebate to the United States of America upon Borrower Order.

Reserve Fund

The Trustee shall deposit to the credit of the Reserve Fund, from the proceeds of sale of the Bonds or other available funds, the amount initially required to fund the Reserve Fund in an amount equal to the Required Balance (as defined below).

“Required Balance” means, as of the Issue Date, the sum of [\$_____] and, as of any other date, the Maximum Annual Debt Service Requirements on all Bonds to be Outstanding under the Indenture on the day following such date, giving effect to redemptions pursuant to or in lieu of any mandatory sinking fund redemption requirement, but no other redemptions; provided, however, that the Required Balance shall not exceed the lesser of (a) 125% of the average annual principal and interest requirements due in subsequent Fiscal Years on all Bonds to be Outstanding, determined as of the Issue Date, or (b) 10% of the original principal amount of the Bonds (at issuance).

For purposes of determining the balance of the Reserve Fund on any date, the stated amount of any irrevocable letter of credit, surety bond, guarantee, policy of insurance, or other comparable obligation held by the Trustee as an asset in the Reserve Fund shall be credited toward any portion of such balance. In the event that any such obligation shall not be renewed, extended, or replaced, the Trustee shall draw on or make claim against such obligation by the expiration date thereof.

On each date for payment of principal of (and premium, if any) or interest on Bonds by reason of the Stated Maturity thereof or of the interest thereon, declaration of acceleration, or call for redemption pursuant to or in lieu of any mandatory sinking fund (but not otherwise), the Trustee shall transfer from the Reserve Fund to the Bond Fund money sufficient, after application of the balance of the Bond Fund, to pay such principal (and premium, if any) and interest.

On each Interest Payment Date, and on any other date upon Borrower Order, to the extent the balance of the Reserve Fund is then in excess of the Required Balance, the Trustee shall withdraw and transfer an amount equal to such excess to the Bond Fund or as otherwise directed by such Borrower Order.

The Trustee shall transfer amounts held for the credit of the Reserve Fund, upon Borrower Order, to the Rebate Fund.

On or immediately prior to the Interest Payment Date preceding the final Maturity of all Bonds, the Trustee shall transfer money from the Reserve Fund to the Bond Fund for application to the payment of the interest on the Bonds due on such Interest Payment Date, but only to the extent that the balance to remain in the Reserve Fund shall be not less than the final payment of principal of and interest due on the Bonds at the final Maturity of all Bonds.

On or immediately prior to the final Maturity of all Bonds, the Trustee shall transfer the remaining balance in the Reserve Fund to the Bond Fund for application to payment of the principal of and interest on the Bonds due at the final Maturity of all Bonds.

On (1) each Interest Payment Date and (2) each date on which money held for the account of the Reserve Fund is transferred to the Bond Fund pursuant to the Indenture, the Trustee shall determine the balance of the Reserve Fund by valuing the Eligible Investments therein in accordance with the Indenture and, *if* such balance is less than the Required Balance, give immediate notice to the Borrower of the amount of the deficiency to be deposited by the Borrower pursuant to the requirements of the Loan Agreement.

The Loan Agreement requires that the Borrower pay to the Trustee for deposit in the Reserve Fund an amount equal to the difference between the Required Balance and the balance on deposit in the Reserve Fund on any such date of valuation of the investments therein (a) in 12 equal monthly installments, if the deficiency in the Reserve Fund was caused by a transfer of money to the Bond Fund pursuant to the provisions of the Indenture, or (b) three (3) equal monthly installments in all other cases, in each case beginning on the first day of the month subsequent to such date of valuation of the Reserve Fund.

Security for Deposits

The Indenture requires that all money held by the Trustee or the Paying Agent under the Indenture in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall, unless the unsecured general obligations of the Trustee or the Paying Agent, as applicable, are rated in either of the two highest rating categories (without regard to subcategories) by each Rating Service, be continuously secured by the Trustee, for the benefit of the owners of such money and the Bondholders, in any manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; *provided, however*, that it shall not be necessary for the Trustee or the Paying Agent to give such security for the deposit with it of any money to be used to pay principal, premium, if any, or interest which is at the time of such deposit due and payable with respect to any Bonds, or for the Trustee to give security for any money which shall be invested in Eligible Investments purchased under the provisions of the Indenture as an investment of such money.

Investment of Funds

The Indenture requires that money held for the credit of the Bond Fund, the Proceeds Fund, the Rebate Fund or the Reserve Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee at the direction of the Borrower in Eligible Investments which, in the case of investments in the Bond Fund or the Rebate Fund, shall be lawful investments for public funds of the Issuer, and in the absence of any such direction shall be invested in a mutual fund investing only in

obligations of the United States government and its agencies or a Money Market Fund (see the definition of Eligible Investments) specified by the Borrower.

The Indenture further provides that all investments made under the Indenture shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the money so invested is expected to be required for the purpose intended. If any funds held under the Indenture are invested in an investment agreement which requires the Issuer, the Borrower or the Trustee to give notice so as to receive funds with no penalty or premium paid, the Trustee shall, in its own name or in the name of the Issuer or the Borrower, as may be appropriate, give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid, whenever funds held under the investment agreement are needed for any disbursement required or authorized by the Indenture. The Trustee may invest money held under the Indenture in an Eligible Investment or transaction for which the Trustee or any of its Affiliates receives compensation.

No investment purchased for the credit of the Reserve Fund is to have a remaining term as of the date of purchase that is greater than ten years, or have an average life longer than five years. Any investment agreement with respect to money in the Reserve Fund may have a term consistent with the definition of "Investment Agreement" (see the definition of Eligible Investments).

The Trustee shall transfer, without further directions or instructions from the Issuer or the Borrower, net interest earned and net income received upon investments and deposits of money in the Reserve Fund to the Bond Fund, to the extent the same are not required to be maintain the Required Balance in the Reserve Fund, and interest earned and net income received upon investments and deposits of money in the Proceeds Fund shall be deposited into, and become a part of, the Proceeds Fund.

The Trustee is to determine the amount on deposit in each Fund or account created under the Indenture at least quarterly.

Defeasance

Any Bond shall be deemed to be no longer Outstanding under the Indenture when payment of the principal of (and premium, if any, on) such Bond, plus interest thereon to the Maturity thereof (whether such Maturity is by reason of the Stated Maturity thereof or call for redemption, if notice of such call has been given or waived or irrevocable arrangements therefor satisfactory to the Trustee have been made), shall have been provided for by depositing for such payment with the Trustee or, with notice to the Trustee, a state or nationally chartered bank as escrow agent (1) money sufficient to make such payment or (2) money and Governmental Obligations certified by an Independent certified public accountant of favorable reputation to mature as to principal and interest in such amounts and at such times as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, *provided* that all fees, compensation, and expenses of the Trustee and Paying Agent pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for.

Any money and Governmental Obligations deposited with the Trustee or such other bank for such purpose shall be held in a segregated account in trust for the Holders of the Bonds with respect to which such deposit is made and, together with any investment income therefrom, shall be disbursed solely to pay the principal of (and premium, if any) and interest on such Bonds when due, *provided* that any amount certified by an Independent certified public accountant of favorable reputation not to be required for such purpose shall be disbursed upon Borrower Order. At such times as a Bond shall be deemed to be paid, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money or Governmental Obligations and as to any

remaining rights of transfer, or exchange and *except* for the benefits of certain covenants of the Issuer under the Indenture pertaining to mandatory sinking fund redemption of Bonds and preservation of the tax-exempt status of interest payable on Bonds.

Defaults and Remedies

--*Events of Default*

Under the terms of the Indenture, “*Event of Default*” means any one of the following events:

Payment Default: default in the payment of any interest upon any Bond when such interest becomes due and payable or in the payment of principal of (or premium, if any, on) any Bond at its Maturity; or

Covenant Default: default in the performance, or breach, of any covenant, representation or warranty (other than a covenant, representation, or warranty a default in the performance or breach of which is elsewhere specifically dealt with) of the Issuer in the Indenture or of the Borrower in the Loan Agreement and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Issuer with copy to the Borrower (with respect to covenants, representations, and warranties of the Issuer) or to the Borrower with copy to the Issuer (with respect to covenants, representations, and warranties of the Borrower) by the Trustee, or by the Holders of at least 10% in principal amount of the Outstanding Bonds with a copy to the Trustee, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “*Notice of Default*” under the Indenture, *provided, however*, that if the default or breach stated in such notice cannot be corrected within such 30-day period, *but* can be corrected with due diligence, it shall not constitute an Event of Default if within such 30-day period such defaulting party, shall deliver to the Trustee an Officers’ Certificate stating that such default or breach can be corrected and corrective action is instituted by the Issuer or the Borrower, as the case may be, within such 30-day period and diligently pursued until such default or breach is corrected; or

Issuer Involuntary Bankruptcy: the filing of a petition for relief against the Issuer, as debtor, under the Bankruptcy Code or any other applicable federal or state law of similar import, or the entry of a decree or order by a court having jurisdiction in the premises appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of or for the Issuer or the Trust Estate, or ordering the winding up or liquidation of the affairs of the Issuer, and the continuance of the case commenced by such petition or any such decree or order unstayed and in effect for a period of 90 consecutive days, *unless* such decree or order has been limited so as to remove the Trust Estate from the control, supervision, and jurisdiction of the court entering such decree or order and of such custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official by the end of such period; or

Issuer Voluntary Bankruptcy: the commencement by the Issuer of a voluntary case under the Bankruptcy Code or any other applicable federal or state law of similar import, or the consent or acquiescence by the Issuer to the commencement of such a case under the Bankruptcy Code or any such law or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or the Trust Estate, or the making by the Issuer of an assignment for the benefit of creditors, or the admission by the Issuer in writing of its inability to pay its debts hereunder as they become due, or the taking of

corporate action by the Issuer in furtherance of any such action and in any case a court shall not have limited such case, petition, or possession so as to remove the Trust Estate from the control, supervision, and jurisdiction of such court or custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official within 90 days after such commencement, consent, or acquiescence; or

Master Debt Acceleration: declaration by the Master Trustee (or the registered owners of the Note or other Obligations, as defined in the Master Indenture) pursuant to the applicable section of the Master Indenture that the principal of the Note or any portion thereof shall be due and payable immediately; provided that, if any such declaration shall be rescinded and annulled as therein provided, then the default under the Indenture by reason thereof shall be deemed to have been cured and waived.

-- Acceleration of Maturity; Rescission and Annulment.

If an Event of Default occurs and is continuing, then and in every such case the Trustee may declare and, at the request of the Holders of not less than 25% in principal amount of the Outstanding Bonds, shall declare the principal of all Outstanding Secured Bonds to be due and payable immediately, by a notice in writing to the Issuer and the Borrower, and upon any such declaration such principal shall become immediately due and payable.

If an Event of Default described above as an Issuer Voluntary Bankruptcy occurs and is continuing, the Trustee shall declare the principal of the Outstanding Secured Bonds and accrued interest thereon to be due and payable immediately, and upon any such declaration such principal and interest shall become immediately due and payable.

At any time after such a declaration of acceleration has been made or such acceleration otherwise has occurred, *but* before any sale of any of the Trust Estate has been made, the principal of and interest on the Note has been declared to be due and payable under the Master Indenture, or any judgment or decree for payment of money due on any Bond or the Note has been obtained by the Trustee, the Holders of a majority in principal amount of the Bonds Outstanding may, by written notice to the Issuer, the Borrower, and the Trustee, rescind and annul such declaration and its consequences *if* (A) the Issuer or the Borrower has deposited with the Trustee a sum sufficient to pay (1) all overdue installments of interest on all Bonds, (2) the principal of (and premium, if any, on) any Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Bonds, (3) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates prescribed therefor in the Bonds, and (4) all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements, and advances of the Trustee and its agents and counsel; and (B) all Events of Default, other than the nonpayment of the principal of Bonds which have become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Indenture.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

-- Power of Sale; Suits for Enforcement; Application of Money Collected.

If an Event of Default shall occur and be continuing, the Trustee in its discretion, may sell, subject to any mandatory requirements of applicable law, the Trust Estate as an entirety, or in such portions as the Holders of a majority in principal amount of the Bonds then Outstanding shall in writing request or, in the absence of such request, as the Trustee may determine, to the highest bidder at public

auction at such place and at such time (which sale may be adjourned by the Trustee from time to time in its discretion by announcement at the time and place fixed for such sale, without further notice) and upon such terms as the Trustee may fix; or proceed to protect and enforce its rights and the rights of the Bondholders under the Indenture by sale pursuant to judicial proceedings or by a suit, action, or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture or in aid of the execution of any power granted in the Indenture or for the foreclosure of the Indenture or for the enforcement of any other legal, equitable, or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee and the Bondholders.

Upon any sale of any of the Trust Estate, whether made under the power of sale given by the Indenture or pursuant to judicial proceedings, to the extent permitted by law, the principal of and accrued interest on all Outstanding Secured Bonds, if not previously due, shall at once become and be immediately due and payable.

Any money collected by the Trustee in the exercise of rights and remedies upon an Event of Default shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

A. First: To the payment of all amounts due the Trustee, any predecessor Trustee any separate or co-trustee appointed under the Indenture, the Paying Agent, and the Bond Registrar, under the terms of the Indenture;

B. Second: To the payment of the whole amount then due and unpaid upon the Outstanding Secured Bonds (other than Bonds registered in the name of an Excluded Obligor), for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Bonds) on overdue principal (and premium, if any) and on overdue installments of interest (to the extent that payment of such interest is legally enforceable) and, in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Bonds, then to the payment of such principal and interest, without any preference or priority, ratably according to the aggregate amount so due;

C. Third: the whole amount then due and unpaid upon the Outstanding Secured Bonds, registered in the name of an Excluded Obligor for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Bonds) on overdue principal (and premium, if any) and on overdue installments of interest (to the extent that payment of such interest is legally enforceable); and

D. Fourth: to the payment of any Indemnity Payments then due and owing to the Issuer and, then, to the payment of the balance thereof to the Borrower, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

-- Limitation on Suits

No Bondholder shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, or for the appointment of a receiver or trustee or for any other remedy under the Indenture, *unless*:

A. Notice to Trustee: such Person has previously given written notice to the Trustee of a continuing Event of Default;

B. Request of Trustee: the Holders of not less than 25% in principal amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Event of Default;

C. Offer of Indemnity: such Holder has offered to the Trustee reasonable indemnity satisfactory to the Trustee against the costs, expenses, and liabilities to be incurred in compliance with such request;

D. Failure to Proceed: the Trustee for 60 days after the receipt of such notice, request, and offer of indemnity has failed to institute any such proceeding; and

E. No Inconsistent Directions: no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Bonds.

However, the Holder of any Bond shall have the right to receive payment of the principal of (and premium, if any) and interest on such Bond on the Stated Maturity expressed in such Bond (or, in the case of redemption, on the Redemption Date), *but* solely from the sources from which such principal, premium, and interest are payable pursuant to the terms of such Bond, and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder; *provided, however*, that no Bondholder shall be entitled to take any action or institute any such suit to enforce the payment of his Bonds, whether for principal, interest, or premium, if and to the extent that the taking of such action or the institution or prosecution of any such suit or the entry of judgment therein would under applicable law result in a surrender, impairment, waiver, or loss of the lien of the Indenture upon the Trust Estate, or any part thereof, as security for Bonds held by any other Bondholder.

-- Control of Remedies by Bondholders

The Holders of a majority in principal amount of the Outstanding Bonds shall have the right, during the continuance of an Event of Default, to require the Trustee to proceed to enforce the Indenture, either by judicial proceedings for the enforcement of the payment of the Bonds and the foreclosure of the Indenture, the sale of the Trust Estate, or otherwise or, at the election of the Trustee, by the exercise of the power of sale conferred by the Indenture; and to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee by the Indenture; *provided* that (1) such direction shall not be in conflict with any rule of law or the Indenture, (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and (3) unless such direction is given by or in lieu of all Bondholders, the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Bondholders not taking part in such direction.

-- Waiver of Past Defaults

Before any sale of any of the Trust Estate has been made or any judgment or decree for payment of money due has been obtained by the Trustee, the Holders of not less than a majority in principal amount of the Outstanding Bonds, by appropriate written instrument(s) delivered to the Trustee, the Issuer, and the Borrower, may waive any past default under the Indenture and its consequences, except a default in the payment of the principal of (or premium, if any) or interest on any Bond, or in respect of a covenant or provision of the Indenture which under the terms of the Indenture cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Indenture; *but* no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Concerning the Trustee

Except during the continuance of an Event of Default, Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee; and in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, orders, requests, or opinions furnished to the Trustee and conforming to the requirements of the Indenture. In general, the Indenture provides that the Trustee is liable only for its own grossly negligent acts, its own grossly negligent failure to act, or its own willful misconduct.

If an Event of Default has occurred and is continuing, the Indenture provides that the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. No Default or Event of Default shall be deemed to be known to the Trustee unless it is a default in payment of principal or interest on a Bond when such principal or interest is due and payable or an acceleration of payment of the Note declared by the Master Trustee under the Master Indenture and notice of which has been given to the Trustee by the Master Trustee (if the Trustee is not the Master Indenture), or such Default or Event of Default is specified in a written notice given to the Trustee by any Bondholder, the Issuer or the Borrower.

No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the acceptance of appointment by the successor Trustee.

The Trustee may resign at any time by giving written notice thereof to the Issuer and the Borrower. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Trustee may be removed at any time by appropriate written instrument(s) of the Holders of a majority in principal amount of the Outstanding Bonds, delivered to each of the Trustee, the Issuer, and the Borrower, or (2) if no Default exists, by Issuer Order or Borrower Order.

If the Trustee resigns, is removed, or becomes incapable of acting, or if a vacancy shall occur in the office of Trustee for any reason, the Indenture provides that the Issuer, by Issuer Order (*subject* to Borrower Consent, *unless* the Borrower is then in default under the Loan Agreement), shall promptly appoint a successor Trustee. If, within one year after such resignation, removal, or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by appropriate action of the

Holders of a majority in principal amount of the Outstanding Bonds, then the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer.

The retiring Trustee shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee, *but solely* from and to the extent of funds advanced by the Borrower pursuant to the Loan Agreement, to the Borrower, the Paying Agent, the Bond Registrar, and the Bondholders. Each such notice is to include the name of the successor Trustee and the address of its principal corporate trust office.

At any time or times, for the purpose of meeting the legal requirements of any jurisdiction in which any of the Trust Estate may at the time be located, the Issuer and the Trustee (with the approval of the Borrower, *if* the Borrower is not then in default under the Loan Agreement) shall have the power to appoint, and, upon the written request of the Trustee or the Holders of at least 25% in principal amount of the Bonds Outstanding, the Issuer shall for such purpose join with the Trustee in the execution, delivery, and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Trustee either to act as co-trustee, jointly with the Trustee, of all or any part of the Trust Estate, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment.

Supplemental Indentures *Without Consent of Bondholders*

Without the consent of the Holders of any Bonds, the Issuer and the Trustee may from time to time, upon Borrower Consent, enter into one or more indentures supplemental to the Indenture, in form satisfactory to the Trustee, for any of the following purposes:

To Effect Liens: to correct or amplify the description of any property at any time subject to the lien of the Indenture, or better to assure, convey, and confirm unto the Trustee any property subject or required to be subjected to the lien of the Indenture, or to subject additional property to the lien of the Indenture; or

To Restrict Bonds: to add further conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication, and delivery of Bonds; or

To Evidence Succession: to evidence the succession of another corporation or authority to the Issuer and the assumption by any such successor of the covenants of the Issuer contained in the Indenture and in the Bonds; or

To Add Restrictive Covenants: to add to the covenants of the Issuer for the benefit of the Holders of all of the Bonds or to surrender any right or power conferred by the Indenture upon the Issuer; or

To Permit Book-Entry Only Bonds: to provide for uncertificated Bonds or a modified book entry system for the Bonds; or

To Make Non-Adverse Changes: to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture, *provided* such action shall not adversely affect the interests of the Bondholders; or

To Change Tax Covenants: to change any provision of the tax covenants in the Indenture, *if* in the Opinion of Counsel such change would not adversely affect any exclusion of interest on any Bond from the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes.

The Trustee may in its discretion determine whether or not any Bonds would be affected by any supplemental indenture and any such determination shall be conclusive upon every Holder of Bonds. The Trustee shall not be liable for any such determination made in good faith.

Supplemental Indentures *With Consent of Bondholders.*

With the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds affected by such supplemental indenture, the Issuer and the Trustee may, with Borrower Consent, enter into an indenture or indentures supplemental to the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the Holders of the Bonds under the Indenture; *provided, however*, that (except for supplemental indentures which may be executed without the consent of Bondholders as described above) no such supplemental indenture shall, without the consent of the Holder of each Outstanding Bond affected thereby,

Change Stated Maturity or Impair Payment Rights: change the Stated Maturity of the principal of, or any installment of interest on, any Bond, or reduce the principal amount thereof or the interest thereon, or change any Place of Payment where, or the coin or currency in which, any Bond or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or make any of the foregoing changes to the obligation of the Borrower to make Loan Payments; or

Reduce Consent Rights: reduce the percentage in principal amount of the Outstanding Bonds the consent of the Holders of which is required for any such supplemental indenture, or the consent of Holders of which is required for any waiver of compliance with certain provisions of the Indenture or certain defaults and their consequences; or

Enfranchise Disenfranchised Holders: modify or alter the provisions of the proviso to the definition of the term “Outstanding”; or

Modify Amendment and Waiver Provisions: modify any of the provisions of the Indenture concerning supplemental indentures with the consent of Bondholders or the section of the Indenture regarding Bondholder waiver of past defaults, *except* to increase the percentage of Bondholders who must grant such consents or waivers or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby; or

Subordinate Liens: permit the creation of any lien ranking prior to or on a parity with the lien of the Indenture with respect to any of the Trust Estate or terminate the lien of the Indenture on any property at any time subject to the Indenture or deprive any Bondholder of the security afforded by the lien of the Indenture; or

Modify Sinking Fund Redemption Rights: modify any of the provisions of the Indenture in such manner as to affect the rights of the Bondholder to the benefits of any mandatory sinking fund redemption of Bonds.

The Trustee may in its discretion determine whether or not any Bond would be affected by any supplemental indenture, and any such determination shall be conclusive upon every Holder of Bonds. The Trustee shall not be liable for any such determination made in good faith.

Money for Bond Payments to be Held in Trust; Repayment of Unclaimed Money.

The Indenture provides that the sums which are segregated by the Trustee or deposited with any other Paying Agent to pay the principal of (and premium, if any) or interest on any Bonds becoming due on any due date shall be held in trust for the benefit of the Holders of such Bonds. Money so segregated or deposited and held in trust shall not be a part of the Trust Estate but shall constitute a separate trust fund for the benefit of the Persons entitled to such principal or interest (and premium, if any). All such funds shall be held uninvested.

The Indenture provides that any money deposited with the Trustee or any Paying Agent in trust for the payment of the principal of (and premium, if any) or interest on any Bond and remaining unclaimed for three years after such principal (and premium, if any) or interest has become due and payable shall, *subject* to applicable escheat laws, be paid, subject to applicable unclaimed property laws of the Commonwealth of Pennsylvania, to the Borrower on Borrower Request; and the Holder of such Bond shall thereafter, as an unsecured general creditor, look only to the Borrower for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease.

Consent to Sixth Supplemental Master Indenture.

The Trustee is authorized and directed by the Indenture to give consent to execution and delivery of the Sixth Supplemental Master Indenture, as holder of the Note and representative of the purchasers and holders of the Bonds, and the purchasers of the Bonds, by their purchase and acceptance of the Bonds, are deemed to consent to the execution and delivery of said Sixth Supplemental Master Indenture, without necessity of any separate, written instrument of consent. See “**SECURITY AND SOURCES OF PAYMENT FOR BONDS – Covenants of the Obligated Group; Additional Indebtedness**” in the body of the Official Statement and the Form of the Master Indenture appended to the Official Statement.)

THE LOAN AGREEMENT

Term and Termination of Loan Agreement.

The term of the Loan Agreement commences on the date of issuance of the Bonds and terminates on the latest of (1) the last Maturity of Bonds, (2) the first date on which there are no Outstanding Secured Bonds, and (3) the date on which the Borrower has satisfied in full its obligations with respect to payment to the United States of rebatable arbitrage earnings with respect to the Bonds. The Borrower may, at its option, terminate (1) all provisions of the Loan Agreement (*except* certain covenants regarding use of the financed property; payment of fees and expenses of the Trustee and its agents; payment of fees and expenses of the Issuer; indemnification of the Issuer, the Trustee, the Paying Agent and their officers and directors; and maintenance of the tax-exempt status of the Bonds) whenever the Indenture may be released and discharged in accordance with its terms and (2) all remaining provisions of the Loan Agreement, except the covenant to pay rebatable arbitrage at the last Maturity of the Bonds, whenever no Bonds shall remain Outstanding.

Amendment of Loan Agreement.

Without the consent of Holders of any Bonds (except as described in Clause 5 below), the Issuer and the Borrower, may from time to time enter into one or more amendments or supplements to the Loan Agreement, for any of the following purposes:

1. ***To Correct Description or Add Projects:*** to correct or amplify the description of the Project or better to assure and confirm any property subject or required to be subjected to the terms of the Loan Agreement, or

2. ***To Evidence Succession:*** if otherwise permitted under the Loan Agreement, to evidence the succession of another Person to the Issuer or the Borrower and the assumption by any successor of the covenants of the Issuer or the Borrower, respectively; or

3. ***To Add Restrictive Covenants:*** to add to the covenants of the Borrower or to surrender any right or power conferred in the Loan Agreement upon the Borrower; or

4. ***To Make Non-Adverse Changes:*** to cure any ambiguities, to correct or supplement any provision in the Loan Agreement which may be inconsistent with any other provision in the Loan Agreement, or to make any other provision, with respect to matters or questions arising under the Loan Agreement, *provided* that such action shall not adversely affect the interests of the Holders of the Bonds, or to make any change to the covenants of the Loan Agreement with respect to preservation of the tax-exempt status of the interest on the Bonds which, in the Opinion of Counsel, will not adversely affect any exclusion of interest on any Bond from the gross income of the owner thereof for federal income tax purposes; or

5. ***With Consent:*** with the approval of the Holders of the same percentage in principal amount of the Bonds then Outstanding affected by such amendment or supplement as the percentage in principal amount of the Bonds then Outstanding affected by any supplemental indenture the consent of the Holders of which is sufficient for the authorization of such supplemental indenture, to add any provisions to or change in any manner or eliminate any provisions of the Loan Agreement.

Undertaking the Project.

The Issuer and the Borrower covenant and agree that the proceeds of sale of the Bonds shall be used to undertake and to complete the Project. To the extent the costs and expenses of issuing the Bonds which constitute "issuance costs," within the meaning of Section 147(g) of the Code and applicable Treasury Regulations, exceed two (2) percent of the proceeds of the Bonds, within the meaning of such Section of the Code and applicable Treasury Regulations, the Borrower covenants and agrees to pay such excess from its own funds (other than proceeds of the Bonds).

Security Interest.

Under the terms of the Loan Agreement, the Borrower grants to the Trustee a security interest in the Proceeds Fund, the Sinking Fund, and the Reserve Fund and all money, securities, and obligations held for the credit thereof as security for payment of the Loan Payments and the other amounts required to be paid by the Borrower pursuant to the Loan Agreement.

Loan Payments

Under the Loan Agreement, the Borrower covenants to repay the loan made by the Issuer from the proceeds of sale of the Bonds, which shall be in the same principal amount as the Bonds and bear interest corresponding to the interest on the Bonds. The Loan Payments, which are to correspond as to date and amount with the payments of principal, redemption premium, if applicable, and interest due on the Bonds, shall be payable directly to the Trustee. The obligations to repay such loan will be evidenced by the Note. The Borrower may credit against any Loan Payment, without duplication, certain amounts held for the credit of the Bond Fund under the Indenture and available for payment of the principal of and interest (and redemption premium, if applicable) on the Bonds with respect to which such Loan Payment is due. The Borrower additionally covenants to pay fees and expenses of the Trustee and the Issuer.

Covenants to Maintain of Tax-Exempt Status of Bonds.

The Borrower covenants not to take (and not permit any Affiliate within its control to take any action or omit to take any action which, if taken or omitted, respectively, would adversely affect the excludability of interest on any Bond from the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. These covenants include, among others,

(1) a covenant against use of the property financed or refinanced with proceeds of the Bonds (including income from the investment thereof) in any trade or business carried on by any Person which is not an Exempt Person or in any unrelated trade or business, as defined in section 513(a) of the Code, of any Exempt Person, *if* in any case the aggregate Cost of all property financed or refinanced with proceeds of the Bonds and so used when added to the costs of issuing the Bonds financed with proceeds of the Bonds exceeds the lesser of \$15,000,000 or 5% of the Net Proceeds of the Bonds;

(2) a covenant not to invest (or to direct or permit the Trustee to invest) the Gross Proceeds of the Bonds or any amounts expected to be used to pay the principal thereof or the interest thereon which, if directed, permitted, taken or omitted, respectively, would cause any Bond to be classified as an “*arbitrage bond*” within the meaning of section 148 of the Code or a “*hedge bond*” within the meaning of section 149 of the Code; and

(3) a covenant to provide for the timely calculation and payment of any rebatable arbitrage which results from the investment of proceeds of the Bonds.

THE MORTGAGE

For the definition of certain terms used under this heading, see “Article I – Definitions and Other Provisions Concerning Interpretation” in the form of the Master Trust Indenture included in a separate Appendix to this Official Statement.

Grant of Mortgage Lien.

As security for the payment of the Note and all other Obligations that are being issued, or may be issued, and Outstanding pursuant to the Master Indenture, the Borrower will grant to the Master Trustee, as mortgagee, a mortgage lien on the Mortgaged Property, including all the nursing home, assisted living, independent living and continuing care retirement facilities, and other buildings, structures, improvements and appurtenances of any nature whatsoever now standing, or at any time hereafter constructed, added, extended or placed upon the Mortgaged Property, subject to Permitted Liens, to the rights of residents, if

any, of the Facility under the terms of any resident agreements entered into on or before the date of the Mortgage between the Borrower and persons residing in the Facility (herein referred to as “Resident Agreement Obligations”), and to restrictions of record or visible on the Mortgaged Property.

Additional Parity Mortgage Liens.

The Mortgage provides that if additional Obligations are issued or incurred by a Supplemental Master Indenture or otherwise in full compliance with the terms and conditions of the Master Indenture and if a mortgage is granted and recorded to secure such additional Obligations, then the lien and encumbrance of the Mortgage shall be postponed to perfect equality with such other mortgage and the lien priority and encumbrance of the Mortgage shall be deemed to be equal and identical to the said other mortgage, *in pari passu*, so that the Master Trustee’s rights to foreclosure, enforcement and the proceeds thereof, whether generated by foreclosure, sale or otherwise in lieu thereof shall be shared pro rata, all under the provisions, terms and conditions set forth in the Master Indenture.

Events of Default.

It shall be an “Event of Default” under the Mortgage if (a) an Event of Default (as defined therein) occurs under any of the Initial Obligations or any other Obligation or Obligations or other evidence of Indebtedness, as defined in the Master Indenture, issued or made under or outside of the Master Indenture by the Borrower or any other Member of the Obligated Group, (b) an Event of Default occurs under the Master Indenture or the Bond Indenture, (c) the Borrower fails to perform any covenant or agreement under the Mortgage and such failure shall continue for a period of thirty (30) days after notice thereof shall have been given by the Master Trustee to the Borrower, or for such longer period as Master Trustee may agree in writing, provided that if such failure is other than in the payment of money and is of such nature that it can be corrected but not within the applicable period, such failure shall not constitute an Event of Default under the Mortgage so long as the Borrower institutes corrective action within the applicable period and diligently pursues such action to completion, or (d) an Event of Default (as defined therein) occurs under the terms of any other mortgage or Permitted Lien on the Mortgaged Property, whether subordinate to or prior in lien and encumbrance to the lien of the Mortgage.

Remedies.

If an Event of Default occurs under the Mortgage, the Master Trustee shall be entitled to declare all Obligations, including the Initial Obligations, to be immediately due and payable and may proceed with an action of mortgage foreclosure against the Mortgaged Property, or take such other action at law or in equity for the enforcement of the Mortgage and of the Master Indenture as the law may allow. The Borrower waives any and all rights to require marshalling of assets in connection with the exercise of any remedies provided in the Mortgage or permitted by law, and the Master Trustee may sell all or any part or parts of the Mortgaged Property after having commenced foreclosure proceedings and otherwise having complied with applicable law.

Releases.

The Mortgage provides that the Borrower shall be entitled to have the lien of the Mortgage released from any part or parcel of the Mortgaged Property pursuant to, and as may be permitted under, the conditions set forth in the Obligations and the Master Indenture with respect to sales, transfers, conveyances and other dispositions of property forming part of the Mortgaged Property. Upon satisfaction of such conditions, the Master Trustee may, if requested, execute and deliver to the Borrower an instrument of release as to the whole or any part or parcel of the Mortgaged Property, and such other instruments as are

necessary to subordinate the lien of the Mortgage to any easements necessary to provide access to or utility service for any property released pursuant to the aforementioned provisions.

Leases.

The Mortgage permits the Borrower to lease all or any part of the Mortgaged Property, provided that if any such lease shall, in any way, affect the Mortgage (for example, if the Borrower is required to subdivide and/or establish a condominium with respect to all or any portion of the Mortgaged Property in order to lease part of the Mortgaged Property), the Borrower shall be required to obtain the Master Trustee's prior written consent, which consent is not to be withheld or delayed unreasonably but may be withheld if the Master Trustee reasonably believes such lease will materially impair the rights and remedies of the Master Trustee as mortgagee under the Mortgage. Upon request of the Borrower, the Master Trustee is authorized to enter into, execute, deliver, and file or record, as appropriate, an agreement with any tenant pursuant to which the Master Trustee shall agree not to disturb the rights of the tenant under the lease in an Event of Default under the Mortgage and the enforcement of any remedy under the Mortgage, provided that the tenant acknowledges and agrees that the lease is subordinate and subject to the terms and conditions of the Mortgage and the tenant attorns to the Master Trustee, or any other person succeeding to the interest of the Master Trustee, as mortgagee.

Defeasance.

Upon the payment and performance of all obligations under the Obligations and the Master Indenture and upon defeasance of the lien thereof, the Mortgage shall cease and become void and may be released of record at the request of the Borrower.

APPENDIX E
FORM OF MASTER INDENTURE

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MASTER TRUST INDENTURE

between

BRETHREN VILLAGE

and

FULTON FINANCIAL ADVISORS, NATIONAL ASSOCIATION

Dated as of January 1, 2008

**[Text Conformed to Reflect Amendments through the Effective Date of the Sixth
Supplemental Master Indenture]**

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APPENDIX A Description of Excluded Real Property

This MASTER TRUST INDENTURE, dated as of January 1, 2008 (the “Master Indenture”), between BRETHERN VILLAGE (the “Corporation”), a Pennsylvania nonprofit corporation, and Fulton Financial Advisors, National Association, a corporation with trust powers duly incorporated and validly existing under the laws of the United States of America, having a corporate trust office in the City of Lancaster, Pennsylvania, and being duly qualified to accept and administer the trusts created hereby (the “Master Trustee”).

WITNESSETH:

WHEREAS, the Corporation is authorized, and deems it necessary and desirable, to enter into this Master Indenture for the purpose of providing for the issuance from time to time by Members of the Obligated Group (as defined herein) of Obligations (as defined herein) to finance or refinance the acquisition, construction or betterment of health care facilities or other facilities, or for other lawful and proper purposes; and

WHEREAS, all acts and things necessary to constitute this Master Indenture a valid indenture and agreement according to its terms having been done and performed, and the Corporation having duly authorized the execution and delivery of this Master Indenture in the exercise of the legal rights and powers vested in it, executes this Master Indenture and proposes to make, execute, issue and deliver Obligations hereunder; and

WHEREAS, the Master Trustee agrees to accept and administer the trusts created hereby, subject to the terms hereof,

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of Obligations issued hereunder by the Holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which Obligations are to be issued, authenticated, delivered and accepted by all Persons who shall from time to time be or become registered owners thereof, the Members of the Obligated Group covenant and agree with the Master Trustee, for the equal and proportionate benefit of the respective registered owners from time to time of Obligations issued hereunder, as follows:

ARTICLE I - DEFINITIONS AND OTHER PROVISIONS
CONCERNING INTERPRETATION

Section 1.01 Definitions. For the purposes hereof unless the context otherwise indicates, the following words and phrases shall have the following meanings:

“Accountant” means an independent certified public accountant or a firm of independent certified public accountants that is a member of the American Institute of Certified Public Accountants (or its successor organization) and is licensed to practice in the Commonwealth of Pennsylvania.

“Accounts” means any right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, (ii) for services rendered or to be rendered, or (iii) for a secondary obligation incurred or to be incurred. The term “Accounts” shall include healthcare insurance receivables. The term “Accounts” shall not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold. Any term used in this definition (other than the term “Accounts”) shall have the meanings given such terms, if any, in the UCC.

“Affiliate” means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by any Member of the Obligated Group, or by any Person which directly or indirectly controls any Member of the Obligated Group or (ii) controls, directly or indirectly, any Member of the Obligated Group. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise. “Affiliate” includes each Person who is an “affiliate” of a Member of the Obligated Group under generally accepted accounting principles.

“Authority” means the Lancaster County Hospital Authority, and any successor thereto.

“Authority Bonds” means any Related Bonds issued by the Authority.

“Authorized Officer” shall mean, with respect to the Corporation, the Chairman or Vice Chairman of the Corporation’s Governing Body or its President or Vice President or its Secretary or any Assistant Secretary or any other officer designated by resolution of the Corporation’s Governing Body.

“Available Reserves” means, as of any particular date of determination, an amount equal to the sum of all cash and the market value of all investments of the Members of the Obligated Group, less: (a) any cash or investments held by a trustee or creditor in any bond payment fund or similar account for the payment of interest on Long-Term Indebtedness (or Related Bonds) up to, but not exceeding, the amount of interest accrued on such Long-Term Indebtedness (or Related Bonds) to such date of determination; (b) the principal balance of any Qualifying Intermediate-Term Indebtedness and Short-Term Indebtedness then Outstanding; (c) any amount

required to be reserved by any Member of the Obligated Group under applicable state or federal regulations against such Member's obligation under Residency Agreements to provide nursing or other health care to residents (but not including any amounts required under applicable law to be held in reserve for other purposes); (d) any amount, whether representing the proceeds of Indebtedness or funds budgeted by a Member of the Obligated Group from its own funds, which, according to a certificate of an Obligated Group Representative, are committed to the payment of the costs of acquisition or construction of Property that will, upon such acquisition or construction, constitute Property, Plant and Equipment; (e) cash and investments the use of which is restricted by a donor or grantor to a particular use or purpose inconsistent with their use for the payment of Long-Term Indebtedness or Related Bonds; and (f) any other cash or investments not legally available for the payment of Long-Term Indebtedness or Related Bonds (or the purchase thereof) when due.

“Balloon Long-Term Indebtedness”[‡] means Long-Term Indebtedness (other than Qualifying Intermediate-Term Indebtedness) 25% or more of the principal amount of which is due, or is subject to tender for purchase or callable at the option of the holder, in a single year, and which portion is not required by the documents pursuant to which such Indebtedness is incurred to be amortized by payment or redemption prior to such year.

“Code” means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

“Continuing Care Provider Act” means the Pennsylvania Continuing Care Provider Registration and Disclosure Act, as amended and supplemented from time to time, 40 P.S. §3201, *et seq.*

“Corporate Charter” means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

“Corporate Trust Office” means the corporate trust office of the Master Trustee located in Lancaster, Pennsylvania, or if the Master Trustee no longer maintains a corporate trust office in such city, its principal corporate trust office, which presently is located in Lancaster, Pennsylvania.

“Corporation” means Brethren Village, a nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the Commonwealth of Pennsylvania, and any successor or successors thereof.

“Corporation Mortgage” means the Open End Mortgage and Security Agreement, dated as of the date of delivery thereof, delivered by the Corporation, as mortgagor, to 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.

[‡] Definition as amended by the Sixth Supplemental Master Indenture.

“Credit Facility” shall mean any instrument, such as a letter of credit, insurance policy or surety bond, which is irrevocable and transferable and obligates the issuer thereof or party thereto, which shall be a bank or banks or insurance company or companies or appropriate other party whose applicable instruments are exempt from the registration provisions of the federal Securities Act of 1933.

“Days’ Cash on Hand” means (i) the aggregate unrestricted cash and unrestricted marketable securities (including board-designated funds and amounts in funds held by the Master Trustee under any supplement hereto, unless specifically excluded) of the Obligated Group as of the date of computation, excluding cash and unrestricted marketable securities attributable to Indebtedness of the Obligated Group divided by (ii) 1/365th of the total operating expenses of the Obligated Group for the immediately preceding Fiscal Year for which Financial Statements are available, excluding Non-Cash Expenses, as shown on the Financial Statements for such Fiscal Year. All securities shall be valued at fair market value for purposes of this definition.

“Defeasance Obligations” means (i) with respect to any Obligation that secures a series of Related Bonds, the obligations permitted to be used to defease such series of Related Bonds under the Related Bond Indenture, and (ii) with respect to any Obligation for which there are no Related Bonds, (A) noncallable Government Obligations, (B) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (C) Defeased Municipal Obligations and (D) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers which are rated in the highest rating category by S&P and Moody’s and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, (iii) cash or (iv) any combination of such noncallable Government Obligations, evidences of ownership and cash, which Government Obligations or evidences of ownership, together with any cash, are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, being sufficient, together with any cash, to provide money to pay the principal of, premium, if any, and interest on such obligations of such state or local government municipal bond issuers.

“Defeased Obligations” means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to its terms.

“Derivative Agreement” means, without limitation, (i) any contract known or referred to as, or which performs the function of, an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for

payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Derivative Indebtedness” means Indebtedness (or that portion of Indebtedness) for which a Member of the Obligated Group shall have entered into a Derivative Agreement.

“Derivative Period” means the period during which a Derivative Agreement is in effect.

“Eligible Investments” means any of the following securities:

(1) **Governments:** Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(2) **Full Faith Agencies:** Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) the Export-Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association (“GNMA”), (d) the Rural Economic Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration;

(3) **Government Agencies:** Investments in direct obligations in any of the following agencies which obligations are not fully guaranteed by the full faith and credit of the United States: (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation (“FHLMC”) or senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association (“FNMA”), (c) obligations of the Resolution Funding Corporation (“REFCORP”) or (d) senior debt obligations of the Student Loan Marketing Association (“SLMA”) (excluding securities that do not have a fixed par value/or whose terms do not promise a fixed dollar amount at maturity or call date);

(4) **Certificates of Deposit:** Investments in (a) U.S. dollar denominated deposit accounts, federal funds, banker’s acceptances, and certificates of deposit of any bank whose short term debt obligations are rated “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as the rating of the bank) or (b) certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation (“FDIC”);

(5) **Money Market Funds:** Investments in money market funds rated “AAAm” or “AAAm-G” by S&P;

(6) **Commercial Paper:** Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase;

(7) **Pre-Refunded Municipals:** Pre-refunded municipal obligations, defined as follows: any bonds or other obligations rated “AAA” by S&P and “Aaa” by Moody’s (based on an irrevocable escrow account or fund) of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice;

(8) **Municipals:** Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A1/A+” or higher by both Moody’s and S&P;

(9) **Repurchase Agreements:** Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and “A2” by Moody’s; or (b) any broker-dealer with “retail customers” or a related affiliate thereof which broker dealer has, or the parent company (which guarantees the provider) of which has, long term debt rated at least “A” by S&P and “A2” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least “A” by S&P and “A2” by Moody’s, provided that:

- (a) the repurchase agreement is collateralized with the obligations described in paragraphs (1) or (2) above, or with obligations described in paragraph (3) (a) and (b) above;
- (b) the Master Trustee will value the collateral securities at least weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two (2) business days;
- (c) the market value of the collateral must be maintained at 104% of the total principal of the repurchase agreement for obligations described in paragraphs (1) and (2), or 105% of the total principal of the repurchase agreement for obligations described in paragraph (3) (a) and (b) above;
- (d) the Master Trustee or a third party acting solely as agent therefor or for the Corporation (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);
- (e) the repurchase agreement shall state, and an Opinion of Counsel shall be rendered at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof; and
- (f) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended

or falls below “A-“ by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the Corporation or the Master Trustee, within 10 days following receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Corporation or the Master Trustee.

(10) Investment Agreements: Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guarantee of the provider’s obligations under the agreement, the long-term debt of the guarantor, is rated at least “AA” by S&P and “Aa2” by Moody’s; or (b) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least “AA” by S&P and “Aa2” by Moody’s; provided, that in all cases, by the terms of the investment agreement,

- (a) interest payments are to be made to the Master Trustee at least one business day prior to debt service payment dates on the Obligations and in such amounts as are necessary to pay debt service (or, if the investment agreement is for the Proceeds Fund, draws on the Proceeds Fund);
- (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date);
- (c) the investment agreement states that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;
- (d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under this Indenture;
- (e) the term of the investment agreement does not exceed seven years or, if the investment agreement is for the Operating Reserve Fund, the final maturity date of the Obligations;
- (f) the Corporation and the Master Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Corporation and the Master Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Corporation and the Master Trustee;
- (g) if during the term of the investment agreement:
 - (1) the provider’s (or, if applicable, the guarantor’s) rating by either S&P or Moody’s falls below “AA-” or “Aa3”, respectively, the provider must, at the direction of the Corporation or the Master Trustee, within 10 days following receipt of such direction, either (i) collateralize the investment agreement by delivering or

transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Corporation, the Master Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") Permitted Collateral which is free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above shall be that of the Corporation or the Master Trustee, as appropriate); and

- (2) the provider's (or, if applicable, the guarantor's) rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, respectively, the provider must, at the direction of the Corporation or the Master Trustee, within 10 days following receipt of such direction, repay the principal of and accrued but unpaid interest on the investment with no penalty or premium to the Corporation or the Master Trustee;
- (h) The investment agreement states, and an Opinion of Counsel shall be rendered, that the Master Trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Master Trustee is in possession); and
- (i) if during the term of the investment agreement:
 - (1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Corporation or the Master Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Corporation or the Master Trustee, as appropriate;
 - (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Corporation or the Master Trustee, as appropriate;
 - (3) the provider fails to perform any of its obligations under the investment agreement (other than obligations related to payment or rating) and such breach continues for ten (10) business days or more after written notice thereof is given by the Master Trustee to the provider, it shall be an Event of Default; or
 - (4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it shall be an Event of Default.

Permitted Collateral for investment agreements (“Permitted Collateral”) shall include only:

- A. direct U.S. Treasury obligations,
- B. Senior debt and/or mortgage backed obligations of GNMA, FNMA or FHLMC and other government sponsored agencies backed by the full faith and credit of the U.S. government.
- C. Collateral levels must be 104% of the total principal deposited under the investment agreement for direct U.S. Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC obligations.
- D. The collateral must be held by a third party, segregated and market to market at least weekly.

“Entrance Fees” means (a) all admission fees received by any Member of the Obligated Group pursuant to any agreement with respect to the granting of rights to the initial and exclusive use of any unit in the Facilities not subject to refund under the laws of the State, but only to such extent provided by law, and net of any amount which has been refunded; provided, however, that deposits for admission to the Facilities will not be “Entrance Fees” until the prospective resident has a right to take possession of such unit pursuant to such agreement, (b) all admission fees received by any Member of the Obligated Group pursuant to any agreement with respect to the granting of rights to exclusive use of any unit that had been previously occupied by another resident and which comprised a part of the Facilities, not subject to refund under the laws of the State, but only to such extent provided by law, and net of any refunds paid to (i) the prior resident upon re-granting of exclusive rights to use such unit or (ii) the resident succeeding to the exclusive rights to use such unit, and (c) all fees received pursuant to any agreement with respect to customized changes to any unit in the Facilities.

“Equipment” means those items constituting equipment as defined in the UCC and used in connection with the Mortgaged Property, whether such equipment is now owned or hereafter acquired by any Member of the Obligated Group.

“Event of Default” means, with respect to this Master Indenture, any one or more of those events set forth in Section 4.01.

“Excluded Real Property” means the real property described in Appendix A hereto that is not subject to the lien of the Mortgage.

“Existing Facilities” means the continuing care retirement facilities and facilities ancillary thereto owned and operated by the Corporation on the date of execution and delivery of this Master Indenture.

“Facilities” means the Existing Facilities and any other continuing care retirement facilities or health care delivery or residential facilities designed to provide services to the elderly hereafter owned by any Member of the Obligated Group and operated by or on behalf of any Member of the Obligated Group.

“Financial Statements” means consolidated financial statements of the Corporation and its Affiliates, if any, for a Fiscal Year, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles consistently applied and including such statements as are necessary for a fair presentation of financial position, activities and changes in net assets and cash flows as of the end of such period, which have been audited and reported upon by an Accountant. If any Member of the Obligated Group is not an Affiliate of the Corporation, “Financial Statements” shall also mean combined financial statements of such Member of the Obligated Group and its Affiliates, if any, for the same Fiscal Year (or other period) as the Financial Statements of the Corporation, prepared in accordance with generally accepted accounting principles consistently applied, which have been audited and reported upon by an Accountant. Financial Statements of the Corporation shall also include, in an additional information section, unaudited combining financial statements for the same Fiscal Year (or other period) from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not an Affiliate have been added by extracting the balances of such accounts from audited combined financial statements of such Member of the Obligated Group and its Affiliates, if any.

“Fiscal Year” means the fiscal year of each of the Members of the Obligated Group, which period commences on July 1 of each year and ends on June 30 of the following year, unless the Master Trustee, the Authority and each Related Bond Trustee is notified in writing by the Obligated Group Representative of a change in such period for all of the Members of the Obligated Group, in which case the Fiscal Year shall be the period set forth in such notice.

“Fitch” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the Corporation by notice to the Master Trustee.

“Governing Body” means, when used with respect to any Member of the Obligated Group, its board of directors, board of trustees or other board or group of individuals in which the powers of such Member of the Obligated Group are vested.

“Government Obligations” means direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Gross Receipts” means all revenues, income, receipts and money (other than proceeds of borrowing and moneys received from residents that are held in escrow) received in any period by or on behalf of any Member of the Obligated Group, including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests,

donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by this Master Indenture to be used for a particular purpose inconsistent with their use for the payment of Obligations, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible Property, (v) medical or health care insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by each Member of the Obligated Group, and (d) rentals received from the leasing of real or tangible personal property.

“Guaranty” means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness hereunder.

“Holder” means the owner of any Obligation issued hereunder.

“Income Available for Debt Service”[‡] means, with respect to the Obligated Group, as to any Fiscal Year or such other twelve month period for which such calculation is made, the increase (decrease) in unrestricted net assets, to which shall be added depreciation, amortization, bad debt expense, interest, and other non-cash expenses deducted from total revenues, all as determined in accordance with generally accepted accounting principles consistently applied, adjusted for the effect of any current or prior deferral of monthly or daily service fee revenues to reflect the current billing of monthly or daily service fees during such Fiscal Year, and all Entrance Fees received in cash during such Fiscal Year (less any refunds actually paid in such Fiscal Year), and from which shall be deducted all Entrance Fees amortized during such Fiscal Year and other non-cash revenues; provided, however, that for the purposes of determining compliance with any of the provisions of Section 3.06, Entrance Fees received from the initial resident of a unit in the Facilities or pursuant to any agreement with respect to customized changes to a unit in the Facilities shall be excluded, and for the purposes of determining compliance with any of the provisions of Section 3.07, Entrance Fees received from the initial resident of any unit up to the amount of Qualifying Intermediate-Term Indebtedness shall be excluded; provided further that no determination thereof shall take into account:

(a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business;

(b) any nonrecurring items of an unusual or extraordinary nature which do not involve the receipt, expenditure or transfer of assets;

(c) any unrealized gains or losses, including any unrealized gains or losses on investments or the value of any Derivative Agreement, or any “other-than-temporary” impairment loss; provided, however, that realized gains and losses on assets that suffer an

[‡] Definition as amended by the Sixth Supplemental Master Indenture.

other-than-temporary impairment loss shall be determined using the basis for such asset without giving effect to any reduction in basis resulting from such other-than-temporary impairment loss;

(d) termination receipts (payments) relating to interest rate swaps or other derivative financial products that are allowed as credits to (or paid with the proceeds of) any Indebtedness issued for a capital project or financing;

(e) any changes in temporarily and permanently restricted net assets, unless such restrictions allow for such assets to be used for the payment of Long-Term Indebtedness;

(f) any increase or decrease in obligations to provide future services; and

(g) any losses incurred from development of additional facilities that the Governing Board of any Member of the Obligated Group later determines not to pursue;

(h) gifts, grants, bequests and donations pledged but not actually received during that period of time; and

(i) investment income from (A) any investment of funds held in a Qualified Escrow or (B) any fund or account that is set aside and used for the purpose of paying Qualifying Intermediate-Term Indebtedness.

“Indebtedness”[‡] means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations, incurred or assumed by any Member of the Obligated Group, but excluding those leases which are required to be recognized as debt on the balance sheet only as a result of the application of Accounting Standards Update 2016-02 (February 2016) of the Financial Accounting Standards Board (FASB), and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

“Insurance Consultant” means a Person who or which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of any Member of the Obligated Group or an Affiliate, and who or which is qualified to survey risks and to recommend insurance coverage for continuing care facilities and services and organizations engaged in such operations.

“Lien” means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of such Property, whether such interest arises by contract, statute or common law, including but not limited to any mortgage, deed of trust, or pledge of, security interest in or encumbrance on any Property which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person. The term “Lien” shall include any easements, covenants, restrictions, conditions, encroachments, reservations, rights-of-way, leases and other title exceptions and encumbrances affecting real property.

[‡] Definition as amended by the Sixth Supplemental Master Indenture.

“Liquidity Testing Date” means each June 30 and December 31, beginning on June 30, 2008.

“Long-Term Debt Service Coverage Ratio” means, for each Fiscal Year or such other twelve month period for which such calculation is made, the ratio determined by dividing Income Available for Debt Service for such Fiscal Year or other twelve (12) month period by Maximum Annual Debt Service.

“Long-Term Debt Service Requirement” means, for each Fiscal Year, the aggregate of the payments to be made in respect of the principal of and interest on Outstanding Long-Term Indebtedness of the Obligated Group during such Fiscal Year, taking into account:

(i) with respect to Balloon Long-Term Indebtedness, the amount of principal that would be payable in such Fiscal Year, if the principal amount of such Balloon Long-Term Indebtedness is assumed to be amortized, after any period during which only interest is payable with respect to such Indebtedness in accordance with its terms, as follows: (a) if the applicable instrument evidencing such Indebtedness or a Related Bond Indenture, loan agreement or credit agreement expressly sets forth an amortization period for the Indebtedness, the entire principal amount of the Indebtedness is treated as if amortized on a level debt service basis over the stated amortization period, but in no event more than 30 years, and (b) if neither the applicable instrument evidencing such Indebtedness nor any Related Bond Indenture, loan agreement or credit agreement expressly sets forth an amortization period for the Indebtedness, the entire principal amount of such Indebtedness is treated as if amortized on a level debt service basis over the term of the instrument plus 15 years, but in no event more than 30 years. In each case (a) or (b) above, the interest rate used to calculate the assumed amortization of principal shall be the fixed market interest rate set forth in a written opinion of a banking institution or an investment banking institution knowledgeable in such matters of finance delivered to the Master Trustee as the interest rate at which the Obligated Group could reasonably expect to borrow the principal amount of such Indebtedness by issuing an obligation with the same assumed amortization period. Notwithstanding the preceding provisions of this subparagraph (i), however, if the date of calculation is not more than 12 months preceding the balloon payment date (or a date on which the Indebtedness is subject to tender for purchase or callable at the option of the holder), the full amount of principal payable on the balloon payment date (or tender or call date, as applicable) shall be included in such calculation unless a binding commitment to refinance such Balloon Long-Term Indebtedness is in effect, in which case the amortization schedule established by such commitment shall apply, subject, however, to the provisions of this subparagraph if the refinancing Indebtedness also will constitute Balloon Long-Term Indebtedness. The assumed annual principal payments determined in accordance with clause (a) or (b) above, whichever is applicable, shall remain in effect for purposes of determining the Long-Term Debt Service Requirements unless and until principal of the Indebtedness is prepaid or redeemed in advance of the date on which such principal would otherwise be paid under the terms of the Indebtedness;[‡]

[‡] Subparagraph as amended by Sixth Supplemental Master Indenture.

(ii) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at (A) in the case of Outstanding Variable Rate Indebtedness, the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period) or (B) in the case of Variable Rate Indebtedness proposed to be incurred, the rate which is equal to the Revenue Bond Index most recently published by The Bond Buyer;

(iii) (A) with respect to any Guaranty by any Member of the Obligated Group of any obligation of any Person, which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Short-Term Indebtedness, such Guaranty shall be excluded and (B) with respect to any Guaranty by any Member of the Obligated Group of any obligation of any Person, which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Long-Term Indebtedness, it shall be assumed that the indebtedness that is the subject of the Guaranty shall be repaid in accordance with its scheduled maturities, that the Guaranty shall have identical repayment terms and that such Guaranty shall be deemed Long-Term Indebtedness of the Obligated Group in accordance with the following schedule:

Long-Term Debt Service Coverage Ratio of the Person whose indebtedness is subject to a Guaranty (calculated as set forth herein for the most recent fiscal year of such Person for which <u>audited financial statements are available</u>)	<u>Percentage of the principal amount of the guaranteed indebtedness deemed to be Long-Term Indebtedness of the Obligated Group</u>
Greater than 2.0	0%
1.50 to and including 2.0	25%
1.30 to and including 1.49	50%
1.20 to and including 1.29	75%
Less than 1.20 (or no available audited financial statements)	100%

Notwithstanding the foregoing, if any Member of the Obligated Group is required to make a payment on such indebtedness pursuant to any Guaranty, 100% of the principal amount of the guaranteed indebtedness shall be deemed Long-Term Indebtedness of the Obligated Group for a period of two Fiscal Years following the Fiscal Year in which the most recent payment was made under such Guaranty; and

(iv) with respect to Derivative Indebtedness, for so long as the provider of the Derivative Agreement has a long-term credit rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody’s and S&P and has not defaulted on its payment obligations thereunder, the interest on such Indebtedness during any Derivative Period shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody’s and S&P or is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed;

provided further, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness; and provided further, however, that notwithstanding the foregoing, the aggregate of payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available (without reinvestment) in a Qualified Escrow (other than principal and interest so payable solely by reason of the Obligated Group’s failure to make payments from other sources).

“Long-Term Indebtedness” means all obligations for borrowed money incurred or assumed by any Member of the Obligated Group, including (a) Guaranties, (b) Short-Term Indebtedness if there exists a commitment by an institutional lender whose long-term, unsecured debt obligations are rated not less than “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) by both Moody’s and S&P to provide financing to retire such Short-Term Indebtedness and such commitment provides (i) terms and conditions that can be reasonably met by such Member of the Obligated Group to incur such Indebtedness, as certified in an Officer’s Certificate filed with the Master Trustee and (ii) for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and (c) the current portion of Long-Term Indebtedness (this shall not be read to exclude any portion of Long-Term Indebtedness not constituting the current portion), for any of the following:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one (1) year;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one (1) year; and

(iii) installment sale or conditional sale contracts having an original term in excess of one (1) year;

provided, however, that any Guaranty by any Member of the Obligated Group of any obligation of any Person which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Short-Term Indebtedness or Non-Recourse Indebtedness shall be excluded.

“Management Consultant” means an independent management consulting firm of favorable repute for skill and experience in performing the duties imposed upon it by this Master Indenture and which is acceptable to the Master Trustee.

“Master Trustee” means Fulton Financial Advisors, National Association, which has a corporate trust office in the City of Lancaster, Pennsylvania, and its successors in the trusts created hereunder.

“**Maximum Annual Debt Service**”[‡] means the highest Long-Term Debt Service Requirement, excluding (i) the principal component of the Long-Term Debt Service Requirement with respect to Qualifying Intermediate-Term Indebtedness, and, if Entrance Fees are being or will be set aside for the payment of the interest component of any Qualifying Intermediate-Term Indebtedness, the interest component of the Long-Term Debt Service Requirement with respect to such Qualifying Intermediate-Term Indebtedness, for the current or any succeeding Fiscal Year, and (ii) the debt service on such Indebtedness (and the Related Bonds, if any) in the final year of the term of such Indebtedness (and of such Related Bonds, if any) that is scheduled to be paid, and is reasonably expected to be paid, from amounts currently on deposit in a debt service reserve fund, sinking fund or other fund or account the amounts in which are pledged for payment of such Indebtedness (or such Related Bonds), and withdrawals from which are required to be replenished, under the terms of such Indebtedness (or such Related Bonds) or the documents under which such Indebtedness is secured (or the Related Bond Indenture, if applicable).

“Member of the Obligated Group” means, initially, the Corporation, and, thereafter, any Person which shall become a Member of the Obligated Group in accordance with Section 3.13, but excluding any Person which shall have withdrawn from the Obligated Group in accordance with Section 3.14.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the Corporation by notice to the Master Trustee.

“Mortgaged Property” means the real property, fixtures and personal property described in the Mortgage.

“Mortgagee” means the Master Trustee, or its successor, in its capacity as mortgagee under a Mortgage.

[‡] Definition as amended by the Sixth Supplemental Master Indenture.

“Mortgage” means (i) the Corporation Mortgage, and (ii) any other mortgage or deed of trust substantially similar to the Corporation Mortgage in form and substance or otherwise satisfactory to the Master Trustee and executed and delivered by or on behalf of any Member of the Obligated Group as security for all Obligations issued under this Master Indenture, each as amended from time to time in accordance with its terms.

“Net Book Value” means, when used in connection with Property, Plant and Equipment or other Property of any Person, the value of such Property, Plant and Equipment or other Property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles consistently applied, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

“Non-Cash Expenses” means any non-cash expense, including, but not limited to, depreciation, amortization, loss on disposal of fixed assets, loss on repayment of debt or any other expenses not requiring the payment of cash during the period of time under consideration.

“Non-Recourse Indebtedness” means any Indebtedness to finance the purchase, acquisition or construction of Property, Plant and Equipment, the payment of which is limited to and secured by a Lien on such Property, Plant and Equipment with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

“Obligated Group” means, collectively, the Members of the Obligated Group.

“Obligated Group Agent” means, with respect to the Authority, each person at the time designated to act on behalf of the Authority by written certificate furnished to the Related Bond Trustee containing the specimen signature of such person and signed on behalf of the Authority by its Secretary or Assistant Secretary, and, with respect to the Corporation, each person at the time designated to act on behalf of the Corporation by written certificate furnished to the Related Bond Trustee containing the specimen signature of such person and signed on behalf of the Corporation by its President or other authorized officer.

“Obligated Group Representative” means the individual at the time designated to act on behalf of the Obligated Group in a written certificate furnished to the Master Trustee, which certificate shall contain a specimen signature of such individual and shall be signed on behalf of the Obligated Group by the President of the Corporation or by his designee.

“Obligation” means the evidence of particular Indebtedness issued under Supplemental Indentures.

“Obligation Register” has the meaning given such term in Section 2.02.

“Officer’s Certificate” means a certificate signed by (i) the chairman of the Governing Body, or the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Governing Body of each Member of the Obligated Group or (ii) the Obligated Group Representative. Each Officer’s Certificate presented under this Master

Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of) this Master Indenture and shall incorporate by reference and use in all appropriate instances all terms defined in Section 1.01. Each Officer's Certificate shall state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer's Certificate is delivered, or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance, and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee, who may be counsel for any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

“Outstanding,” when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer outstanding under the documents pursuant to which such Indebtedness was incurred, and (iii) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement under which the Obligations were issued regarding mutilated, destroyed, lost or stolen Obligations, unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser.

“Permitted Liens” means those Liens described in Section 3.05(b).

“Person” means an individual, an association, an unincorporated organization, a corporation, a limited liability company, a partnership, a joint venture, a business trust or a government or an agency or a political subdivision thereof, or any other entity.

“Pledged Assets” means Gross Receipts and all Accounts, Equipment, general intangibles, inventory, documents, instruments and chattel paper of each Member of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof; provided, however, that Pledged Assets shall not include contract rights consisting of charitable pledges.

“Property” means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible, and wherever situated.

“Property, Plant and Equipment” means all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

“Purchase Money Lien” shall mean (a) any Lien on any Property to secure the initial financing of the acquisition or construction of such Property by a Member of the Obligated Group, provided such Lien attaches within 120 days after the date such Property was acquired or construction thereof was completed, which “initial financing” may include the refinancing of

advances of the funds of a Member of the Obligated Group if such refinancing occurs within 120 days after such date of acquisition or completion of construction, and (b) any Lien on Property subject to a Purchase Money Lien to secure the refinancing of Indebtedness secured with such Purchase Money Lien.

“Put Indebtedness” means Long-Term Indebtedness the principal of which is required, at the option of the owner thereof, to be purchased or redeemed at one time, but which is not required by the documents pursuant to which such Indebtedness was issued to be amortized by redemption prior to such time.

“Qualified Escrow” means a segregated escrow fund or other similar fund or account which (a) is irrevocably established as security for Long-Term Indebtedness previously incurred and then Outstanding (herein referred to as “Prior Indebtedness”) or for Long-Term Indebtedness, if any, then to be incurred to refund Outstanding Prior Indebtedness (herein referred to as “Refunding Indebtedness”), (b) is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder and is subject to a perfected security interest in favor of such holder, trustee or agent, (c) is held in cash or invested in Defeasance Obligations, as defined in the Related Bond Indenture that secures such Prior Indebtedness or Refunding Indebtedness, and (d) is required by the documents establishing such fund or account to be applied toward the Obligated Group’s payment obligations in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

“Qualifying Intermediate-Term Indebtedness” means any Indebtedness (or portion thereof) that (i) matures on a single date not more than seven years from its date of issuance or incurrence and (ii) is issued or incurred to finance the expansion of the Existing Facilities or to finance additional Facilities which, in either case, is expected by the Obligated Group to generate initial Entrance Fees (pursuant to executed Residency Agreements under which deposits of not less than 10% of the Entrance Fees have been or are required to be received and which obligate the prospective resident or some other Person, which prospective resident or other Person shall have met the financial criteria established by the Governing Body of any Member of the Obligated Group, to pay the balance) in an amount not less than 100% of the principal amount of such Qualifying Intermediate-Term Indebtedness.

“Rating Agencies” means Fitch, Moody’s and S&P.

“Related Bond Indenture” means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“Related Bond Issuer” means the issuer of any issue of Related Bonds.

“Related Bond Trustee” means the trustee and its successors in the trusts created under a Related Bond Indenture.

“Related Bonds” means (a) revenue bonds or similar obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, and (b) any bonds issued by any other Person, in either case the proceeds of which are loaned or otherwise made available to a Member of the Obligated Group in consideration, whether in whole or part, of the execution, authentication and delivery of an Obligation to such governmental issuer or Person or in consideration of the execution and delivery of a Guaranty issued by a Member of the Obligated Group that constitutes an Obligation under this Master Indenture.

“Residency Agreement” means an agreement entered into by a Member of the Obligated Group with respect to the granting of rights to the exclusive use of any unit in the Facilities, as such agreement may be amended from time to time.

“Retirement Industry Consultant” shall mean an investment banking firm or financial advisory firm knowledgeable and experienced in assessing the creditworthiness of organizations operating facilities similar to the Facilities.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the Corporation by notice to the Master Trustee.

“Short-Term Indebtedness” means all obligations, other than the current portion of Long-Term Indebtedness, incurred or assumed by one or more Members of the Obligated Group, for any of the following:

(i) payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one (1) year or less;

(ii) payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one (1) year or less; and

(iii) payments under installment purchase or conditional sale contracts having an original term of one (1) year or less.

“State” means the Commonwealth of Pennsylvania.

“Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, this Master Indenture.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof and which is exempt from federal income taxes under Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Total Revenue” means, as to any period of time, total revenue of the Obligated Group, as determined in accordance with generally accepted accounting principles consistently applied, less investment income.

“Transfer” means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt.

“UCC” or “Uniform Commercial Code” means the Pennsylvania version of the Uniform Commercial Code, Title 13 of the Pennsylvania Consolidated Statutes, as amended, or any successor statutes.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

Section 1.02 Interpretation.

(a) Any reference herein to any officer or member of the Governing Body of a Member of the Obligated Group shall include any individual succeeding to such officer’s or member’s functions, duties or responsibilities pursuant to or by operation of law or who is lawfully performing such officer’s or member’s functions.

(b) Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa, and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender.

(c) Where the character or amount of any asset, liability or item of income or expense is required to be determined, or any consolidation, combination or other accounting computation is required to be made, for the purposes hereof or of any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, the same shall be done in accordance with generally accepted accounting principles consistently applied.

(d) Headings of articles and sections herein and in the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof. Reference herein to particular articles or sections are references to articles or sections of this Master Indenture unless some other reference is otherwise indicated.

(e) Provisions relating to the redemption of Obligations or the calling of Obligations for redemption do not mean or include the payment of Obligations at their stated maturity or maturities.

(f) If an Affiliate of the Corporation is not a Member of the Obligated Group or if a Member of the Obligated Group is not an Affiliate of the Corporation, a determination or calculation required to be made or performed under this Master Indenture based on the Financial Statements shall be made or performed based on the unaudited combining information referred to in the last sentence of the definition of “Financial Statements.”

Section 1.03 Changes in GAAP . If there occurs any change in generally accepted accounting principles in the United States of America which

(i) results in a change in the required treatment of leases currently being accounted for as operating leases, or

(ii) requires any material change in the method of calculation used to determine compliance with any of the covenants set forth in this Master Indenture that is certified by an Accountant as being necessary to comply with generally accepted accounting principles in the United States of America,

and the Obligated Group wishes to amend any covenant or covenants in this Master Indenture (including any related definitions) to eliminate the effect of any such change on the operation of the covenants of this Master Indenture, then any Member of the Obligated Group shall give written notice to the Master Trustee of the Obligated Group's intention to amend such covenant or covenants in this Master Indenture (including any related definitions) so that the calculation used to determine compliance with such covenant or covenants shall be the same after such change as if such change had not been made, and the Obligated Group and the Master Trustee shall execute and deliver an appropriate Supplement to this Indenture for such purpose. Until such notice is withdrawn or such covenant or covenants (including any related definitions) is or are amended in a manner satisfactory to the Obligated Group by an appropriate Supplement to this Master Indenture, the Obligated Group's compliance with such covenant or covenants shall be determined on the basis of generally accepted accounting principles in the United States of America as in effect immediately before the relevant change became effective.

The purpose for which a Supplement may be entered into under the provisions of this Section 1.03 shall constitute an additional purpose for which a Supplement may be entered into under Section 6.01 (Supplements Not Requiring Consent of Holders).

ARTICLE II - OBLIGATIONS, AUTHORIZATION, ISSUANCE
AND TERMS OF OBLIGATIONS

Section 2.01 Amount of Obligations. Each Member of the Obligated Group may issue Obligations hereunder to evidence and secure Indebtedness incurred or to be incurred by such Member of the Obligated Group. The number and principal amount of Obligations that may be created hereunder are not limited, except as limited by the provisions hereof, including Section 3.06, or of any Supplement. Any Member of the Obligated Group proposing to incur Indebtedness to be evidenced and secured by an Obligation issued hereunder shall, at least seven (7) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness and issue such Obligation, including in such notice the amount of Indebtedness to be incurred, to the other Members of the Obligated Group and to the Master Trustee. The Master Trustee shall be under no obligation to verify that any such notice has been given to such other Members of the Obligated Group. Pursuant to Section 3.01, each Member of the Obligated Group is jointly and severally liable for each and every Obligation.

Section 2.02 Form, Designation, Numbering and Registration of Obligations. Obligations shall be issued in such forms as may from time to time be created by Supplements permitted hereunder. Each Obligation or series of Obligations shall be created by a different Supplement and shall be designated in such a manner as will differentiate such Obligation from any other Obligation. Obligations shall be issuable as fully registered Obligations and shall be numbered as provided in the Supplement creating such Obligation. The Master Trustee shall keep at its Corporate Trust Office a register (the "Obligation Register"), in which the Master Trustee shall provide for the registration of transfer and exchange of each Obligation as provided in the Supplement creating such Obligation, subject to any additional reasonable regulations as it may prescribe.

Section 2.03 Execution and Authentication of Obligations. Each Obligation shall be executed for and on behalf of the issuer thereof by an Authorized Officer and its seal shall be affixed thereto and attested. The signatures of such officers may be mechanically or photographically reproduced on the Obligation. If any officer whose signature appears on any Obligation ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication no Obligation shall be entitled to the benefits hereof.

The Master Trustee's authentication certificate shall be substantially in the following form:

MASTER TRUSTEE’S AUTHENTICATION CERTIFICATE

The undersigned Master Trustee hereby certifies that this Obligation No. ___ is one of the Obligations contemplated by the within-mentioned Indenture.

as Master Trustee

By: _____
Authorized Signatory

Section 2.04 Supplement Creating Obligations. Any Member of the Obligated Group and the Master Trustee may from time to time enter into a Supplement in order to create and issue an Obligation. Such Supplement shall set forth the date of such Obligation, the date or dates on which the principal of, redemption premium, if any, and interest on such Obligation shall be payable, the form of such Obligation and such other terms and provisions as shall conform with the provisions hereof.

Section 2.05 Conditions to Issuance of Obligations. With respect to any Obligation issued and secured in accordance with this Master Indenture, simultaneously with or prior to the execution, authentication and delivery of such Obligation:

(a) Requirements and conditions to the issuance of such Obligation, if any, set forth in this Master Indenture and in the Supplement creating such Obligation shall have been complied with and satisfied, as provided in an Officer’s Certificate, a copy of which Certificate shall be delivered to the Master Trustee;

(b) The issuer of such Obligation shall have delivered to the Master Trustee an Opinion of Counsel to the effect that (i) registration of such Obligation under the Securities Act of 1933, as amended, and qualification of this Master Indenture or the Supplement creating such Obligation under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said acts have been complied with, and (ii) the Master Indenture, the Supplement creating such Obligation and such Obligation are valid, binding and enforceable obligations of the Members of the Obligated Group in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance and other laws affecting creditors’ rights generally and usual equity principles;

(c) Each Member of the Obligated Group shall have delivered to the Master Trustee an Officer’s Certificate stating that, to the best of the knowledge of the signer thereof, the Person who is to be the Holder of such Obligation upon the original issuance thereof is not acquiring the interest represented by such Obligation directly or indirectly with the assets of, or in connection with any arrangement or understanding by it in any way involving, any employee benefit plan with respect to which (i) any employee of any Member of the Obligated Group or the Master Trustee, in its individual capacity, is a participant or (ii) any Member of the Obligated Group or the Master Trustee, in its

individual capacity, or any of their affiliates is otherwise a party in interest, all within the meaning of the Employee Retirement Income Security Act of 1974, as amended; and

(d) Simultaneously with or prior to the execution, authentication and delivery of any Obligation, there shall be delivered to the Master Trustee, as trustee and mortgagee, an additional mortgage or mortgages, in form acceptable for recording in the appropriate office, upon each of the properties of the Members of the Obligated Group that have been mortgaged to secure payment of Outstanding Obligations, each such additional mortgage to be in such amount and of such form and content as shall be necessary to make all mortgages upon property of the Members of the Obligated Group securing Obligations and the additional mortgage or mortgages for the benefit of the holders of Obligations, *in pari passu*, as tenants in common, pro rata, in accordance with the balances then due under each of the Obligations Outstanding, subject to no liens or security interests having priority over such mortgage (or mortgages) other than Permitted Liens existing on the date of execution and delivery of the Corporation Mortgage and such Permitted Liens that do not, in the Opinion of Counsel, materially and adversely affect the priority of the Mortgage or any other mortgage or mortgages securing Outstanding Obligations on a parity with the Mortgage. Each such additional mortgage shall be executed and delivered by the appropriate Member or Members of the Obligated Group to the Master Trustee and accompanied by a policy of mortgagee's title insurance issued by a reputable title insurance company, insuring that such additional mortgage constitutes a first lien on the mortgaged property, subject to no liens other than Permitted Liens described in the preceding sentence.

(e) If any additional Obligation is to be secured by a mortgage, deed of trust or other form of security agreement with respect to any property of a Member or Members of the Obligated Group not then subject to a mortgage lien or deed of trust in favor of the Master Trustee as trustee for the Holders of Outstanding Obligations, such mortgage, deed of trust or other security agreement shall be in such form and for such amount as shall be necessary, in the Opinion of Counsel, to secure all Outstanding Obligations (if any) then Outstanding, additional Obligations (if any) previously issued and Outstanding, and the additional Obligation then to be issued, ratably.

(f) All mortgages, deeds of trust or other security agreements executed and delivered by any Member of the Obligated Group to secure Obligations shall contain provisions permitting the Master Trustee to postpone the priority of the lien of the security interest created thereunder as may be required by applicable law to perfect parity with the lien of subsequent mortgages, deeds of trust and other security agreements executed and delivered to the Master Trustee for the benefit of Holders of Obligations, such that the Holders of all Obligations shall be secured, *in pari passu*, as tenants in common, pro rata, in accordance with the balances then due under the Obligations. The Master Trustee is hereby authorized to execute such instruments and to do such things as shall be necessary to postpone the lien of the Corporation Mortgage and all other mortgages, deeds of trust and security interests for the benefit of Obligations to the date of recording of additional mortgages, deeds of trust and security interests for the benefit of Holders of Outstanding Obligations, such that all Obligations are secured on a parity, as contemplated by this Master Indenture; provided, however, that the lien of the

Corporation Mortgage or any such other mortgage, deed of trust or security interest shall not be postponed if in so doing the liens and security interests for the benefit of the Holders of Obligations shall become subordinate to any lien other than a Permitted Lien superior to the Corporation Mortgage existing on the date of execution and delivery of the Corporation Mortgage or a Permitted Lien that does not, in the Opinion of Counsel, materially and adversely affect the priority of the Corporation Mortgage and other mortgages, deeds of trust and security agreements for the benefit of the Holders of the Obligations on a parity with the Corporation Mortgage.

ARTICLE III - PARTICULAR COVENANTS OF THE OBLIGATED GROUP

Section 3.01 Nature of Obligations; Payment of Principal and Interest; Security; Further Assurances; Deposit of Gross Receipts. (a) Each Obligation issued pursuant to this Master Indenture shall be a general, joint and several obligation of each Member of the Obligated Group and shall be equally and ratably secured by this Master Indenture. Each Member of the Obligated Group covenants promptly to pay or cause to be paid the principal of, redemption premium, if any, and interest on each Obligation issued hereunder, and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplement creating such Obligation and under said Obligation, at the place, on the dates and in the manner provided herein, in the Supplement creating such Obligation and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(b) To secure (i) the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplements creating the Obligations and under the Obligations, and (ii) the performance by each Member of the Obligated Group of its other obligations hereunder and under the Mortgage, each Member of the Obligated Group hereby grants to the Master Trustee a security interest in its Pledged Assets, the Corporation has executed and delivered the Corporation Mortgage, and each Member of the Obligated Group covenants to execute and deliver mortgages, deeds of trust or other security instruments to the extent required under Section 3.15. The Master Trustee shall, upon request of a Member of the Obligated Group, execute any document, instrument or agreement necessary to cause its security interest in the Pledged Assets and Mortgaged Property of such Member of the Obligated Group to be subordinate to Liens permitted under Section 3.05(b)(ix) and to be pari passu with Liens permitted under Section 3.05(b)(xx). So long as no Event of Default has occurred and is continuing, any Member of the Obligated Group may Transfer all or any part of its Pledged Assets and all or any portion of its Mortgaged Property, free of such security interest and free of the Lien of the Mortgage encumbering such Mortgaged Property, respectively, subject to the provisions of Sections 3.10 and 3.11 and such Mortgage. If any Pledged Assets or Mortgaged Property is Transferred pursuant to the terms of this Master Indenture and the Mortgage encumbering such Mortgaged Property, the Master Trustee shall, upon request of a Member of the Obligated Group, execute a release of its security interest with respect to the Pledged Assets or Mortgaged Property so Transferred. Upon the request of any Member of the Obligated Group, the Master Trustee shall provide to such Member of the Obligated Group a written certification as to whether the Master Trustee has knowledge of an Event of Default that has occurred and is continuing.

(c) Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such Supplements as may be necessary or appropriate to include its Pledged Assets as security hereunder. In addition, each Member of the Obligated Group covenants that it will prepare and file such UCC financing statements or amendments to or terminations of existing UCC financing statements which shall, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to the occurrence of an event contemplated under Section 3.15 or changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to Section 3.13,

or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to Section 3.14. In particular, each Member of the Obligated Group covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to comply with applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such UCC financing statement, the Master Trustee shall prepare and file or cause each Member of the Obligated Group to prepare and file such continuation statements in a timely manner to assure that the security interests in Pledged Assets shall remain perfected.

This Master Indenture is hereby declared to be a security agreement and an authenticated record of the creation of the security interests herein created, within the meaning of the Uniform Commercial Code.

(d) If an Event of Default shall have occurred and be continuing, the Master Trustee may require that each Member of the Obligated Group deliver all Gross Receipts to it. Each Member of the Obligated Group covenants that, if an Event of Default shall have occurred and be continuing, it will, immediately upon receipt of a written request from the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts thereafter received until such Event of Default has been cured, such Gross Receipts to be applied in accordance with Section 4.04 of this Master Indenture.

Section 3.02 Covenants as to Corporate Existence, Maintenance of Properties, Etc.
Each Member of the Obligated Group hereby covenants as follows:

(a) Except as otherwise expressly provided herein, to preserve its corporate or other legal existence, to procure and maintain all rights, licenses and permits necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where the ownership of its Property or the conduct of its business requires such qualification; provided, however, that nothing herein contained shall be construed to obligate it to maintain any of its rights, licenses or permits no longer necessary or desirable, in its judgment, in the operation of its business and affairs, if the failure to maintain such right, license or permit will not be disadvantageous in any material respect to the Holders of Obligations.

(b) At all times to cause its Property, Plant and Equipment to be maintained, preserved and kept in good repair, working order and condition, ordinary wear and tear excepted, and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any portion of its Property, Plant and Equipment if in its judgment (evidenced, in the case of such cessation other than in the ordinary course of business, by an opinion of a Management Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise Transfer the same in accordance with Section 3.10 and within a reasonable time endeavors to effect such sale or other Transfer, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, Plant and Equipment no longer used or, in its judgment, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; provided, nevertheless, that nothing herein contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith and the failure to comply will not have a material adverse effect on the financial condition of the Obligated Group.

(d) To pay promptly all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums, and pending the resolution of such contest may delay or defer payment thereof if such delay or deferral will not have a material adverse effect on the financial condition of the Obligated Group.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable or within any period of grace with respect thereto, other than any Indebtedness, demands or claims (exclusive of the Obligations created and Outstanding hereunder or any Related Bonds) whose validity, amount or collectability is being contested in good faith.

(f) To comply with all terms, covenants and provisions of any Liens upon any of its Property.

(g) So long as this Master Indenture shall remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, that it will not take any action or fail to take any action which action or failure to act (including any action or failure to act which would result in the alteration or loss of its status as a Tax-Exempt Organization), or which would, in the Opinion of Bond Counsel, result in the interest on any Related Bond which is not includable in the gross income of the holder thereof for federal income tax purposes becoming included in the gross income of the holder thereof for federal income tax purposes.

Section 3.03 Insurance. (a) Each Member of the Obligated Group shall maintain, or cause to be maintained, the following types of insurance (including one or more self-insurance programs) in such amounts as, in its judgment, are adequate to protect it and its Property, Plant and Equipment and operations: (i) comprehensive general public liability insurance, including blanket contractual liability and automobile insurance including owned or hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance, (iii) professional liability or medical malpractice insurance, (iv) workers'

compensation insurance, and (v) boiler insurance. Notwithstanding anything to the contrary in this Master Indenture, Members of the Obligated Group may not self-insure for items covered under clauses (ii) and (v) of the preceding sentence.

(b) The Obligated Group shall retain an Insurance Consultant to review the coverages required by paragraph (a) of this Section and the insurance requirements of the Members of the Obligated Group thereunder from time to time (but not less frequently than biennially with respect to risks covered by insurance companies and not less frequently than annually with respect to risks for which the Members of the Obligated Group are self-insured). If the Insurance Consultant makes recommendations for the increase of any coverage required by paragraph (a) of this Section, the Obligated Group shall increase, or cause to be increased, such coverage in accordance with such recommendations, subject to a good faith determination of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding the above provisions, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including, without limitation, to self-insure (other than for items covered under clauses (ii) and (v) in subsection (a) of this Section) in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage required by subsection (a) of this Section, the report of the Insurance Consultant mentioned above shall state whether the anticipated funding of any self-insurance fund is actuarially sound, and, if not, the required funding to produce such result. The Obligated Group agrees to provide the funding recommended in any such report.

Section 3.04 Insurance and Condemnation Proceeds. Proceeds received by any Member of the Obligated Group for casualty losses or condemnation awards may be used for such lawful corporate purposes as the recipient determines, including, but not limited to, the replacement or repair of the damaged or taken Property, Plant and Equipment and the application of such proceeds to the payment or repayment of any Indebtedness in accordance with the terms thereof; provided, however, if the amount received exceeds 5% of the Net Book Value of the Property, Plant and Equipment, the Obligated Group Representative shall immediately notify the Master Trustee, deposit the amount received with the Master Trustee and, within 12 months after the casualty loss or taking and prior to expending such funds, deliver to the Master Trustee (a) an Officer's Certificate certifying that the expected Long-Term Debt Service Coverage Ratio for

each of the two full Fiscal Years following the expected date of application of such proceeds will be not less than 1.30 as shown by pro forma financial statements for each such period and a statement of relevant assumptions, including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, and a written report of a Management Consultant confirming such certification; or (b) a written Management Consultant's report stating the Management Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in clause (a) above to be not less than 1.10, or, if in the opinion of the Management Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law, only in accordance with the assumptions referred to in clause (a) above or the recommendations referred to in clause (b) above.

Section 3.05 Limitations on Creation of Liens. (a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien upon Pledged Assets, Mortgaged Property or any other Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens on Pledged Assets, Mortgaged Property or other Property created by this Master Indenture or the Mortgage;

(ii) Any Lien on the Property of the Corporation which existed on the date of authentication and delivery of the initial Obligation, was disclosed to the Master Trustee in the Corporation Mortgage, the title insurance policy insuring the Corporation Mortgage or in an Officer's Certificate acceptable to the Master Trustee; provided, however, that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of delivery of the initial Obligation, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(iii) Any Lien on the Property of a Person in existence as of the date such Person becomes a Member of the Obligated Group that is disclosed to the Master Trustee in an Officer's Certificate; provided, however, that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(iv) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(v) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(vi) Any judgment Lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed or the liability of such Member of the Obligated Group under such judgment is adequately covered by insurance;

(vii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any Liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for fewer than ninety (90) days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which, if such Liens arise after a Member of the Obligated Group has acquired such Property, do not, in the Opinion of Counsel to the Obligated Group, materially impair the use of such Property or materially and adversely affect the value thereof; and (D) landlord's liens;

(viii) (A) Liens on Mortgaged Property securing Indebtedness so long as such Liens are, by their terms, specifically junior to the Lien on such Mortgaged Property created by the Mortgage and (B) Liens on real property comprising a part of the Property, Plant and Equipment securing Indebtedness and not subject to the Lien of the Mortgage; provided, however, that in either case the aggregate principal amount of Indebtedness so secured shall not exceed ten percent (10%) of Total Revenue for the most recent Fiscal Year for which Financial Statements are available at the time of the incurrence of such Indebtedness;

(ix) So long as no Event of Default exists under this Master Indenture at the time such Lien is created, (A) any Lien, including a security interest superior to the security interest in Equipment created pursuant to Section 3.01, incurred for the purpose of financing Equipment; provided, however, that the aggregate principal amount of Indebtedness so secured shall not exceed fifteen percent (15%) of Total Revenue for the most recent Fiscal Year for which Financial Statements are available at the time of the incurrence of such Indebtedness; and provided further that the total amount of

Indebtedness secured by a Lien under this clause (ix) may not in the aggregate exceed at any time the greater of \$500,000 or 15% of Total Revenue (calculated based on the most recent Fiscal Year for which Financial Statements are available) and that such Lien shall attach only to the Equipment with respect to which such Indebtedness was incurred; or (B) any security interest, including a security interest superior to the security interest created pursuant to Section 3.01 in Pledged Assets (other than Equipment), securing Short-Term Indebtedness permitted under Section 3.06(d);

(x) Any consensual Lien on the Pledged Assets (other than Equipment) now owned or hereafter acquired by any Member of the Obligated Group so long as such Lien is, by its terms, specifically junior to the security interest in such Pledged Assets created pursuant to Section 3.01;

(xi) Any Lien securing all Obligations on a parity basis;

(xii) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(xiii) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xiv) Any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof;

(xv) Liens on moneys deposited by residents, patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of care;

(xvi) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;

(xvii) Any Lien securing Non-Recourse Indebtedness permitted by Section 3.06(e);

(xviii) Any lease of Property other than the Mortgaged Property or any lease of any of the Mortgaged Property that complies with the terms and conditions provided for in the Mortgage.

(xix) Any Lien on all or any part of the Excluded Real Property;

(xx) Any Lien securing the obligations of a Member of the Obligated Group under a Derivative Agreement which, if required by the provider of such Derivative Agreement, may be pari passu with the Liens on the Pledged Assets, Mortgaged Property and any other Property securing the Obligations created under this Master Indenture and the Mortgage, so long as the notional amount of all Derivative Agreements secured by such pari passu Liens does not at any time exceed the aggregate amount of Obligations then Outstanding;

(xxi) Any Lien on Property acquired by a Member of the Obligated Group securing Indebtedness permitted under the provisions of Section 3.06 hereof that was assumed in connection with the acquisition of such Property;

(xxii) Purchase Money Liens securing Indebtedness permitted by Section 3.06 hereof; and

(xxiii) Liens created on amounts deposited by a Member of the Obligated Group pursuant to a credit support annex or similar document to collateralize obligations of such Member under a Derivative Agreement.

Section 3.06 Limitations on Incurrence of Indebtedness. Each Member of the Obligated Group covenants and agrees that it will not incur any Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to subsections (a) to (g), inclusive, of this Section. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth as follows:

(a) Long-Term Indebtedness may be incurred if, prior to incurrence thereof, one of the following conditions is met:

(i) there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year preceding the date of delivery of the Officer's Certificate for which the Financial Statements are available is not less than 1.20; or

(ii) there is delivered to the Master Trustee (A) an Officer's Certificate certifying that the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness, but not the Long-Term Indebtedness then proposed to be incurred, for the most recent Fiscal Year preceding the date of delivery of the Officer's Certificate for which the Financial Statements are available is not less than 1.20; and (B) a report of a Management Consultant stating that the forecasted Long-Term Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, for (1) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, the Fiscal Year immediately succeeding the year in which substantially all of such capital improvements are forecasted to be 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, such forecast shall be for the earlier to occur of (x) 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 is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 24 months after the date set forth in the forecast upon which substantially all of such capital improvements are forecasted to be placed in service), or (2) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, the Fiscal Year immediately succeeding the year in which the Long-Term Indebtedness is incurred, is not less than 1.20, accompanied by a statement of the relevant assumptions upon which such forecast is based; or

(iii) there is delivered to the Master Trustee a report of a Management Consultant stating that the forecasted Long-Term Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, for (1) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, the Fiscal Year immediately succeeding the year in which substantially all of such capital improvements are forecasted to be 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, such forecast shall be for the earlier to occur of (x) 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 is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 24 months after the date set forth in the forecast upon which substantially all of such independent or assisted living units or health care beds are forecasted to be placed in service), or (2) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, the Fiscal Year immediately succeeding the year in which the Long-Term Indebtedness is incurred, is not less than 1.25, accompanied by a statement of the relevant assumptions upon which such forecast is based; or

(iv) the principal amount of additional Long-Term Indebtedness proposed to be incurred does not exceed 10% of Total Revenue for the most recent Fiscal Year for which Financial Statements are available; provided, however, that the total amount of the Long-Term Indebtedness incurred under this clause (iv) and Outstanding without compliance with one of the tests mentioned in clause (i), (ii) or (iii) above may not in the aggregate exceed at any time the amount calculated in accordance with the provisions of this clause (iv).

(b) Qualifying Intermediate-Term Indebtedness may be incurred without limitation.

(c) Long-Term Indebtedness may be incurred to refund any Outstanding Long-Term Indebtedness if, prior to the incurrence thereof, (i) either (A) the Master Trustee receives an Officer's Certificate stating that, taking into account the Long-Term Indebtedness proposed to be incurred, the existing Long-Term Indebtedness to remain Outstanding after the refunding and the refunding of the existing Long-Term Indebtedness to be refunded, Maximum Annual Debt Service will not be increased by more than 10%, or, in the case of a refunding of Qualifying Intermediate-Term Indebtedness only, a report of a Management Consultant which forecasts a Long-Term Debt Service Coverage Ratio of 1.20 for each of the two Fiscal Years next succeeding the Fiscal Year in which such refunding takes place or (B) one of the conditions described in paragraph (a) above is met with respect to such proposed Long-Term Indebtedness, and (ii) the Master Trustee receives an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and the application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded will no longer be Outstanding.

(d) Short-Term Indebtedness may be incurred if, immediately after the incurrence of such Short-Term Indebtedness, the aggregate principal amount of Outstanding Short-Term Indebtedness does not exceed 15% of Total Revenue for the most recent Fiscal Year for which the Financial Statements are available; provided, however, that for a period of at least thirty (30) consecutive calendar days in each Fiscal Year Short-Term Indebtedness shall not exceed the

greater of (i) \$500,000 or (ii) 50% of the amount by which Available Reserves exceed thirty-five percent (35%) of all Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, calculated as of the end of the most recent Fiscal Year for which Financial Statements are available.

(e) Non-Recourse Indebtedness may be incurred:

(i) up to but not in excess of an aggregate of 5% of Total Revenue for the most recent Fiscal Year for which Financial Statements are available;

(ii) in excess of the aggregate limit mentioned in subparagraph (e) (i) above, if the Master Trustee shall have first received the report of a Management Consultant to the effect that the forecasted long-term debt service coverage ratio (determined in a manner as nearly as possible as the Long-Term Debt Service Coverage Ratio is determined) with respect to the capital assets being financed with the proceeds of such Non-Recourse Indebtedness for the Fiscal Year immediately following the year that such capital assets are forecasted to be placed in service (if such capital assets are being constructed) or following the year the acquisition of such capital assets is completed (if such capital assets are being acquired) is not less than 1.20; or

(iii) without limit with respect to the Excluded Real Property.

(f) Indebtedness may be incurred without limitation under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit enhancement facility established in connection with the incurrence of any Indebtedness; provided, however, that any liabilities resulting from the use of or drawing under such liquidity or credit enhancement facility shall be included in Indebtedness for all purposes of this Master Indenture. If a liquidity facility is used or drawn upon to purchase, but not retire, Indebtedness, then the principal amount of such Indebtedness so purchased shall be excluded from Indebtedness.

(g) Put Indebtedness may be incurred if, prior to the incurrence of such Put Indebtedness, (i) the conditions described in subsection (a) (i), (a) (ii) or (a) (iii) of this Section are met and (ii) a binding commitment from a bank or other financial institution exists to provide financing sufficient to pay the purchase or redemption price of such Put Indebtedness on any date on which the owner of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness.

Section 3.07 Long-Term Debt Service Coverage Ratio.[♠]

Long-Term Debt Service Coverage Ratio. (a) 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 the Fiscal Year, is not 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 shall not be taken into account in making the

[♠] Section reflects revisions made to subparagraphs (a), (b), and (c) by the Sixth Supplemental Master Indenture.

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 shall not be taken into account until the earlier to occur of (i) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such capital improvements reaches 90% or (ii) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 24 months after the date on which substantially all of such capital improvements are placed in service; in either case, the Obligated Group agrees that it will notify the Master Trustee of such event within ten (10) days following its occurrence).

(b) If the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but not less than 1.10 and the Available Reserves as of the end of such Fiscal Year are not less than thirty-five percent (35%) of the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, no Event of Default shall be deemed to have occurred and no further action need be taken.

(c) If (i) the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but not less than 1.10 and the Available Reserves as of the end of such Fiscal Year are less than thirty-five percent (35%) of the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, or (ii) the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.10, then in either such case the Obligated Group shall retain a Management Consultant to analyze the reasons for the failure to achieve a Long-Term Debt Service Coverage Ratio of at least 1.20 and to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to such amount.

(d) In the event the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.00, the Obligated Group shall retain a Management Consultant to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to the amount required by subsection (a) of this Section. If the Long-Term Debt Service Coverage Ratio is less than 1.00 for two successive Fiscal Years, it shall be an Event of Default.

(e) In the event the Obligated Group fails to make a selection of a Management Consultant and fails to give notice of such selection to the Master Trustee within thirty (30) days after it shall have been required to do so pursuant to subsection (c) or subsection (d) of this Section, as the case may be, the Master Trustee shall select, on behalf of the Obligated Group, a Management Consultant, the costs of which shall be paid by the Obligated Group, to make the recommendations described above. A copy of such recommendations must be filed with the Master Trustee within ninety (90) days after the date the Management Consultant is selected unless the Master Trustee extends, by prior written consent, the time within which such recommendations must be so filed.

(f) The Obligated Group agrees that it will, to the extent permitted by law and consistent with the status of any Member of the Obligated Group as a Tax-Exempt Organization, follow any recommendations of the Management Consultant pursuant to subsection (c) or subsection (d) of this Section.

Section 3.08 Liquidity Covenant. The Obligated Group covenants that it will conduct its business so that, on each of the following Liquidity Testing Dates, the Obligated Group will maintain the following number of Days' Cash on Hand:

<u>Period Ending</u>	<u>Days Cash On Hand</u> <u>Not Less Than</u>
6/30/2008	90
12/31/2008	90
6/30/2009	120
12/31/2009	120
6/30/2010 and thereafter	150

If the number of Days' Cash on Hand as of one of any Liquidity Testing Date on or prior to December 31, 2009, does not meet the minimum requirements, the Obligated Group Representative shall, not later than 30 days after reporting such deficiency, deliver to the Master Trustee a management report setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth the steps to be taken to achieve the required number of Days' Cash on Hand by the end of the third fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand did not meet the minimum requirements. If the Obligated Group has not achieved the minimum Days' Cash on Hand by the end of the third fiscal quarter following the issuance of the management report, the Obligated Group Representative shall, not later than 60 days after receipt of the financial statements disclosing such deficiency, obtain a Management Consultant's report setting forth in detail the reasons for such deficiency and a specific plan setting forth the steps designed to achieve the minimum Days' Cash on Hand by the end of the fifth fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was below the minimum requirements set forth above.

The Obligated Group covenants that it will conduct its business so that, on each Liquidity Testing Date on or after June 30, 2010, 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 on any such Liquidity Testing Date, the Obligated Group Representative shall promptly give written notice of such fact to the Master Trustee. If the number of Days' Cash on Hand as of any such Liquidity Testing Date is less than 150, but greater than 90, the Obligated Group Representative shall, not later than 30 days after reporting such deficiency, deliver to the Master Trustee a management report setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth the steps to be taken to achieve the required number of Days' Cash on Hand by the end of the third fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was less than 150. If the number of Days' Cash on Hand for any Liquidity Testing Date is less than 90, or if the Obligated Group has not achieved 150 Days' Cash on Hand by the end of the third fiscal quarter following the issuance of the management

report, the Obligated Group Representative shall, not later than 60 days after receipt of the financial statements disclosing such deficiency, as applicable, obtain a Management Consultant's report setting forth in detail the reasons for such deficiency and a specific plan setting forth the steps designed to achieve 150 Days' Cash on Hand by the end of the third fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was less than 90 or by the end of the fifth fiscal quarter immediately following the Liquidity Testing Date on which the number of Days' Cash on Hand was more than 90 but less than 150, as the case may be.

Each Member of the Obligated Group covenants that it will follow any management report or any Management Consultant's report delivered pursuant to this Section, except to the extent that (i) any of the Management Consultant's recommendations conflict with law or existing contracts, (ii) the implementation of such 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 (iii) the Governing Body of such Member reasonably determines, and declares by resolution, that such recommendations are unreasonable, impractical or infeasible. So long as the Obligated Group or any Member thereof shall, as required by this Section, deliver the management report or retain a Management Consultant, and so long as the Members of the Obligated Group shall follow such management report or such Management Consultant's recommendations and plan to the fullest extent feasible as set forth in this Section, this Section shall be deemed to have been complied with for a Liquidity Testing Date even if the number of Days' Cash on Hand is less than 150 on such Liquidity Testing Date, and such circumstances shall not constitute an Event of Default under this Master Indenture.

Section 3.09 Rating Solicitation Covenant. The Corporation agrees that it will, not later than sixty (60) days after receipt of its audited financial statements, retain a Retirement Industry Consultant to assess the likelihood of whether the Obligated Group could obtain from one of the Rating Agencies a rating not less than the lowest "investment grade" rating of one of the Rating Agencies. The Corporation agrees to provide to the Retirement Industry Consultant such information as it may reasonably request in order to assist it in making such assessment. If the Retirement Industry Consultant determines that such rating is obtainable, the Corporation agrees that it will, at its sole expense, solicit and make a good faith effort to obtain such rating. If the Obligated Group shall receive such rating, the provisions of this Section shall be of no further force and effect so long as such rating is neither reduced below "investment grade" nor withdrawn.

Section 3.10 Transfers of Property, Plant and Equipment; Transfers of Cash and Investments. (a) The Obligated Group agrees that it will not Transfer in any Fiscal Year Property, Plant and Equipment except for Transfers:

(i) to another Member of the Obligated Group, without limit;

(ii) to any Person, of all or any part of the Excluded Real Property;

(iii) so long as no Event of Default has occurred and is continuing, to any Person of Equipment if the Net Book Value of the Equipment does not exceed three-quarters of one percent (3/4%) of the Net Book Value of Property, Plant and Equipment, as shown

on the Financial Statements for the most recent Fiscal Year for which Financial Statements are available;

(iv) to any Person of Equipment if, prior to the Transfer, the Master Trustee receives an Officer's Certificate stating that, in the judgment of the signer, such Equipment has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, and the sale, lease, removal or other disposition thereof will not impair the structural soundness or materially impair the revenue producing capacity of the remaining Property, Plant and Equipment; provided, however, that no Officer's Certificate shall be required to be delivered to the Master Trustee with respect to any Equipment having a Net Book Value in the aggregate of less than \$150,000 Transferred in any Fiscal Year; and

(v) in addition to the Transfers permitted by clauses (i) to (iii), inclusive, of this subsection, and subject to the terms of the Mortgage which permit the release of a parcel or interest in land constituting part of the Mortgaged Property from the lien and security of the Mortgage, to any Person of real property or Equipment for the fair market value thereof, provided that (A) the proceeds of such Transfer are used to purchase additional real property which, if functionally related to, and operated on an integrated basis with, the Facilities, shall be subjected to the Lien of the Mortgage (either by operation of law or by the execution, delivery and filing of a new mortgage), or to purchase Equipment which shall become subject to the security interest granted pursuant to Section 3.01, or to prepay, in whole or in part Outstanding Obligations and (B) in the case of real property, ingress to and egress from the Facilities is not materially impaired.

(b) The Obligated Group may in any Fiscal Year Transfer cash and investments:

(i) to any Member of the Obligated Group, without limit; and

(ii) so long as there are no deficiencies in a bond fund or a debt service reserve fund created with respect to Related Bonds, to any Person in an amount not exceeding three and one-half percent (3 1/2%) of Total Revenue for the most recent Fiscal Year for which Financial Statements are available.

(c) Notwithstanding the foregoing provisions of this Section, nothing described under this Section shall be construed as limiting the ability of any Member of the Obligated Group to (i) pay its expenses of operation, including, without limitation, state and local taxes or payments in lieu of taxes, (ii) provide charity care and community benefits and make charitable donations and donations and voluntary payments to government agencies, (iii) purchase or sell Property (other than Property and Equipment used in the operation of the Facilities) in the ordinary course of business, (iv) Transfer cash, securities and other investment properties in connection with ordinary investment transactions and payment for goods and services provided where such purchases, sales and Transfers are for substantially equivalent value or (v) lease any Property not being used in the operation of the Facilities, subject to the provisions of Section 3.05.

Section 3.11 Consolidation, Merger, Sale or Conveyance. (a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to, any Person that is not a Member of the Obligated Group, unless:

(i) either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group such successor corporation shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation (A) to become a Member of the Obligated Group under this Master Indenture and thereby become subject to compliance with all provisions of this Master Indenture pertaining to a Member of the Obligated Group, including the security interest provided for in Section 3.01 and the performance and observance of all covenants and obligations of a Member of the Obligated Group hereunder, and (B) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding hereunder will be paid in accordance with the terms thereof and of this Master Indenture when due;

(ii) the successor corporation has met all licensing requirements necessary for the operation of any Facilities and shall be qualified to do business in the State or shall consent to service of process in the State;

(iii) the Obligated Group Representative has delivered to the Master Trustee a report of a Management Consultant, dated not more than 90 days prior to such consolidation, merger, sale or conveyance, to the effect that (i) the forecasted Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years immediately following such merger, consolidation, sale or conveyance will be not less than 1.20 or greater than it would have been if such merger, consolidation, sale or conveyance had not taken place and (ii) upon completion of such consolidation, merger, sale or conveyance, the Obligated Group will not be in violation of any of the limitations on the incurrence of Indebtedness contained in Section 3.06; provided, however, that if capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds are under construction or available for initial occupancy on the date of such merger, consolidation or transfer, such forecast shall be for the earlier to occur of (x) 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 is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 24 months after the date set forth in the forecast upon which substantially all of such independent or assisted living units or health care beds are forecasted to be placed in service;

(iv) if all amounts due or to become due on any Related Bond the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest payable on such Related Bond; and

(v) the Obligated Group Representative has delivered to the Master Trustee an Officer's Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger, sale or conveyance and such instrument comply with this Article and the other provisions of this Master Indenture, and that all conditions precedent provided in this Master Indenture relating to such transaction have been satisfied.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named herein as such predecessor or had become a Member of the Obligated Group pursuant to Section 3.11, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue, Obligations hereunder in its own name; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in this Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation hereunder shall in all respects have the same security position and benefit under this Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of this Master Indenture as though all of such Obligations had been issued hereunder without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance, such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may accept an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of Article VI and of this Section to join in the execution of any instrument required to be executed and delivered by this Section.

Section 3.12 Filing of Financial Statements, Certificate of No Default and Other Information. The Obligated Group covenants that it will:

(a) As soon as possible but in no event later than one hundred twenty (120) days after the end of each Fiscal Year or other period for which an audit has been performed, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested in writing, a copy of the Financial Statements as of the end of such Fiscal Year or other period accompanied by the report of an Accountant.

(b) Simultaneously with filing the Financial Statements for a Fiscal Year or other period as required under subsection (a), file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested in writing, an Officer's Certificate and a report of an Accountant stating the Long-Term Debt Service Coverage Ratio and the ratio determined by dividing the Available Reserves as of the end of such Fiscal Year or such other period by the

principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, as of the end of such Fiscal Year or such other period, and stating whether, to the best of the knowledge of the signers of such Officer's Certificate and report, any Member of the Obligated Group is not in compliance with any covenant contained in this Master Indenture and, if so, specifying each such failure to comply of which the signers may have knowledge and the steps that are being taken by the Obligated Group to cure such non-compliance.

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs, including those of any Member of the Obligated Group, as the Master Trustee may from time to time reasonably request in writing, excluding, specifically, donor records, patient records, personnel records and records subject to attorney-client privilege and (ii) provide access to the Facilities, the Pledged Assets and the Mortgaged Property for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request in writing.

(d) Unless required to be delivered at an earlier time, within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of this Master Indenture requires to be prepared by a Management Consultant or an Insurance Consultant.

(e) Notwithstanding any other provision of this Master Indenture to the contrary, if the Obligated Group fails to file the Financial Statements for any Fiscal Year with the Master Trustee within the time period specified in subsection (a), no Liens may be created pursuant to Sections 3.05(b)(viii) or 3.05(b)(ix), no Indebtedness may be incurred pursuant to Sections 3.06(a)(i), 3.06(a)(ii), 3.06(a)(iv), 3.06(d) or 3.06(e), and no Property may be transferred pursuant to Sections 3.10(a)(iii) or 3.10(b)(ii) until the Obligated Group has cured such default by filing the Financial Statements for the most recently ended Fiscal Year with the Master Trustee.

Section 3.13. Parties Becoming Members of the Obligated Group. Persons which are not Members of the Obligated Group may, with the prior written consent of the current Members of the Obligated Group, become Members of the Obligated Group, if:

(a) The Person which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, not unsatisfactory to the Master Trustee, containing the agreement of such Person (i) to become a Member of the Obligated Group under this Master Indenture and thereby become subject to compliance with all provisions of this Master Indenture pertaining to a Member of the Obligated Group, including the security interest provided for in Section 3.01 and the performance and observance of all covenants and obligations of a Member of the Obligated Group hereunder, and (ii) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding hereunder will be paid in accordance with the terms thereof and of this Master Indenture when due.

(b) The Obligated Group Representative shall have delivered to the Master Trustee an Officer's Certificate which shall state that (i) such admission and such instrument comply with this Article and that all conditions precedent provided in this Master Indenture relating to such admission have been complied with and (ii) immediately after giving effect to such admission, no Event of Default hereunder shall have occurred and be continuing.

(c) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Person and constitutes a valid and binding obligation of such Person enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances.

(d) There shall be filed with the Master Trustee a report of a Management Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years immediately succeeding the date of such action is not less than 1.20, and that such action will not reduce by more than twenty-five percent (25%) the forecasted Long-Term Debt Service Coverage Ratio for each of such periods, assuming that such action had not taken place; provided, however, that if capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds are under construction or available for initial occupancy on the date of such action, such forecast shall be for the earlier to occur of (x) 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 is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 24 months after the date set forth in the forecast upon which substantially all of such independent or assisted living units or health care beds are forecasted to be placed in service.

(e) If all amounts due or to become due on any Related Bond the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation have not been fully paid to the holder thereof, there shall be filed with the Master Trustee an Opinion of Bond Counsel, in form and substance not unsatisfactory to the Master Trustee, to the effect that the admission of such Person to the Obligated Group will not adversely affect the exclusion from gross income for purposes of federal income taxation of the interest on any such Related Bond.

Section 3.14 Withdrawal from the Obligated Group.

(a) No Member of the Obligated Group may withdraw from the Obligated Group unless, prior to the taking of such action, there is delivered to the Master Trustee:

(i) (A) An Officer's Certificate demonstrating that (I) all Obligations issued by such Member are no longer Outstanding or (II) an amount of cash or Defeasance Obligations which, together with the

interest earned thereon, will be sufficient to accomplish the requirement of clause (A) (I) above has been transferred by such Member to the Master Trustee, or (III) all Outstanding Obligations issued by such Member have been assumed by another Member of the Obligated Group, and (B), in any such case, if all amounts due or to become due on any Related Bond, the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation, have not been fully paid to the holder thereof, an Opinion of Bond Counsel, in form and substance not unsatisfactory to the Master Trustee, to the effect that such Member's withdrawal from the Obligated Group will not adversely affect the exclusion from gross income for purposes of federal income taxation of the interest on any such Related Bond;

(ii) The report of a Management Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years immediately succeeding the date of such action is not less than 1.20, and that such action will not reduce by more than twenty-five percent (25%) the forecasted Long-Term Debt Service Coverage Ratio for each of such periods assuming that such action had not taken place; and

(iii) An Officer's Certificate which shall state that (A) all conditions precedent provided in this Master Indenture relating to such withdrawal have been complied with and (B) immediately after giving effect to such withdrawal, no Event of Default hereunder shall have occurred and be continuing.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under this Master Indenture shall cease, any guaranty by such Member of the Obligated Group pursuant to Section 3.06 shall be released and discharged in full, the Master Trustee shall execute and deliver to such Member of the Obligated Group a release of any Mortgage given by such Member of the Obligated Group, and the Master Trustee shall execute and deliver to such Member of the Obligated Group all UCC-3 termination statements necessary to terminate the security interest in the Pledged Assets of such Member of the Obligated Group pursuant to Section 3.01.

Section 3.15. After-Acquired, Replacement or Substituted Real Property. In the event any Member of the Obligated Group shall acquire or construct real property, buildings, improvements and/or fixtures as an addition to or in replacement of or substitution for the Existing Facilities, such Member of the Obligated Group covenants and agrees that it will, upon closing of such acquisition or prior to commencement of such construction, execute and deliver to the Master Trustee, as mortgagee, and record or cause to be recorded in the office of the recorder of deeds of the county in which such real property is located, a mortgage, deed of trust or other security instrument, as appropriate, containing a description of, and creating and perfecting a Lien upon, the property being acquired or constructed for the benefit of the Master Trustee, as trustee for the Holders, if such Member of the Obligated Group has not previously

executed and delivered such a mortgage, deed of trust or other security instrument to the Master Trustee covering such additional, replacement or substitute property.

In the event any Obligation is issued pursuant to this Master Indenture to acquire or finance real property or improvements to real property, the Member of the Obligated Group acquiring or financing such real property or improvements covenants and agrees that it shall cause to be recorded in the office of the recorder of deeds of the county in which such real property is located a mortgage, deed of trust or other security instrument, as appropriate, containing a description of, and creating and perfecting a Lien upon, the real property or improvements being acquired or financed.

Any Member of the Obligated Group executing and delivering a mortgage, deed of trust or other security instrument, as appropriate, pursuant to this Section shall (a) cause a mortgagee title insurance policy, together with a tie-in endorsement to such policy and each other mortgagee title insurance policy previously issued to the Master Trustee under the terms of this Master Indenture, to be issued and delivered to the Master Trustee in an amount equal to the principal amount of any Obligation to be issued in connection with acquiring or financing the real property or improvements to the real property described in such mortgage, deed of trust or other security instrument, as appropriate, insuring that such mortgage, deed of trust or other security instrument, as appropriate, is a first priority Lien, subject to Permitted Liens, on the Mortgaged Property described therein or (b) cause an endorsement to a mortgagee title insurance policy previously issued to the Master Trustee under the terms of this Master Indenture to be issued to the Master Trustee, that (A) amends the effective date and time of such policy to be the date and time of the recording of such mortgage, deed of trust or other security instrument, as appropriate, (B) amends the description of the land insured by such policy to include the real property described in such mortgage, deed of trust or other security instrument, as appropriate, (C) increases the amount of such policy by an amount equal to the principal amount of any Obligation issued in connection with acquiring or financing the real property or improvements to the real property described in such mortgage, deed of trust or other security instrument, as appropriate and (D) continues to insure that the Mortgage initially secured by such policy and the new mortgage, deed of trust or other security instrument, as appropriate, are first priority Liens in *pari passu* on the Mortgaged Property described therein, subject to Permitted Liens. Each title insurance policy or endorsement delivered to the Master Trustee pursuant to this Section shall be issued by a title insurance company and be in form and substance satisfactory to the Master Trustee.

ARTICLE IV - EVENTS OF DEFAULT AND REMEDIES

Section 4.01 Events of Default. Event of Default, as used herein, means any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the redemption premium, if any, or interest on any Obligation issued and Outstanding hereunder, and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made on such Obligations under the terms of the

Supplements creating such Obligations or the terms of such Obligations, when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of this Master Indenture or of any Supplement;

(b) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under this Master Indenture, other than as described in Section 4.01(a) or Section 4.01(g), for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group by the Master Trustee, or to the Members of the Obligated Group and the Master Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding; provided, however, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such thirty (30) day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under the Mortgage or a Related Bond Indenture or upon a Related Bond;

(d) Any Member of the Obligated Group shall fail to pay promptly, or otherwise satisfy and discharge, any Outstanding Indebtedness (other than Obligations issued and Outstanding hereunder and Related Bonds) the principal amount of which as of the date of such default is in excess of one-half of one percent (1/2%) of Income Available for Debt Service for the most recent Fiscal Year for which Financial Statements are available, whether such Indebtedness now exists or shall hereafter be created, as and when the same becomes due and payable and any period of grace with respect thereto shall have expired, or another event of default, as defined in any instrument, indenture or mortgage evidencing or securing such Indebtedness, shall occur and shall not have been waived by the holder of such instrument, indenture or mortgage, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall not constitute an Event of Default if the validity, amount or collectability of such Indebtedness is being contested in good faith and such Member of the Obligated Group establishes and maintains reserves not unsatisfactory to the Master Trustee for the payment of such Indebtedness pending the outcome of such contest;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and

(f) The institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by any Member of the Obligated Group in furtherance of any such action; and

(g) Any event designated as an Event of Default under Section 3.07(d).

Section 4.02 Acceleration; Annulment of Acceleration. (a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may and, upon the written request of (i) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, shall, by written notice to the Members of the Obligated Group, declare all Obligations Outstanding (or, in the case of clause (ii) above, all Outstanding Obligations issued pursuant to the applicable Supplement) immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of this Master Indenture to the contrary notwithstanding; provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to said Supplement, the Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplement. In the event the Obligations are accelerated, there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued on such principal amount to the date of payment of such principal.

(b) At any time after the Obligations shall have been declared to be immediately due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and all principal or redemption price then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may, and upon the written request of Holders of not less than a majority in aggregate principal amount of the Obligations Outstanding shall, annul such declaration and its consequences with respect to any

Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Section 4.03 Additional Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefore, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders hereunder by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) suit upon all or any part of the Obligations;

(iii) civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders;

(v) enforcement of its rights as a secured party under the UCC;

(vi) enforcement of any other right of the Holders conferred by law or hereby; and

(vii) enforcement of any of its rights as beneficiary under the Mortgage.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding, and, upon being indemnified to its satisfaction therefore, shall institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions hereof and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

Section 4.04 Application of Gross Receipts and Other Moneys after Default. During the continuance of an Event of Default all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article, after payment of (i) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under this Master Indenture and (ii) in the sole discretion of the Master Trustee, the payment of the expenses of operating any Member of the Obligated Group, shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations 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 Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto, without any discrimination or preference.

(c) If the principal of all Outstanding Obligations 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 paragraph (b) of this Section in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it 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 unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation, if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid or provided for, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

Section 4.05 Remedies Not Exclusive. No remedy by the terms hereof conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity or by statute on or after the date hereof.

Section 4.06 Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining as plaintiffs or defendants any Holders. Subject to the provisions of Section 4.04, any recovery or judgment shall be for the equal benefit of the Holders.

Section 4.07 Holders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, notwithstanding anything herein to the contrary, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions hereof or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is not in conflict with any applicable law or the provisions hereof, and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that nothing in this Section shall impair the right of the Master Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by Holders.

Section 4.08 Termination of Proceeding. In case any proceeding taken by the Master Trustee on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Master Trustee or to the Holders, then the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Master Trustee, the Members of the Obligated Group and the Holders shall continue as if no such proceeding had been taken.

Section 4.09 Waiver of Event of Default. (a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding

instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Notwithstanding anything contained herein to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default hereunder, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Section 4.10 Appointment of Receiver. Upon the occurrence of any Event of Default, unless the same shall have been waived as herein provided, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance hereof or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer. Upon the occurrence of an Event of Default, each Member of the Obligated Group, respectively, hereby consents and agrees, and will, if requested in writing by the Master Trustee, consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as such Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.11 Remedies Subject to Provisions of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Article are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions hereof invalid or unenforceable under the provisions of any applicable law.

Section 4.12 Notice of Default. Promptly after obtaining knowledge of any Event of Default, each Member of the Obligated Group shall deliver to the Master Trustee and, so long as any Authority Bonds are outstanding, the Authority, a written notice specifying the nature and period of existence of such Event of Default and the action the Obligated Group is taking and proposes to take with respect thereto.

The Master Trustee shall, within thirty (30) days after it has knowledge of the occurrence of an Event of Default, mail to all Holders, as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of, redemption premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

For purposes of this Article, the Master Trustee shall not be deemed to have knowledge of an Event of Default hereunder unless an officer of the Master Trustee has actual knowledge thereof or unless written notice of any event which is an Event of Default is received by the Master Trustee and such notice references this Master Indenture.

ARTICLE V - THE MASTER TRUSTEE

Section 5.01 Certain Duties and Responsibilities. (a) Except during the continuance of an Event of Default, the Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture, and no implied covenants or obligations shall be read into this Master Indenture against the Master Trustee.

(b) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Master Trustee and conforming to the requirements of this Master Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Master Indenture.

(c) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances.

(d) No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(ii) the Master Trustee shall not be liable for any error of judgment made in good faith by a chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer or employee of the Master Trustee customarily performing functions similar to those performed by any of the above designated officers or with respect to a particular matter, any other officer or employee to whom such matter is referred because of his knowledge of and familiarity with the particular subject, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(iii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under this Master Indenture, except under the circumstances set forth in subsection (c) of Section 4.09 requiring the consent of the Holders of all the Obligations at the time Outstanding; and

(iv) no provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial or other liability, directly or indirectly, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Whether or not therein expressly so provided, every provision of this Master Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Master Trustee shall be subject to the provisions of this Section.

Section 5.02 Certain Rights of Master Trustee. Except as otherwise provided in Section 5.01:

(a) The Master Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request, direction or statement of any Member of the Obligated Group mentioned herein shall be sufficiently evidenced by an Officer's Certificate, and any action of the Governing Body may be sufficiently evidenced by a copy of a resolution certified by the secretary or any assistant secretary of the Member of the Obligated Group to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Master Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel or an independent auditor and the written advice of such counsel or independent auditor or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture, whether on its own motion or at the request or direction of any of the Holders pursuant to this Master Indenture, which in the opinion of the Master Trustee shall be likely to involve expense or liability not otherwise provided for herein, unless one or more Holders or such Holders making such request shall have offered and furnished to the Master Trustee reasonable security or indemnity satisfactory to the Master Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction or otherwise in connection herewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Member of the Obligated Group, personally or by agent or attorney.

(g) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys.

No permissive right of the Master Trustee hereunder, including the authority to enter into Supplements or take other actions, shall be construed as a duty, and the Master Trustee shall be under no obligations to take any such action or exercise any such right.

Section 5.03 Right to Deal in Obligations and Related Bonds. The Master Trustee may in good faith buy, sell or hold and deal in any Obligations and Related Bonds with like effect as if it were not such Master Trustee and may commence or join in any action which a Holder or holder of a Related Bond is entitled to take with like effect as if the Master Trustee were not the Master Trustee.

Section 5.04 Removal and Resignation of the Master Trustee. The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding or, if no Event of Default shall have occurred and be continuing, or no event has occurred or is continuing that, after notice or passage of time or both, would become an Event of Default, by an instrument in writing signed by the Obligated Group Representative; provided, however, anything in this Master Indenture to the contrary notwithstanding, if any Authority Bonds are outstanding, the Obligated Group agrees that it will not exercise any right it may have under the Master Indenture to remove the Master Trustee unless the Obligated Group Representative has given prior written notice by certified mail of such proposed removal to the Authority and the Authority has not objected thereto within ten (10) days after the receipt of such notice. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created hereby. Written notice of such resignation or removal shall be given to the Members of the Obligated Group, each Holder at the address then reflected on the books of the Master Trustee and, so long as any Authority Bonds are outstanding, to the Authority. A successor Master Trustee may be appointed by the Obligated Group Representative or the Holders at the direction of the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding; provided, however, anything in this Master Indenture to the contrary notwithstanding, if any Authority Bonds are outstanding, any successor Master Trustee so appointed shall be subject to the written approval of the Authority prior to such appointment becoming effective. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days after the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

There shall at all times be a Master Trustee hereunder, which shall be a bank or trust company organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by federal or state authority, and having a combined capital and surplus of at least \$100,000,000, either directly or by a guarantee of a corporation related to the Master Trustee. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then the combined capital and surplus of such corporation will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Master Trustee ceases to be eligible as above provided, it shall resign immediately in accordance with the terms of this Section 5.04.

Every successor Master Trustee howsoever appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment hereunder, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, upon written request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties hereunder, shall mail a notice of such assumption to each registered Holder.

Section 5.05 Compensation and Reimbursement. Each Member of the Obligated Group, respectively, agrees:

(a) To pay the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(b) Except as otherwise expressly provided herein, to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee, including fees on collection and enforcement, in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and its agents), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith.

(c) To indemnify the Master Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust or its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

Section 5.06 Recitals and Representations. The recitals, statements and representations contained herein, or in any Obligation (excluding the Master Trustee's authentication on the Obligations) shall be taken and construed as made by and on the part of the Members of the Obligated Group, respectively, and not by the Master Trustee, and the Master Trustee neither assumes nor shall be under any responsibility for the correctness of the same.

The Master Trustee makes no representation as to, and is not responsible for, the validity or sufficiency hereof, of the Obligations, or the validity or sufficiency of insurance to be provided. The Master Trustee shall be deemed not to have made representations as to the security afforded hereby or hereunder or as to the validity or sufficiency of such document. The Master Trustee shall not be concerned with or accountable to anyone for the use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof. The Master Trustee shall have no duty of inquiry with respect to any default or Events of Default described herein without actual knowledge thereof or receipt by the Master Trustee of written notice of a default or an Event of Default from a Member of the Obligated Group or any Holder.

Section 5.07 Separate or Co-Master Trustee. At any time or times, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee shall have power to appoint, and, upon the request of the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, shall appoint, one or more Persons approved by the Master Trustee either to act as co-trustee or co-trustees, jointly with the Master Trustee, or to act as separate trustee or separate trustees, and to vest in such Person or Persons, in such capacity, such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section. If no Event of Default shall have occurred and be continuing, or no event has occurred or is continuing that, after notice or passage of time or both, would become an Event of Default, any co-trustee or separate trustee appointed pursuant to this Section shall be subject to the written approval of the Obligated Group, evidenced by a written instrument signed by the Obligated Group Representative.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed by the Master Trustee, or by the Master Trustee and such co-trustee or co-trustees or separate trustee or separate trustees jointly, as shall be provided in the instrument appointing such co-trustee or co-trustees or separate trustee or separate trustees, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or co-trustees or separate trustee or separate trustees as may be so competent and qualified.

(c) Any request in writing by the Master Trustee to any co-trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant

for the taking, or the refraining from taking, of such action by such co-trustee or separate trustee.

(d) Any co-trustee or separate trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Master Trustee at any time, by any instrument in writing, may accept the resignation of, or remove, any co-trustee or separate trustee appointed under this Section. Upon the request of the Master Trustee, the Members of the Obligated Group shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No trustee or any paying agent hereunder shall be personally liable by reason of any act or omission of any other trustee or paying agent hereunder, nor will the act or omission of any trustee or paying agent hereunder be imputed to any other trustee or paying agent.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Master Trustee.

Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, it shall be vested with such rights, powers, duties or obligations, as shall be specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms hereof. Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-trustee or separate trustee may, at any time by an instrument in writing, constitute the Master Trustee its or his attorney-in-fact and agent, with full power and authority to perform all acts and things and to exercise all discretion on its or his behalf and in its or his name.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Master Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner herein provided.

Section 5.08 Execution of Further Instruments. The Master Trustee is hereby authorized to enter into, execute, deliver, and file or record, if appropriate, such further instruments and agreements as may be deemed appropriate to facilitate the incurring and securing of Indebtedness evidenced by Obligations as contemplated herein, to facilitate the incurring and securing of other permitted Indebtedness of the Members of the Obligated Group upon the terms and conditions set forth herein, and to facilitate permitted sales, leases and other transfers of Property upon the terms and conditions set forth herein, all upon request of the

Member and receipt of an Opinion of Counsel that the incurrence of such Indebtedness or sale, lease or other transfer of Property, as the case may be, is in accordance with the applicable terms and provisions of this Master Indenture. Without limiting the generality of the foregoing, the Master Trustee is authorized to enter into, execute and file or record, as appropriate, upon request of any Member of the Obligated Group and in connection with the leasing of all or any portion of the Mortgaged Property permitted by the terms hereof and of the Mortgage (including any lease which is a Permitted Lien under Section 3.05 hereof), a subordination, non-disturbance and attornment agreement with the lessee, provided that the relevant terms and conditions of the Mortgage are satisfied.

ARTICLE VI -SUPPLEMENTS AND AMENDMENTS

Section 6.01 Supplements Not Requiring Consent of Holders. Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission herein which shall not materially and adversely affect the interests of the Holders.

(b) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Holders.

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of Section 6.02(a).

(d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of Obligations as permitted hereunder.

(f) To obligate a successor to any Member of the Obligated Group as provided in Section 3.09.

(g) To comply with the provisions of any federal or state securities law.

(h) To make any changes necessitated by changes in generally accepted accounting principles which shall not materially and adversely affect the interests of the Holders.

Section 6.02 Supplements Requiring Consent of Holders. (a) Other than Supplements referred to in Section 6.01 and subject to the terms and provisions and limitations contained in this Article and, if any Authority Bonds are outstanding, to the consent of the Authority, and not otherwise, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, nothing in this Section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, redemption 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;

(ii) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or any assistant secretary or, if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement, the Master Trustee shall, at the expense of the Obligated Group, cause notice of the proposed execution of such Supplement to be mailed, postage prepaid, to all Holders. Such notice shall briefly set forth the nature of the proposed Supplement and shall state that copies thereof are on file at the named office of the Master Trustee for inspection by all Holders. The Master Trustee shall not, however, be subject to any liability to any Holder by reason of its failure to mail the notice required by this Section, and any such failure shall not affect the validity of such Supplement when approved and consented to as provided in this Section. If, following such notice, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefore (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by Section 8.01 of this Master Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as herein provided, no Holder shall have any right to object to the execution thereof, or 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 Master Trustee or any Member of the

Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

Section 6.03 Execution and Effect of Supplements. (a) In executing any Supplement permitted by this Article, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Supplement is authorized or permitted hereby and that all conditions precedent thereto have been satisfied. The Master Trustee may, but shall not be obligated to, enter into any such Supplement which affects the Master Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any Supplement in accordance with this Article, the provisions hereof shall be modified in accordance therewith and such Supplement shall form a part hereof for all purposes and every Holder of an Obligation theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Supplement in accordance with this Article may, and if required by the issuer of such Obligation or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplement. If the issuer of any Obligations then Outstanding or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of such issuer to any such Supplement may be prepared and executed by the issuer and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

ARTICLE VII - SATISFACTION AND DISCHARGE OF INDENTURE

Section 7.01 Satisfaction and Discharge of Indenture. If (a) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (b) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (c) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable hereunder by the Members of the Obligated Group or any thereof, then this Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group, and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture. Each Member of the Obligated Group, respectively, hereby agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter properly incurred by the Master Trustee in connection with this Master Indenture or such Obligations.

Section 7.02 Payment of Obligations after Discharge of Lien. Notwithstanding the discharge of the lien hereof as in this Article provided, the Master Trustee shall nevertheless retain such rights, powers and duties hereunder as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and the registration, transfer, exchange and replacement of Obligations as provided herein.

Nevertheless, any moneys held by the Master Trustee or any paying agent for the payment of the principal of, redemption premium, if any, or interest on any Obligation remaining unclaimed for five (5) years after the principal of all Obligations has become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided herein, shall then be treated as abandoned property pursuant to the laws of Pennsylvania, and the Master Trustee shall report and remit this property to the State Treasurer according to the requirements of the laws of Pennsylvania, and thereafter the Holders of any Obligations shall look only to the State Treasurer for payment and then only to the extent of the amounts so received, without any interest thereon, and the Master Trustee and the Members of the Obligated Group shall have no responsibility with respect to such money.

ARTICLE VIII - CONCERNING THE HOLDERS

Section 8.01 Evidence of Acts of Holders. (a) If any request, direction or consent is requested or permitted hereunder of the Holders, the registered owners of Related Bonds then outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds then outstanding. Provided, however, that if any portion of such Related Bonds is secured by a Credit Facility that is also secured by a separate Obligation issued under the Master Indenture, the principal amount of the Obligation that secures the Related Bonds deemed Outstanding for purposes of any such request, direction or consent shall be reduced by the amount of Related Bonds that are secured by the Credit Facility for the purpose of such request, direction or consent and the holders of the Related Bonds that are secured by the Credit Facility shall not be consulted or counted.

(b) As to any request, direction, consent or other instrument provided hereby to be signed and executed by the Holders, such action may be in any number of concurrent writings, shall be of similar tenor, and may be signed or executed by such Holders in person or by agent appointed in writing. In connection with the initial offering and sale of Related Bonds, the underwriters (or their representative) of such Related Bonds shall be deemed to be the initial Holders thereof or, if such Related Bonds so provide, may be appointed as attorney-in-fact by the initial purchasers of such Related Bonds for the purpose of consenting to any request, direction, consent or other instrument to be signed and executed by the Holders.

(c) Proof of the execution of any such request, direction, consent or other instrument or of the writing appointing any such agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes hereof and shall be conclusive in favor of the Master Trustee and the Members of the Obligated Group with regard to any action taken by them, or either of them, under such request, direction or consent or other instrument, namely:

(i) The fact and date of the execution by any Person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

(ii) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(d) Nothing in this Section shall be construed as limiting the Master Trustee to the proof herein specified, it being intended that the Master Trustee may accept any other evidence of the matters herein stated which it may deem sufficient.

(e) Any action taken or suffered by the Master Trustee pursuant to any provision hereof upon the request or with the assent of any Person who at the time is the Holder of any Obligation, shall be conclusive and binding upon all future Holders of the same Obligation.

Section 8.02 Obligations or Related Bonds Owned by Members of Obligated Group. In determining whether the Holders of the requisite aggregate principal amount of Obligations have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, Obligations or Related Bonds that are owned by any Member of the Obligated Group, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member, shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds which the Trustee has actual notice or knowledge are so owned shall be so disregarded. Obligations or Related Bonds so owned that have been pledged in good faith may be regarded as Outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Obligations or Related Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by or under direct or indirect common control with any Member of the Obligated Group. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee.

Section 8.03 Instruments Executed by Holders Bind Future Holders. At any time prior to (but not after) the Master Trustee takes action in reliance upon evidence, as provided in Section 8.01, of the taking of any action by the Holders of the percentage in aggregate principal amount of Obligations specified herein in connection with such action, any Holder of such an Obligation or Related Bond that is shown by such evidence to be included in Obligations the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in Section 8.01, revoke such action so far as concerns such Obligation or Related Bond. Except upon such revocation any such action taken by the Holder of an Obligation or Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Obligation or Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Obligation or Related Bond, and of any Obligation or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Obligation or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Obligations specified herein in connection with such action shall be conclusively binding upon each Member of the Obligated Group, the Master Trustee and the Holders of all of such Obligations or Related Bonds.

ARTICLE IX - MISCELLANEOUS PROVISIONS

Section 9.01 Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in, or to be implied from, this Master Indenture or the Obligations issued hereunder is intended, or shall be construed, to give to any Person other than each Member of the Obligated Group, the Master Trustee, and the Holders any legal or equitable right, remedy or claim under or in respect to this Master Indenture or any covenants, conditions and provisions herein contained; this Master Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties mentioned in this Section.

Section 9.02 Severability. If any one or more sections, clauses, sentences or parts hereof shall for any reason be questioned in any court of competent jurisdiction and shall be adjudged invalid or unenforceable, such judgment shall not affect, impair or invalidate the remaining provisions hereof, or the Obligations issued pursuant hereto, but shall be confined to the specific sections, clauses, sentences and parts so adjudged.

Section 9.03 Holidays. Except to the extent a Supplement or an Obligation provides otherwise:

(a) Subject to subsection (b) of this Section, when any action is provided herein to be done on a day or within a time period named, and the day or the last day of the period falls on a day on which banking institutions in the jurisdiction where the Corporate Trust Office is located are authorized by law to remain closed, the action may be done on the next ensuing day not a day on which banking institutions in such jurisdiction are authorized by law to remain closed with effect as though done on the day or within the time period named.

(b) When the date on which principal of or interest or premium on any Obligation is due and payable is a day on which banking institutions at the place of payment are authorized or required by law to remain closed, payment may be made on the next ensuing day on which banking institutions at such place are not authorized or required by law to remain closed with the same effect as though payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date.

Section 9.04 Governing Law. This Master Indenture is a contract made under the laws of the Commonwealth of Pennsylvania and shall be governed by and construed in accordance with such laws.

Section 9.05 Counterparts. This Master Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 9.06 Immunity of Individuals. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any Obligations issued hereunder or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of any Member of the Obligated Group, and all such liability of any such individual as such is hereby expressly waived and

released as a condition of and in consideration for the execution hereof and the issuance of Obligations issued hereunder.

Section 9.07 Binding Effect. This instrument shall inure to the benefit of and shall be binding upon each Member of the Obligated Group, the Master Trustee and their respective successors and assigns subject to the limitations contained herein.

Section 9.08 Notices. (a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be deemed sufficiently given or served if given in writing, mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

(i) If to any Member of the Obligated Group, addressed to the Corporation at its principal place of business, which on the date hereof is:

BRETHREN VILLAGE
3001 Lititz Pike
Lancaster, Pennsylvania
Attention: President;

(ii) If to the Master Trustee, addressed to it at its Corporate Trust Office, which on the date hereof is:

FULTON FINANCIAL ADVISORS, NATIONAL ASSOCIATION
One Penn Square
Lancaster, Pennsylvania
Attention: Corporate Trust

(iii) If to any Holder, addressed to such Holder at the address shown on the books of the Master Trustee kept pursuant hereto.

(b) Any Member of the Obligated Group, or the Master Trustee may, from time to time, by notice in writing to the other and to the Holders, designate a different address or addresses for notice hereunder.

Section 9.09 Consent of the Authority. Notwithstanding any provision of this Master Indenture to the contrary, if at any time the only Authority Bonds then outstanding are bonds not issued by the Authority, no consents under this Master Indenture will be required of the Authority and no notices or other documents need be sent to the Authority

Section 9.10 Consents and Approvals. Whenever the written consent or approval of the Obligated Group, the Master Trustee, or the Authority shall be required under the provisions of this Master Indenture, such consent or approval shall not be unreasonably withheld or delayed. Unless otherwise specified herein, consents of the Obligated Group shall be executed and delivered on behalf of the Obligated Group by the Obligated Group Representative, and consents of the Authority shall be executed and delivered on behalf of the Authority by the Authority Representative (as defined in the Authority Loan Agreement).

IN WITNESS WHEREOF, the Corporation has caused these presents be signed in its name and on its behalf and attested by its duly authorized officers and to evidence its acceptance of the trusts hereby created, the Master Trustee has caused these presents to be signed in its name and on its behalf by its duly authorized officer, all of as of the day and year first above written.

BRETHREN VILLAGE

[SEAL]

By: _____
Authorized Officer

Attest:

Authorized Officer

FULTON FINANCIAL ADVISORS, NATIONAL
ASSOCIATION, as Master Trustee

[SEAL]

By: _____
Vice President

Attest:

Assistant Secretary

APPENDIX A

Description of Excluded Real Property

[Description of any property to be excluded under the Mortgage to be inserted]

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

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DRAFT

FILE NO: 4485-11

Re: Lancaster County Hospital Authority
\$-----,000 Aggregate Principal Amount of
Revenue Bonds (Brethren Village Project),
Series of 2017
Dated as of [DATE OF CLOSING]

OPINION

[DATE OF CLOSING]

We have acted as bond counsel to Brethren Village (the “Borrower”) in connection with the authorization, issuance and sale by Lancaster County Hospital Authority (the “Authority”) of its Revenue Bonds (Brethren Village Project), Series of 2017, dated as of [DATE OF CLOSING], in the aggregate principal amount of \$-----,000 (the “Bonds”). In our capacity as bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Authority was incorporated by the County of Lancaster, Pennsylvania (the “County”), as, and is existing as, a municipality authority under the Municipality Authorities Act, 53 Pa.C.S. Ch. 56, as amended (the “Act”), of the Commonwealth of Pennsylvania (the “Commonwealth”). The Bonds are issued under and secured by an Indenture of Trust and Security Agreement, dated as of April 1, 2017 (the “Bond Indenture”), between the Authority and Fulton Bank, National Association (the “Bond Trustee”), as trustee. The Authority and the Borrower have entered into a Loan Agreement, dated as of April 1, 2017 (the “Loan Agreement”), under which the Authority has agreed to lend the proceeds of sale of the Bonds to the Borrower for purposes of the Project (hereinafter defined) and the Borrower has agreed to make payments to the Authority in amounts and at times sufficient to provide for payment of the principal of and interest on the Bonds as the same shall become due and payable.

To secure its obligations under the Loan Agreement, the Borrower has executed and delivered to the Authority a promissory note, designated as “Brethren Village Obligation No. 6,” in a stated principal amount equal to the aggregate principal amount of the Bonds (the “Obligation”). The Obligation has been issued under a Master Trust Indenture, dated as of January 1, 2008, as amended and supplemented, between the Borrower and Fulton Financial Advisors, National Association, now succeeded by Fulton Bank, National Association (the “Master Trustee”), as master trustee, under which Rehabilitation Center at Brethren Village, LLC (the

“LLC”) is now a Member of the Obligated Group (as defined in such Master Trust Indenture), and a Seventh Supplemental Master Indenture, dated as of April 1, 2017, by and among the Borrower, the LLC and the Master Trustee, as trustee (such Master Trust Indenture, as so amended and supplemented, together with any and all future supplements, modifications and amendments thereto made in accordance with the applicable provisions thereof, is hereinafter referred to as the “Master Indenture”). The Obligation is secured by an Open-End Mortgage and Security Agreement (for Obligation No. 6) (the “Mortgage”) with respect to the Mortgaged Property, as such phrase is defined in the Master Indenture, executed and delivered by the Borrower to the Master Trustee, and by a pledge under the Master Indenture of the Pledged Assets, as such phrase is defined in the Master Indenture, of the Borrower, the LLC and any other Members of the Obligated Group, as that phrase is defined in the Master Indenture (as of the date hereof, the Borrower and the LLC are the sole Members of the Obligated Group).

The Master Indenture permits, *inter alia*, the Borrower, the LLC and any other entities which, from time to time, may become Members of the Obligated Group, as that phrase is defined in the Master Indenture, to incur additional indebtedness upon certain terms and conditions, including additional indebtedness evidenced by additional Obligations (as defined in the Master Indenture) secured on a parity with the Obligation and any other outstanding Obligations by a pledge of such Pledged Assets of the Borrower, the LLC and other Members of the Obligated Group and by mortgages of equal rank and priority with the Mortgage upon such Mortgaged Property.

Under the Bond Indenture, the Authority has assigned and pledged to the Bond Trustee, as trustee, all right, title and interest of the Authority under and pursuant to the terms of the Loan Agreement, including all sums of money due and payable or to become due and payable by the Borrower thereunder (except for the Authority’s Retained Rights, as that phrase is defined in the Loan Agreement, which include, *inter alia*, the right to receive payment of its administrative fees and expenses and indemnification, to receive certain notices and information, and to give or withhold certain consents or approvals); all right, title and interest of the Authority in and to the Obligation, all sums of money due and payable or to become due and payable thereunder and all security therefor under the Master Indenture; and all right, title and interest of the Authority in and to all Funds established under the Bond Indenture, to the extent provided in the Bond Indenture.

The Bond Indenture and the Loan Agreement provide, *inter alia*, that the proceeds of the Bonds, together with other money made available for the purposes, shall be applied to refund the Authority’s outstanding Revenue Bonds (Brethren Village Project), Series A of 2008, which were issued to pay costs of acquisition, construction, equipping, and furnishing of certain expansions, additions, alterations, renovations, and improvements to the Borrower’s continuing care retirement community facilities known as Brethren Village Retirement Community and to refund certain prior indebtedness incurred with respect to such facilities; to establish a debt service reserve fund for the Bonds; and to pay related costs and expenses, including costs of issuance of the Bonds (collectively, the “Project”).

The Borrower has represented in the Loan Agreement and other documents that it is a corporation not-for-profit duly organized and existing under the laws of the Commonwealth and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Borrower has covenanted that it will not take any action or permit any action to be taken, or cause or permit any circumstance within its control to arise, if such action or circumstance will adversely affect the validity of the Bonds or cause the interest on the Bonds to be includible in the gross income of the holders thereof for purposes of federal income taxation. In addition, the Authority and the Borrower have each covenanted to comply with all provisions of the Code and related federal tax regulations as may be necessary to preserve the federal income tax exemption of the interest on the Bonds.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Borrower contained in the Bond Indenture, the Loan Agreement, the proceedings related to the issuance of the Bonds and other certifications furnished to us, including certifications furnished to us by or on behalf of the Borrower, without undertaking to verify the same by independent investigation.

We have also relied upon a written opinion of McNees Wallace & Nurick LLC, Attorneys at Law, Lancaster, Pennsylvania, counsel to the Authority, with respect to various matters, including the due and proper authorization, execution, and delivery of the Bond Indenture, the Loan Agreement and the Bonds by the Authority, and a written opinion of Gibbel, Kraybill & Hess, LLP, Attorneys-at-Law, Lancaster, Pennsylvania, counsel to the Borrower, with respect to various matters, including the due and proper authorization, execution and delivery of, and the legal, valid and binding nature of, the Loan Agreement, the Master Indenture, the Obligation, the Mortgage and other documents executed and delivered by the Borrower in connection with issuance of the Bonds, and the status of the Borrower as an organization described in Section 501(c)(3) of the Code.

Based upon and in reliance upon the foregoing, and subject to the caveats, qualifications, exceptions and assumptions set forth herein, we are of the opinion that, as of the date hereof, under existing law:

1. The Authority is validly existing as a public instrumentality and a body politic and corporate of the Commonwealth with the power to enter into and perform its obligations under the Bond Indenture and the Loan Agreement and to issue and sell the Bonds for the purposes set forth in the Bond Indenture.
2. The Bond Indenture and the Loan Agreement have been duly authorized, executed and delivered by the Authority and, assuming proper authorization, execution and delivery thereof by the Bond Trustee and the Borrower, respectively, are valid and binding obligations of the Authority.

3. All right, title and interest of the Authority in and to the Loan Agreement (except for the Authority's Retained Rights, as defined in the Loan Agreement) and in and to the Obligation have been validly assigned to the Bond Trustee, in its capacity as trustee under the Bond Indenture, to the extent contemplated by the Bond Indenture.

4. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly registered and authenticated by the Bond Trustee, will be valid and binding limited obligations of the Authority, payable solely from the amounts that may be held by or available to the Bond Trustee under the Bond Indenture, the Loan Agreement and the Master Indenture, including amounts payable pursuant to the Obligation.

5. The Bonds do not pledge the credit or taxing power of the Commonwealth, the County or any other political subdivision of the Commonwealth. The Authority has no taxing power.

6. Under the laws of the Commonwealth as presently enacted and construed, the Bonds are exempt from personal property taxes within the Commonwealth and the interest on the Bonds is exempt from the Commonwealth's Personal Income Tax and the Commonwealth's Corporate Net Income Tax.

7. Under present statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although it should be noted that for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Authority and the Borrower comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the Borrower have covenanted to comply with all such requirements in the aforementioned documents. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

It is to be understood that rights of holders of Bonds and the enforceability of the Bonds, the Bond Indenture, the Master Indenture, the Obligation, the Loan Agreement and the Mortgage may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Re: Lancaster County Hospital Authority
Revenue Bonds (Brethren Village Project), Series of 2017
Page 5

We express no opinion herein as to the accuracy, adequacy or completeness of the
Official Statement relating to the Bonds.

Very truly yours,

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APPENDIX G
FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Agreement”) dated as of April 1, 2017 is executed and delivered by Brethren Village (the “Corporation”) in connection with the issuance by the Lancaster County Hospital Authority (the “Authority”) of its \$ _____ Revenue Bonds (Brethren Village Project), Series of 2017 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust and Security Agreement dated as of April 1, 2017 (the “Bond Indenture”) between the Authority and Fulton Bank, National Association, as trustee (the “Bond Trustee”).

The Corporation covenants and agrees as follows for the benefit of the Beneficial Owners (defined below):

SECTION 1. Purpose of the Continuing Disclosure Agreement. This Agreement is being executed and delivered by the Corporation for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist Herbert J. Sims & Co., Inc., B.C. Ziegler & Company and Janney Montgomery Scott LLC (collectively, the “Participating Underwriters”) in complying with the Rule (defined below). The Corporation acknowledges that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required to be provided under this Agreement and has no liability to any person, including (without limitation) any holder or Beneficial Owner of the Bonds, with respect to any such reports, notices or disclosures.

SECTION 2. Definitions. In addition to the definitions set forth in the Master Indenture (defined below), which apply to any capitalized term used in this Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean a Dissemination Agent, if any, appointed by the Corporation pursuant to Section 11 hereof.

“EMMA” means the Electronic Municipal Market Access system of the MSRB as provided at <http://www.emma.msrb.org>, or any similar system that is acceptable to or as may be prescribed by the MSRB for purposes of the Rule and approved by the SEC from time to time. A current list of such systems may be obtained from the SEC at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Listed Events” shall mean any of the events listed in Section 5 of this Agreement.

“Loan Agreement” shall mean the Loan Agreement dated as of April 1, 2017 between the Authority and the Corporation.

“Master Indenture” shall mean the Master Trust Indenture dated as of January 1, 2008, as supplemented by a First Supplemental Master Indenture and a Second Supplemental Master Indenture, each dated as of January 1, 2008, and a Third Supplemental Master Indenture dated as of July 15, 2015, each between the Corporation and Fulton Bank, National Association, as successor to Fulton Financial

Advisors, National Association, as trustee (the “Master Trustee”), and a Fourth Supplemental Master Indenture dated as of June 15, 2016, a Fifth Supplemental Master Indenture, dated as of March 31, 2017, a Sixth Supplemental Master Indenture, dated as of April 1, 2017 and a Seventh Supplemental Master Indenture, dated as of April 1, 2017, each among the Corporation, Rehabilitation Center at Brethren Village, LLC and the Master Trustee.

“Official Statement” shall mean the Official Statement dated _____, 2017 relating to the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports. The Corporation shall file with the MSRB, not later than the last day of the fourth month following the end of the fiscal year of the Obligated Group, commencing with the fiscal year ending June 30, 2017, an Annual Report which is consistent with the requirements of Section 4 of this Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Agreement. If the Obligated Group’s fiscal year changes, the Corporation will file a notice of such change with the MSRB.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following information:

a. The annual financial statements for the Obligated Group for the most recently completed fiscal year prepared in accordance with generally accepted accounting principles and audited by a certified public accountant in accordance with generally accepted auditing standards; provided, however, if the audited financial statements are not available within four months after the end of the fiscal year, unaudited financial statements shall be filed and subsequently replaced or supplemented by the audited financial statements when available.

b. Certain financial information and annual operating data, including updates of the information provided in Appendix A to the Official Statement under the subheadings: “Unit Mix and Pricing”, “Historical Occupancy”, “Turnover in Independent Living”, “Payor Mix” and “Residency Agreements and Entrance Fees, Monthly Fees and Other Charges – Rate Increases.”

c. The Long-Term Debt Service Coverage Ratio for the most recently completed fiscal year, the number of Days’ Cash on Hand as of the end of such fiscal year and the ratio of Available Reserves to the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate Term Indebtedness, for such fiscal year, all as calculated based on the audited financial statements as and when available, to the extent such items are not included in the Obligated Group’s audited financial statements, and a brief narrative of the financial and operating results for such fiscal year.

The information described above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation or any other Member of the Obligated Group is an “obligated person” (as defined by the Rule), which have been filed with the MSRB or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so included by reference.

(a) SECTION 5. Reporting of Significant Events. In a timely manner not in excess of ten Business Days after the occurrence of the event, the Corporation shall file with the MSRB or deliver to the Dissemination Agent for filing with the MSRB notice of any of the following events with respect to the Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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;
- (vii) Modifications to rights of the Holders of the Bonds, if material;
- (viii) Bond calls (other than mandatory sinking fund redemptions), if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property, if any, securing repayment of the Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of a Member of the Obligated Group;
- (xiii) The consummation of a merger, consolidation, or acquisition involving a Member of the Obligated Group or the sale of all or substantially all of the assets of the Obligated Group, 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; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

SECTION 6. Failure to Provide Required Notices. In a timely manner, the Corporation shall file with the MSRB written notice of any failure by the Corporation to provide any information required pursuant to Section 4 or 5 above within the time limit specified therein.

SECTION 7. Quarterly Reports; Additional Information;. The Corporation shall file with the MSRB, not later than 45 days after the end of each quarter of each Fiscal Year of the Obligated Group,

commencing with the quarter ending June 30, 2017: (i) occupancy statistics for the Facilities for such fiscal quarter, (ii) quarterly financial statements including income statement, balance sheet and cash flow statements, compared to budget, and information with respect to the payor mix for such fiscal quarter, (iii) computations of the Long-Term Debt Service Coverage Ratio (calculated based on the twelve month period 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 (iv) the ratio determined by dividing the aggregate amount of Available Reserves by the aggregate amount of Long-Term Indebtedness Outstanding, exclusive of Qualifying Intermediate-Term Indebtedness, as of the end of such fiscal quarter.

In addition, the Corporation shall file with the MSRB: (i) a copy of the Obligated Group's annual budget, within 30 days after the commencement of each Fiscal Year, (ii) a copy of any actuarial report prepared for the Corporation with respect to its future service obligation, and (iii) until construction of the Northside Court Project (as defined in the Official Statement) is complete and the independent living apartments in the Northside Court Project have reached 90% occupancy, (A) a marketing report showing the number of net pre-sales and the number of move-ins with respect to independent living apartment units in the Northside Court Project for the prior month, and (B) bi-monthly construction status reports, including the status of completion (and opening) of each building and project construction overall.

SECTION 9. Termination of Reporting Obligation. Except as otherwise provided herein, the obligations under this Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Corporation's obligations under the Loan Agreement or the Master Indenture are assumed in full by another person or entity, such other person or entity shall be responsible for compliance with this Agreement in the same manner as if it were the Corporation and the Corporation shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5 hereof.

SECTION 10. Transmission of Information and Notices. Unless otherwise required by law, all documents provided to the MSRB in compliance with the Agreement shall be provided to the MSRB in an electronic format and shall be accompanied by identifying information, in each case as prescribed by the MSRB. As of the date of this Agreement, the MSRB has established EMMA as its continuing disclosure service for purposes of the Rule, and unless and until otherwise prescribed by the MSRB, all documents provided to the MSRB in compliance with this Agreement shall be submitted through EMMA in the format prescribed by the MSRB.

SECTION 11. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if any, shall not be responsible in any manner for the content of any notice or report prepared by the Corporation pursuant to this Agreement, and a statement to this effect may be submitted by the Dissemination Agent with any such notice or report.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Agreement, the Corporation may amend this Agreement and any provision of this Agreement may be waived if such amendment or waiver would not, in the opinion of nationally recognized federal securities law counsel, cause the undertakings herein to violate the Rule as in effect at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, or materially impair the interests of the holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative

explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 13. Additional Information. Nothing in this Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Agreement, the Corporation shall not have any obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 14. Default. In the event of a failure of the Corporation to comply with any provision of this Agreement, the Bond Trustee shall, at the written direction of a Participating Underwriter or the holders of at least 25% in aggregate principal amount of Outstanding Bonds (but only if and to the extent the Bond Trustee is indemnified to its satisfaction from any costs, liability or expense including, without limitation, fees and expenses of its attorneys, as provided in the Bond Indenture), or any holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Bond Indenture, the Loan Agreement or the Master Indenture, and the sole remedy under this Agreement in the event of a failure of the Corporation to comply with this Agreement shall be an action to compel performance; provided, however that nothing in this Agreement shall limit any Beneficial Owner's rights that it otherwise would have under applicable federal securities laws.

SECTION 15. Beneficiaries. This Agreement shall inure solely to the benefit of the Corporation, the Participating Underwriters, and the holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 16. Counterparts. This Agreement 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 17. Applicable Law. This Agreement shall be construed under the laws of the Commonwealth of Pennsylvania and, to the extent inconsistent, with the laws of the United States of America.

IN WITNESS WHEREOF, the Corporation has executed this Agreement under seal on the date and year first written above.

BRETHREN VILLAGE

By: _____
[Title]

The receipt of the foregoing Continuing Disclosure Agreement is hereby acknowledged:

FULTON BANK, NATIONAL ASSOCIATION, as Bond Trustee

By: _____
Authorized Signatory

BV Brethren Village

