

In the opinion of Rhoads & Sinon LLP, bond counsel, under existing statutes, regulations and judicial decisions, interest on the 2016 Bonds is excluded from gross income of the owners of the 2016 Bonds for purposes of federal income taxation and is not an item of tax preference of the owners of the 2016 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 Issuer and Willow Valley Communities and subject to the continuing compliance by the Issuer and Willow Valley Communities 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, the 2016 Bonds are exempt from personal property taxes in the Commonwealth and the interest on the 2016 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 2016 Bonds, see "Tax Exemption and Other Tax Matters" herein.



WILLOW
VALLEY
COMMUNITIES

\$38,225,000

EAST HEMPFIELD TOWNSHIP INDUSTRIAL DEVELOPMENT AUTHORITY
Revenue and Revenue Refunding Bonds, Series of 2016
(Willow Valley Communities Project)

Dated: Date of Delivery

Due: December 1, as shown on the inside front cover

The above captioned Series of 2016 Bonds (the "2016 Bonds") will be limited obligations of the East Hempfield Township Industrial Development Authority (the "Issuer") initially issued in fully registered form in the denominations of \$5,000 principal amount or any integral multiple thereof, without coupons and, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2016 Bonds. Purchases of beneficial interests in the 2016 Bonds will be made in book-entry form. Except as herein described, purchasers will not receive certificates representing their beneficial interests in the 2016 Bonds. See "THE 2016 BONDS – Book-Entry Only System" herein. So long as DTC or its nominee, Cede & Co., is the registered owner of the 2016 Bonds, payments of principal or redemption price of and interest on the 2016 Bonds (with interest payable on June 1 and December 1 of each year, commencing June 1, 2016) will be made directly to DTC or such nominee by the Bond Trustee. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. The 2016 Bonds are subject to optional, extraordinary optional and mandatory redemption prior to maturity as described herein.

The proceeds of the 2016 Bonds, together with other monies provided by Willow Valley Communities (formerly known as Willow Valley Retirement Communities), a Pennsylvania not-for-profit corporation (the "Corporation"), will be applied to (i) currently refund a portion of the Lancaster Industrial Development Authority Adjustable Rate Demand Revenue Bonds, Series A of 2009 (Willow Valley Retirement Communities Project) (the "2009A Bonds"), and a portion of the Lancaster Industrial Development Authority Adjustable Rate Demand Revenue Bonds, Series B of 2009 (Willow Valley Retirement Communities Project) (the "2009B Bonds"); (ii) finance and/or reimburse the cost of the acquisition and construction of a 53 unit apartment building comprising approximately 160,000 square feet inclusive of underground parking facilities at the Corporation's Willow Valley Manor North continuing care retirement facility located at 600 Willow Valley Square, Lancaster (West Lampeter Township), Pennsylvania; and (iii) pay costs of issuance of the 2016 Bonds (collectively, the "Project"). See "Plan of Finance" herein. The principal of and interest on the 2016 Bonds will be payable solely from, and secured by the Issuer's pledge to the Bond Trustee (as hereinafter defined) of, payments to be made by the Corporation under a Loan Agreement, dated as of February 1, 2016 (the "Loan Agreement"), between the Issuer and the Corporation, and from funds held under a Trust Indenture, dated as of February 1, 2016 (the "Bond Indenture"), between the Issuer and Fulton Bank, N.A., as bond trustee (the "Bond Trustee"). The Issuer's right to receive such payments will be evidenced by a promissory note (the "2016 Note") to be issued by the Corporation pursuant to and secured under a Master Trust Indenture, dated as of July 15, 2009, as amended and supplemented (the "Master Indenture"), between the Corporation and Fulton Bank, N.A., as master trustee (the "Master Trustee"). See "Security and Sources of Payment for the 2016 Bonds" herein.

THE 2016 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES AND SECURED SOLELY BY THE SECURITY DESCRIBED HEREIN. NEITHER THE CREDIT NOR THE TAXING POWER OF THE TOWNSHIP OF EAST HEMPFIELD, THE COUNTY OF LANCASTER, THE COMMONWEALTH OF PENNSYLVANIA, OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR THE INTEREST ON, THE 2016 BONDS, NOR SHALL THE 2016 BONDS BE DEEMED TO BE OBLIGATIONS OF THE TOWNSHIP OF EAST HEMPFIELD, THE COUNTY OF LANCASTER, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF, NOR SHALL THE TOWNSHIP OF EAST HEMPFIELD, THE COUNTY OF LANCASTER, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OF OR THE INTEREST ON, THE 2016 BONDS. THE ISSUER HAS NO TAXING POWER.

The 2016 Bonds are offered when, as, and if all the 2016 Bonds are simultaneously issued and accepted by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to an opinion as to validity by Rhoads & Sinon LLP, Bond Counsel. Certain legal matters are subject to the approval of Blakinger Thomas, PC, counsel to the Corporation and the Issuer. Certain legal matters will be passed upon for the Underwriter by its counsel, Stevens & Lee, P.C. 2016 Bonds in book-entry form are expected to be available for credit through the facilities of DTC in New York, New York, on or about February 1, 2016.



\$38,225,000
East Hempfield Township Industrial Development Authority
Revenue and Revenue Refunding Bonds, Series of 2016
(Willow Valley Communities Project)

Dated: Date of Delivery

Due: December 1, as shown below

Interest Payable: June 1 and December 1

First Interest Payment: June 1, 2016

MATURITY SCHEDULE AND INTEREST RATES

\$29,965,000 Serial Bonds

<u>Due</u> <u>December 1</u>	<u>Par</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> ¹
2016	\$ 710,000	1.000%	0.950%	100.041	273007BW3
2017	1,415,000	3.000	1.120	103.401	273007BX1
2018	1,455,000	4.000	1.360	107.311	273007BY9
2019	1,515,000	4.000	1.520	109.199	273007BZ6
2020	1,575,000	4.000	1.730	110.480	273007CA0
2021	1,640,000	5.000	1.870	117.219	273007CB8
2022	1,720,000	5.000	2.090	118.437	273007CC6
2023	1,805,000	5.000	2.280	119.408	273007CD4
2024	1,900,000	5.000	2.490	119.789	273007CE2
2025	1,995,000	5.000	2.670	120.030	273007CF9
2026	2,095,000	5.000	2.820 ^c	118.603 ^c	273007CG7
2027	2,195,000	5.000	2.950 ^c	117.383 ^c	273007CH5
2028	2,305,000	5.000	2.980 ^c	117.104 ^c	273007CJ1
2029	2,420,000	5.000	3.040 ^c	116.547 ^c	273007CK8
2030	2,545,000	5.000	3.100 ^c	115.994 ^c	273007CL6
2031	2,675,000	5.000	3.170 ^c	115.352 ^c	273007CM4

\$8,260,000 5.000% Term Bonds Due December 1, 2039, Priced - 112.118^c to Yield 3.530%^c - CUSIP¹: 273007CN2

^c Price/Yield to first optional call date.

¹ The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Issuer, the Corporation or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Issuer, the Corporation or the Underwriter has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

Willow Valley Communities







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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No broker, dealer, salesman or other person has been authorized by the Issuer, the Corporation or the Underwriter 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 Issuer, the Corporation or the Underwriter. The information contained in this Official Statement has been obtained from the Corporation and other sources believed by the Underwriter to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or, as to information from sources other than the Issuer, by the Issuer, or, as to information from sources other than the Corporation, by the Corporation.

The Underwriter has 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 Underwriter does 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 2016 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 Issuer and the purchasers or owners of any of the Series 2016 Bonds.

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

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

ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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 2016 BONDS SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE CORPORATION.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in “CERTAIN BONDHOLDERS’ RISKS” and APPENDIX A herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE 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 THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

There are risks associated with the purchase of the 2016 Bonds. For a summary discussion of certain of these risks, see “BONDHOLDERS’ RISKS” herein.

THE COVER PAGE AND INSIDE COVER PAGE CONTAIN CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND ARE NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. APPENDIX C HERETO CONTAINS DEFINITIONS USED IN THIS OFFICIAL STATEMENT.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
The Bond Indenture, the Loan Agreement and the Master Indenture	1
Willow Valley Communities	2
Sources of Payment.....	2
PLAN OF FINANCE.....	2
General.....	2
ESTIMATED SOURCES AND USES OF FUNDS	3
THE 2016 BONDS	3
General Description	3
Redemption.....	5
Book-Entry Only System.....	7
SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS.....	10
Sources of Payment.....	10
ESTIMATED DEBT SERVICE AND OTHER REQUIREMENTS.....	15
THE ISSUER.....	15
BONDHOLDERS’ RISKS	17
General.....	17
Factors That Could Affect the Future Financial Condition of the Corporation	18
Dependence on Turnover or Occupancy.....	18
Rights of Residents to Refunds.....	19
Increases in Number of Residents Requiring Nursing or Personal Care	19
Sales of Home – Entrance Fees	19
Continuing Care Provider Law	19
Competition.....	21
Income of Residents.....	21
Utilization Demand.....	21
Labor Availability and Relations.....	21
Medical Malpractice Insurance.....	22
Governmental Regulation.....	22

TABLE OF CONTENTS
(cont'd)

	<u>Page</u>
Risks Relating to the Operation of the Post Acute Care Facilities	23
Federal and State Fraud and Abuse Enforcement.....	25
Regulatory Environment.....	28
Regulatory Inquiries.....	28
Risks Related to Master Trust Indenture Financings	29
Risks Relating to Interest Rate Swap.....	29
Fluctuations in Market Value of Investments.....	30
Tax-Exempt Status.....	30
Unrelated Business Taxable Income.....	31
Licensing, Surveys, Investigations and Audits.....	32
Environmental Laws and Regulations	32
Bankruptcy and Creditors' Rights	33
Litigation, Malpractice Claims and Insurance	34
Enforceability.....	35
Possible Limitations on Security	36
Additional Indebtedness.....	36
Limited Security; Potential for Dilution through Additional Parity Obligations.....	36
Amendments to Master Indenture, Bond Indenture and Loan Agreement.....	37
Rights of Holders	38
Obligated Members - Diminution of Security	38
Absence of Restrictions on Affiliates	38
Other Factors Generally Affecting Health Care Providers and Retirement Communities.....	38
TAX EXEMPTION AND OTHER TAX MATTERS	39
Federal Income Tax Matters	39
Pennsylvania Tax Matters.....	40
Federal Income Tax Interest Expense Deductions for Financial Institutions.....	41
Proposed and Future Tax Legislation	41
LEGAL MATTERS.....	42

TABLE OF CONTENTS
(cont'd)

	<u>Page</u>
INDEPENDENT AUDITORS.....	42
ABSENCE OF LITIGATION	42
RATING	42
CONTINUING DISCLOSURE.....	43
UNDERWRITING	43
FORWARD-LOOKING STATEMENTS	44
CERTAIN RELATIONSHIPS AMONG PARTIES	44
MISCELLANEOUS	44
APPENDIX A WILLOW VALLEY COMMUNITIES	A-1
APPENDIX B CONSOLIDATED FINANCIAL STATEMENTS OF WILLOW VALLEY COMMUNITIES AND CONTROLLED AFFILIATE.....	B-1
APPENDIX C DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.....	C-1
APPENDIX D PROPOSED FORM OF OPINION OF BOND COUNSEL.....	D-1
APPENDIX E PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT	E-1

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OFFICIAL STATEMENT

\$38,225,000

**East Hempfield Township Industrial Development Authority
Revenue and Revenue Refunding Bonds, Series of 2016
(Willow Valley Communities Project)**

INTRODUCTORY STATEMENT

This Official Statement, including the cover pages and appendices, is furnished in connection with the offering of \$38,225,000 principal amount of Revenue and Revenue Refunding Bonds, Series of 2016 (Willow Valley Communities Project) (the “2016 Bonds”) by the East Hempfield Township Industrial Development Authority (the “Issuer”). Capitalized terms not otherwise defined herein have the meanings stated under “CERTAIN DEFINITIONS” in Appendix C.

The Bond Indenture, the Loan Agreement and the Master Indenture

The 2016 Bonds will be issued pursuant to a Trust Indenture, dated as of February 1, 2016 (the “Bond Indenture”), between the Issuer and Fulton Bank, N.A., as the bond trustee (the “Bond Trustee”). The proceeds of the sale of the 2016 Bonds will be lent by the Issuer to Willow Valley Communities (formerly known as Willow Valley Retirement Communities), a Pennsylvania not-for-profit corporation (“Willow Valley Communities” or the “Corporation”), pursuant to a Loan Agreement, dated as of February 1, 2016 (the “Loan Agreement”), by and between the Issuer and the Corporation. In connection with the loan, the Corporation will issue a promissory note (the “2016 Note”) payable to the Issuer and providing for payments sufficient to pay principal of and interest and any redemption premium on the 2016 Bonds. The 2016 Note will be assigned by the Issuer under the Bond Indenture to the Bond Trustee as security for the 2016 Bonds. The 2016 Note will be issued under and entitled to the benefits of a Master Trust Indenture, dated as of July 15, 2009, as amended and supplemented (the “Master Indenture” or the “Master Trust Indenture”), between the Corporation, as the sole Member of the Obligated Group (as defined in the Master Trust Indenture) and Fulton Bank, N.A., as master trustee (the “Master Trustee”). **As of the date of issuance of the 2016 Bonds, there are no Members of the Obligated Group other than Willow Valley Communities, and none are anticipated prior to or on the date of delivery of the 2016 Bonds.** See APPENDIX A-WILLOW VALLEY COMMUNITIES. The 2016 Note, together with Obligations previously issued and currently outstanding and any other Obligations which may be issued in the future under the Master Indenture are equally and ratably secured under the Master Indenture by a security interest granted by the Corporation to the Master Trustee in the Gross Revenues (as defined in the Master Indenture) of the Corporation and by a mortgage from the Corporation to the Master Trustee on certain real property of the Corporation. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS” and “PLAN OF FINANCE” below.

Summaries of certain provisions of the Loan Agreement, the Bond Indenture and the Master Indenture are contained in this Official Statement and Appendix C.

Willow Valley Communities

Willow Valley Communities (the “Corporation” or “Willow Valley Communities”) was incorporated on December 6, 1982, originally under the name Willow Valley Manor, as a not-for-profit corporation under the Pennsylvania Non Profit Corporation Law of 1972. By letter dated August 4, 1987, the Internal Revenue Service has determined the Corporation to be an organization described in Section 501(c)(3) and not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation changed its name from “Willow Valley Manor” to “Willow Valley Retirement Communities” effective March 2, 2000 and from “Willow Valley Retirement Communities” to “Willow Valley Communities” effective October 22, 2013. The Corporation owns and operates three retirement communities in the County of Lancaster, Pennsylvania, known as Willow Valley Manor which includes the Providence Park at Willow Valley expansion, Willow Valley Lakes Manor which includes the Willow Gables and Spring Run at Willow Valley expansions and Willow Valley Manor North which includes the Willow Valley Manor North Garden Apartments expansion. The land, buildings and related facilities at Willow Valley Manor, Willow Valley Lakes Manor and Willow Valley Manor North and the land, buildings and related facilities to be financed with the proceeds of the 2016 Bonds, as described herein, are collectively hereinafter referred to as the “Facilities”.

The Corporation operates a lifecare at home membership based program in Lancaster County under the trade name of SmartLife VIA Willow Valley to deliver care and services in the member’s home.

The Corporation is the sole Owner of Connections at Home VIA Willow Valley, LLC, a home care agency that provides services including companion and homemaking services, wellness visits and personal assistance.

For additional information concerning the Corporation and the Facilities, see APPENDIX A-WILLOW VALLEY COMMUNITIES.

Sources of Payment

The 2016 Bonds will be limited obligations of the Issuer payable solely from and to the extent of payments to the Issuer required to be made by Willow Valley Communities under the Loan Agreement and under the 2016 Note, and from funds held under the Bond Indenture, and will not constitute obligations of the Township of East Hempfield, the County of Lancaster, the Commonwealth of Pennsylvania or any other political subdivision thereof. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS” and “PLAN OF FINANCE” below.

PLAN OF FINANCE

General

The plan of finance involves the issuance of a series of fixed rate bonds by the Issuer to be designated East Hempfield Township Industrial Development Authority Health Center

Revenue and Refunding Bonds, Series 2016 (Willow Valley Communities Project) (the “2016 Bonds”).

Proceeds of the 2016 Bonds will be used, together with certain other available funds, to (i) currently refund a portion of the Lancaster Industrial Development Authority Adjustable Rate Demand Revenue Bonds, Series A of 2009 (Willow Valley Retirement Communities Project) consisting of \$9,585,000 of the outstanding \$17,925,000 principal amount of such bonds (such portion being hereinafter referred to as the “Refunded 2009A Bonds” and the \$8,340,000 principal amount unrefunded portion being hereinafter referred to as the “Unrefunded 2009A Bonds”), and a portion of the Lancaster Industrial Development Authority Adjustable Rate Demand Revenue Bonds, Series B of 2009 (Willow Valley Retirement Communities Project) consisting of \$9,585,000 of the outstanding \$17,925,000 principal amount of such bonds (such portion being hereinafter referred to as the “Refunded 2009B Bonds” and the \$8,340,000 principal amount unrefunded portion being hereinafter referred to as the “Unrefunded 2009B Bonds”); (ii) finance and /or reimburse the cost of the acquisition and construction of a 53-unit apartment building comprising approximately 160,000 square feet inclusive of underground parking facilities at the Corporation’s Willow Valley Manor North continuing care retirement facility located at 600 Willow Valley Square, Lancaster (West Lampeter Township), Pennsylvania; and (iii) pay costs of issuance of the 2016 Bonds (collectively, the “Project”).

The Refunded 2009A Bond and the Refunded 2009B Bonds will be currently refunded on February 1, 2016 at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest thereon.

ESTIMATED SOURCES AND USES OF FUNDS

The expected sources and uses of funds for the plan of finance to be funded in part by the proceeds of the 2016 Bonds are as follows:

Sources of Funds:

Principal amount of Bonds	\$38,225,000.00
Original Issue Premium	5,569,261.45
Total Sources of Funds	\$43,794,261.45

Uses of Funds:

Refunding of Refunded 2009A Bonds	\$ 9,585,000.00
Refunding of Refunded 2009B Bonds	9,585,000.00
Project Fund Deposit	24,000,000.00
Cost of Issuance ¹	624,261.45
Total Uses of Funds	\$43,794,261.45

(1) Includes estimated professional fees, expenses, and underwriting discount related to the issuance and sale of the Bonds.

THE 2016 BONDS

General Description

The 2016 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 2016 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 2016 Bonds will not receive physical delivery of 2016 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 2016 BONDS – Book-Entry Only System” herein.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2016 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR OWNERS OF THE 2016 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2016 BONDS. See “THE 2016 BONDS—Book-Entry Only System” herein.

The 2016 Bonds will be issued in the aggregate principal amount of \$38,225,000 and will be stated to mature as shown on the inside cover of this Official Statement, unless sooner called for redemption. Interest on the 2016 Bonds, payable at the rates set forth on the inside cover page hereof, is payable on June 1 and December 1 of each year, commencing June 1, 2016. Interest on the 2016 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Each 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 Bonds shall be the fifteenth day (whether or not a business day) 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. Such defaulted interest shall be payable to the person in whose name this Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Bond Trustee in behalf of the Issuer to the registered owner

of each Bond not less than fifteen (15) days preceding such special record date and not less than twenty (20), but not more than thirty (30), days prior to the interest payment date. Such notice shall be mailed to the person in whose name such Bond is registered at the close of business on the fifth (5th) day preceding the date of mailing.

3. The Bond Trustee shall keep the registration books for the 2016 Bonds at its designated corporate trust office. Subject to the further conditions contained in the Bond Indenture, the 2016 Bonds may be transferred or exchanged for one or more 2016 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 2016 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 2016 Bond during the fifteen (15) 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 2016 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 Issuer and the Bond Trustee shall be entitled to treat the registered owners of the 2016 Bonds, as their names appear in the registration books as of the appropriate dates, as the owners of such 2016 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 2016 Bonds maturing on December 1, 2039 are subject to mandatory redemption prior to maturity in part by lot, on December 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>
2032	\$ 590,000
2033	1,180,000
2034	1,160,000
2035	1,135,000
2036	1,105,000
2037	1,075,000
2038	1,030,000
2039*	985,000

* Remaining due at maturity.

The principal amount of 2016 Bonds so required to be redeemed in any year may be reduced, at the request of Willow Valley Communities, by an amount equal to the principal amount of 2016 Bonds of the appropriate stated maturity (i) surrendered uncanceled and in transferable form by Willow Valley Communities 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 Willow Valley Communities, as described below under “Optional Redemption”, if in either case such 2016 Bonds have not previously served as the basis for any such reduction.

Optional Redemption. The 2016 Bonds stated to mature on or after December 1, 2026 are subject to optional redemption prior to maturity by the Issuer, at the direction of Willow Valley Communities, in whole or from time to time in part, in any order of maturity designated by the Issuer at the direction of Willow Valley Communities, on or after December 1, 2025 at a redemption price of 100% of the principal amount redeemed, plus interest accrued to the redemption date.

Extraordinary Optional Redemption. The 2016 Bonds are subject to redemption in whole or in part by the Issuer, upon the request of Willow Valley Communities given to the Issuer and the Bond 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 2016 Bonds or parts thereof so redeemed, together with accrued interest thereon to the date fixed for redemption, if:

(i) any property of Willow Valley Communities shall have been damaged or destroyed to the extent that, in the reasonable judgment of Willow Valley Communities, (a) restoration and repair of a substantial portion of the properties of such Person 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 Person is prevented or would likely be prevented from using a substantial portion of its properties for its normal purposes for a period of six months or more; or

(ii) title to any property of Willow Valley Communities 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 Person is prevented or, in the reasonable judgment of Willow Valley Communities, would likely be prevented from using such portion of its properties for its 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 Person is substantial and is not economically practicable or desirable.

Redemption Procedures. The Bond Trustee shall give notice of redemption of a 2016 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. So long as the 2016 Bonds are held by DTC or its nominee under the book-entry only system, the Bond Trustee shall send such notice only to DTC. Any failure of a

Bondholder to receive notice or any defect in notice with respect to a particular 2016 Bond or 2016 Bondholder shall not affect the validity of the redemption of any other 2016 Bonds. Notice of optional redemption or extraordinary redemption may be conditioned upon the deposit of moneys sufficient to redeem all the 2016 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.

If less than all of the 2016 Bonds of any particular maturity shall be called for redemption, the 2016 Bonds of such maturity to be redeemed shall be selected by lot or such other manner as the Bond Trustee deems fair and appropriate. If a 2016 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.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2016 Bonds. The 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2016 Bond certificate will be issued for each maturity of the 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, 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 bond 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, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor’s highest rating: AAA. 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 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016 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 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2016 Bonds, except in the event that use of the book-entry system for the 2016 Bonds is discontinued.

To facilitate subsequent transfers, all 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent by the Trustee only to DTC.

If less than all of the 2016 Bonds of any particular maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and redemption price of and interest on the 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Bond Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the

case with 2016 Bonds held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Corporation or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest on the 2016 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer 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 2016 Bonds at any time by giving reasonable notice to the Issuer or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2016 Bond certificates will be printed and delivered.

The Issuer or Willow Valley Communities may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2016 Bond certificates will be printed and delivered to DTC.

So long as a book-entry system is used for the 2016 Bonds, the Bond Trustee and the Issuer will send any notice of redemption or other notices to Bondholders only to DTC. Any failure of DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2016 Bonds called for redemption or of any other action premised on such notice.

The Issuer, the Corporation, the Bond Trustee and the Underwriter cannot and do not give any assurances that DTC will distribute to Direct Participants, or that the Direct Participants or others will distribute to the Beneficial Owners, payments of principal of, premium, if any, and interest on the 2016 Bonds or any redemption or other notices, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Corporation nor the Issuer is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2016 Bonds or any error or delay relating thereto.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC’S BOOK ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT THE ISSUER, THE CORPORATION, THE BOND TRUSTEE AND THE UNDERWRITER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY THE ISSUER, THE CORPORATION, THE BOND TRUSTEE, OR THE UNDERWRITER AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE ISSUER, THE CORPORATION, THE BOND TRUSTEE OR THE UNDERWRITER TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE ISSUER, THE CORPORATION, THE BOND TRUSTEE NOR THE UNDERWRITER (EXCEPT AS DIRECT PARTICIPANTS) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO

DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS FOR PAYMENT OR CREDIT BY DTC OF ANY PRINCIPAL, REDEMPTION PREMIUM, IF ANY, OR INTEREST PAYMENT ON THE 2016 BONDS.

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO MAKE ARRANGEMENTS WITH THE APPLICABLE DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO RECEIVE FROM SUCH PARTICIPANT NOTICES OF REDEMPTION, CREDIT BALANCES WITH RESPECT TO PAYMENTS OF PRINCIPAL, PREMIUM (IF ANY) AND INTEREST, AND ALL OTHER PAYMENTS AND COMMUNICATIONS WHICH THE DIRECT PARTICIPANT RECEIVES FROM DTC. NEITHER THE ISSUER, THE CORPORATION OR THE BOND TRUSTEE HAVE ANY DIRECT OBLIGATION OR RESPONSIBILITY TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Bond Trustee to DTC only.

For every transfer and exchange of the 2016 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS

Sources of Payment

The 2016 Bonds will be limited obligations of the Issuer payable solely from and to the extent of payments required to be made to the Bond Trustee for the account of the Issuer by the Corporation under the Loan Agreement or by the Corporation and other Members of the Obligated Group under the 2016 Note, each as assigned by the Issuer to the Bond Trustee, and from funds held under the Bond Indenture, and will not constitute obligations of the Township of East Hempfield, the County of Lancaster, the Commonwealth of Pennsylvania (the "Commonwealth") or any other political subdivision thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS" below.

Pursuant to the Loan Agreement, the Issuer is required to lend to the Corporation all proceeds from the sale of the 2016 Bonds, and the Corporation is required to make loan payments, in respect of such loan in the same amounts and five days preceding the dates that required payments of principal of and interest and redemption premium on the 2016 Bonds are due. Such loan is not permitted to be prepaid except to the extent of redemption of the 2016 Bonds. All such Loan Payments are required to be made directly to the Bond Trustee for the account of the Issuer, and the Bond Indenture requires that such Loan Payments be deposited directly to the Bond Fund. The Corporation has agreed to waive all rights of set off, recoupment, counterclaim and abatement against the Issuer, the Bond Trustee and each separate trustee or co-trustee, bond registrar and paying agent with respect to such Loan Payments. To further

evidence and secure its obligation to make Loan Payments, the Corporation will issue to the Issuer, and the Issuer will assign to the Bond Trustee, the 2016 Note.

THE 2016 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES AND SECURED SOLELY BY THE SECURITY DESCRIBED HEREIN. NEITHER THE CREDIT NOR THE TAXING POWER OF THE TOWNSHIP OF EAST HEMPFIELD, THE COUNTY OF LANCASTER, THE COMMONWEALTH OF PENNSYLVANIA, OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR THE INTEREST ON, THE 2016 BONDS NOR SHALL THE 2016 BONDS BE DEEMED TO BE OBLIGATIONS OF THE TOWNSHIP OF EAST HEMPFIELD, THE COUNTY OF LANCASTER, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF, NOR SHALL THE TOWNSHIP OF EAST HEMPFIELD, THE COUNTY OF LANCASTER, THE COMMONWEALTH OF PENNSYLVANIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE 2016 BONDS. THE ISSUER HAS NO TAXING POWER.

No Debt Service Reserve Fund. No Debt Service Reserve Fund has been created by the Bond Indenture for the 2016 Bonds.

The Master Indenture. The 2016 Bonds are also secured by and payable from the 2016 Note to be issued pursuant to the Master Indenture. The 2016 Note and any other Obligation issued under the Master Indenture, including the 2012 Note, the 2010 Note, the 2009-1 Note, the 2009-2 Note and the 2009-3 Note (each as hereinafter described), are secured by a security interest in the Gross Revenues of the Obligated Group.

The Corporation's obligations to make payments under the Loan Agreement and the 2016 Note constitute general obligations of the Corporation and the Obligated Group. As security for its obligations under the Loan Agreement and the 2016 Note, the Corporation will grant (i) a mortgage lien on, and security interest in, the Facilities, to the Master Trustee pursuant to the Mortgage, and (ii) a first lien and security interest in all its Gross Revenues, including gross receipts, revenues, income, rents and other monies received by the Corporation. Under the Loan Agreement and the Master Indenture, the Corporation and the Obligated Group will make certain affirmative and negative covenants for the benefit of the owners of the 2016 Bonds and covenants establishing conditions for the incurrence of additional indebtedness. A summary description of the covenants contained in the Loan Agreement and the Master Indenture is contained in APPENDIX C hereto.

The Mortgage. The Master Indenture is further secured by a mortgage lien on the Facilities covering the land, buildings, equipment and fixtures now or hereafter used in connection with the Facilities. The Mortgage is being granted to the Master Trustee for the equal and ratable benefit of all owners of Permitted Indebtedness secured by a parity lien on Gross Revenues under the Master Indenture. The Mortgage is also subject to permitted encumbrances which include the rights of residents under any Resident's Agreement now or hereafter in effect.

The covenants and financial tests contained in the Master Indenture currently apply only to Willow Valley Communities, as the sole Member of the Obligated Group. The covenants generally limit the incurrence of debt, the imposition of liens and transfers of assets to entities other than Members of the Obligated Group. The covenants may not be effective in assuring the future financial ability of the Corporation to pay the 2016 Note. For a brief description of possible legal limitations on these matters, see “BONDHOLDERS’ RISKS—Enforceability.”

Enforceability. The remedies granted to the Bond Trustee on behalf of the Bondholders upon an Event of Default under the Loan Agreement, the Master Indenture or the Bond Indenture may be dependent upon judicial actions which often are subject to discretion and delay. Under existing law, the remedies specified in the Loan Agreement, the Master Indenture and the Bond Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2016 Bonds will be qualified as to the enforceability of the provisions of the Loan Agreement, the Master Indenture and the Bond Indenture by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

Existing and Proposed Parity Indebtedness.

The Lancaster Industrial Development Authority (the “Lancaster Authority”) previously issued its (i) Adjustable Rate Demand Revenue Bonds, Series A of 2009 (Willow Valley Retirement Communities Project) (the “2009A Bonds”), in the original principal amount of \$20,000,000, (ii) Adjustable Rate Demand Revenue Bonds, Series B of 2009 (Willow Valley Retirement Communities Project) (the “2009B Bonds”), in the original principal amount of \$20,000,000, and (iii) Adjustable Rate Demand Revenue Bonds, Series C of 2009 (Willow Valley Retirement Communities Project) (the “2009C Bonds” and together with the 2009A Bonds and the 2009B Bonds, the “2009 Bonds”), in the original principal amount of \$20,000,000. The 2009 Bonds were issued under and secured by a Trust Indenture dated as of July 15, 2009, between the Lancaster Authority and Fulton Bank, N.A., as bond trustee. Proceeds of the 2009 Bonds were loaned by the Lancaster Authority to Willow Valley Communities pursuant to the provisions of a Loan Agreement, dated as of July 15, 2009 (the “2009 Loan Agreement”), between the Lancaster Authority and Willow Valley Communities. To evidence its obligations under the 2009 Loan Agreement, Willow Valley Communities executed and delivered its promissory note, dated as of July 15, 2009 (the “2009-1 Note”) pursuant to the Master Indenture. The Unrefunded 2009A Bonds, the Unrefunded 2009B Bonds and the 2009C Bonds are hereinafter collectively referred to as the “Unrefunded 2009 Bonds.”

Concurrently with the issuance of the 2009 Bonds, PNC Bank, National Association issued an irrevocable direct-pay letter of credit pursuant to a Letter of Credit, Reimbursement and Security Agreement, dated as of July 15, 2009 (the “2009 Letter of Credit Agreement”), between the Corporation and PNC Bank, National Association to provide liquidity and credit support to the holders of the 2009 Bonds. To evidence its obligations to PNC Bank, National Association under the 2009 Letter of Credit Agreement, Willow Valley Communities issued its promissory note, dated as of July 15, 2009 (the “2009-2 Note”) pursuant to the Master Indenture.

The Corporation has entered into an International Swaps and Derivatives Association (ISDA) Master Agreement, together with supporting schedules and confirmation (the “Swap Agreement”), with PNC Bank, National Association (the “Counterparty”). The Swap Agreement provides, in general, that the Corporation will pay to the Counterparty periodic fixed amounts (“Periodic Payments”) based on a fixed percentage of an initial aggregate notional amount equal to \$10,000,000 of the 2009C Bonds and that the Counterparty will pay to the Corporation periodic floating amounts based on a percentage of a SIFMA based rate times the same notional amount until terminated. The Swap Agreement terminates on December 1, 2018. The Swap Agreement does not alter the Corporation’s obligation to pay the principal of, premium, if any, and interest on the 2009C Bonds. To evidence its obligations to the Counterparty to make periodic payments and Settlement Amounts (as hereinafter defined) under the Swap Agreement, Willow Valley Communities issued its promissory note, dated as of July 15, 2009 (the “2009-2 Note”) pursuant to the Master Indenture.

Under certain circumstances (including certain events of default with respect to the Corporation or the Counterparty), the Swap Agreement could terminate in whole or in part prior to its stated termination date. Following any such early termination of the Swap Agreement, either the Corporation or the Counterparty, as applicable, may owe a termination payment (“Settlement Amounts”) to the other, depending upon market conditions. If at the time of an early termination of the Swap Agreement long-term interest rates are significantly lower than they were when the Swap Agreement was executed and delivered, the Corporation could owe a substantial Settlement Amount to the Counterparty.

There are a number of risks associated with the Swap Agreement that could affect the value of the Swap Agreement, the ability of the Corporation to accomplish its objectives in entering into the Swap Agreement and the ability of the Corporation to meet its obligations under the Swap Agreement and with respect to the 2009C Bonds. These risks include, among others, the following: counterparty risk – the failure of the Counterparty to make required payments; credit risk – the occurrence of an event modifying the credit rating of the Corporation or the Counterparty; termination risk – the need to terminate the transaction in a market that dictates a payment of a Settlement Amount by the Corporation; and basis risk – the mismatch between actual variable rate debt service on the 2009C Bonds on which the Swap Agreement relates and the SIFMA index used to determine swap payments by the Counterparty to the Corporation.

The Lancaster Authority previously issued its Tax Exempt Revenue Note, Series of 2010 (Willow Valley Retirement Communities Project), in the original principal amount of \$25,235,000 (the “2010 Revenue Note”) pursuant to a Financing and Security Agreement dated as of December 22, 2010 (the “2010 Financing Agreement”) by and among, PNC Bank, National Association, the Lancaster Authority and the Corporation and lent the proceeds of the 2010 Revenue Note to the Corporation. To evidence its obligations under the 2010 Financing Agreement, the Corporation executed and delivered its promissory note, dated December 22, 2010 (the “2010 Note”) pursuant to the Master Indenture. The 2010 Note is currently outstanding in the principal amount of \$20,545,000.

The Paradise Township Sewer Authority (the “Paradise Authority”) previously issued its Tax Exempt Revenue Note, Series of 2012 (Willow Valley Retirement Communities Project), in the original principal amount of \$10,000,000 (the “2012 Revenue Note”) pursuant to a Financing

and Security Agreement dated as of December 26, 2012 (the “2012 Financing Agreement”) by and among, PNC Bank, National Association, the Paradise Authority and the Corporation and lent the proceeds of the 2012 Revenue Note to the Corporation. To evidence its obligations under the 2012 Financing Agreement, the Corporation executed and delivered its promissory note, dated December 26, 2012 (the “2012 Note”) pursuant to the Master Indenture. The 2012 Note is currently outstanding in the principal amount of \$9,081,099.

The Issuer proposes to issue the 2016 Bonds pursuant to the Bond Indenture to refund the Refunded 2009A Bonds and the Refunded 2009B Bonds and to finance capital projects for Willow Valley Communities. Proceeds of the 2016 Bonds will be loaned by the Authority to the Corporation pursuant to the provisions of the Loan Agreement between the Issuer and the Corporation. To evidence its obligations with respect to payment of the 2016 Bonds, the Corporation will execute and deliver the 2016 Note pursuant to the Master Indenture.

The 2016 Note is equally and ratably secured on a parity with all other Obligations issued or to be issued under the Master Indenture, which includes the 2012 Note, the 2010 Note, 2009-1 Note, the 2009-2 Note and the 2009-3 Note.

Additional Issuance of Master Obligations.

Additional promissory notes, drafts, bonds and guaranties which evidence debt obligations (or related fee, expense, reimbursement, indemnity or financial hedge obligations such as interest rate swaps) of the Corporation may be issued as Permitted Indebtedness (as defined in the Master Indenture) and secured under the Master Indenture by the Corporation, if the conditions to the issuance of additional Obligations contained in the Master Indenture are complied with. A summary description of the provisions of the Master Indenture is contained in APPENDIX C hereto. Neither the number nor the principal amount of Obligations that may be issued under the Master Indenture is limited except by these and other provisions permitting the incurring of new Obligations under the Master Indenture.

Rate Covenant.

Under the Master Indenture, each Member of the Obligated Group covenants to conduct its business on a revenue producing basis and to charge such fees and rates such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year of the Obligated Group, will not be less than 1.10. If in any Fiscal Year, the Long-Term Debt Service Coverage Ratio is less than 1.10, the Obligated Group covenants to retain a Consultant to submit a written report and recommendations with respect to the rates, fees and charges imposed and collected by the Members of the Obligated Group. The Obligated Group shall require the Consultant to file its report and recommendations within ninety (90) days after the date on which the Obligated Group Agent determines that such Long-Term Debt Service Coverage Ratio is less than 1.10. See APPENDIX C for a more complete description of the rate covenant of the Master Indenture.

ESTIMATED DEBT SERVICE AND OTHER REQUIREMENTS

The following table sets forth, for each bond year of Willow Valley Communities ending December 1, the amounts required for the payment of scheduled debt service on the Unrefunded 2009 Bonds, the 2010 Revenue Note, the 2012 Revenue Note and the 2016 Bonds. See “PLAN OF FINANCE” herein.

Willow Valley Communities Estimated Debt Service Requirements

<u>Bond year Ending 12/1</u>	<u>2016 Bonds</u>		<u>Unrefunded 2009 Bonds</u>	<u>2010 Revenue Note¹</u>	<u>2012 Revenue Note²</u>	<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Debt Service</u>	<u>Debt Service</u>	
2016	\$ 710,000	\$1,507,583	\$1,083,894	\$1,644,568	\$533,148	\$5,479,193
2017	1,415,000	1,802,000	1,083,894	1,638,560	639,410	6,578,864
2018	1,455,000	1,759,550	1,083,894	1,641,792	639,118	6,579,354
2019	1,515,000	1,701,350	1,083,894	1,638,960	638,820	6,578,024
2020	1,575,000	1,640,750	1,083,894	1,640,216	638,121	6,577,981
2021	1,640,000	1,577,750	1,083,894	1,640,408	638,207	6,580,259
2022	1,720,000	1,495,750	1,083,894	1,639,536	637,891	6,577,071
2023	1,805,000	1,409,750	1,083,894	1,642,600	637,568	6,578,812
2024	1,900,000	1,319,500	1,083,894	1,639,448	636,956	6,579,798
2025	1,995,000	1,224,500	1,083,894	1,635,232	636,904	6,575,530
2026	2,095,000	1,124,750	1,083,894	1,639,952	636,561	6,580,157
2027	2,195,000	1,020,000	1,083,894	1,643,304	636,211	6,578,409
2028	2,305,000	910,250	1,083,894	1,645,288	635,693	6,580,125
2029	2,420,000	795,000	1,083,894	1,640,904	635,490	6,575,288
2030	2,545,000	674,000	1,083,894	1,640,304	635,119	6,578,317
2031	2,675,000	546,750	1,083,894	1,638,336	634,740	6,578,720
2032	590,000	413,000	4,938,894		634,323	6,576,217
2033	1,180,000	383,500	5,014,979			6,578,479
2034	1,160,000	324,500	5,095,449			6,579,949
2035	1,135,000	266,500	5,175,009			6,576,509
2036	1,105,000	209,750	5,263,512			6,578,262
2037	1,075,000	154,500	5,350,513			6,580,013
2038	1,030,000	100,750	5,445,866			6,576,616
2039	985,000	49,250	5,544,127			6,578,377
Total:	\$38,225,000	\$22,410,983	\$59,170,653	\$26,249,408	\$10,724,280	\$156,780,324

¹ Fixed Rate (7-year period) for the 2010 Revenue Note is 3.04% through November 30, 2017, Variable Rate thereafter (65% of 1-month LIBOR + 110bps + Rating Adjustment)

² Fixed Rate (7-year period) for the 2012 Revenue Note is 2.08% through November 30, 2019, Variable Rate thereafter (70% of 1-month LIBOR + 125bps + Rating Adjustment)

THE ISSUER

The Issuer was created by action of the Board of Supervisors of the Township of East Hempfield, Lancaster County, Pennsylvania, pursuant to the Pennsylvania Economic Development Financing Law, being the Act of August 23, 1967, P.L. 251, as amended (the “Act”). The Issuer is a body corporate and politic and an instrumentality of the Commonwealth of Pennsylvania (the “Commonwealth”). The Issuer is empowered under the Act, among other things, to issue its revenue bonds to finance and refinance various types of facilities, including health centers as provided under the Act.

The 2016 Bonds are authorized and issued by the Issuer pursuant to the provisions of the Constitution and statutes of the Commonwealth, particularly the Act. The Issuer has the power under the Act to, among other things, finance health centers and other related facilities and projects. A Resolution authorizing the 2016 Bonds has been adopted by the Board of the Issuer.

The Issuer has no taxing power and no source of funds for payment of the 2016 Bonds, other than the underlying contractual obligations made by or on behalf of Willow Valley Communities.

The Issuer does not and will not in the future monitor the financial condition of Willow Valley Communities or any other Member of the Obligated Group or otherwise monitor the payment of the 2016 Bonds or compliance with the documents relating thereto. The Issuer will rely entirely upon the Bond Trustee and Willow Valley Communities to carry out their respective responsibilities under the Bond Indenture and the Loan Agreement. The Issuer has assets and may obtain additional assets in the future. However, such assets are not pledged to secure payment of the 2016 Bonds, and the Issuer has no obligation or expectation of making such assets subject to the lien of the Bond Indenture.

Neither the Issuer nor its independent contractors have furnished, reviewed, investigated or verified the information contained in this Official Statement other than the information contained in this section. The Issuer has determined that no financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the 2016 Bonds, and the Issuer will not provide any such information. The Issuer has not, and will not, undertake any responsibilities to provide continuing disclosure with respect to the 2016 Bonds or the security therefor, and the Issuer will have no liability to holders of the 2016 Bonds with respect to any such disclosures.

The Issuer has previously issued bonds to finance other projects authorized under the Act and expects to continue issuing bonds to finance such projects. Each of the Issuer's bond offerings are separately secured by a pledge of revenues derived from the applicable project and other collateral, if any, pledged as security by the owner of the project so financed.

There is not now pending or, to the knowledge of the Issuer, threatened any litigation restraining or enjoining or seeking to restrain or enjoin the issuance or delivery of the 2016 Bonds or questioning or affecting the validity of the 2016 Bonds or the proceedings or authority under which the 2016 Bonds are to be issued. Neither the creation, organization or existence of the Issuer nor the title of any of the present members of the Board or other officials of the Issuer is being contested. There is no litigation pending or, to the knowledge of the Issuer, threatened, which in any manner questions the right of the Issuer to enter into the Bond Indenture or the Loan Agreement or to secure the 2016 Bonds in the manner provided in the Bond Indenture and the Act.

Neither the principal of the 2016 Bonds nor the interest accruing thereon shall ever constitute a general indebtedness of the Issuer or indebtedness of the Township of East Hempfield, the County of Lancaster, 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 Township of East Hempfield, the County of

Lancaster, the Commonwealth or any political subdivision thereof, nor will the 2016 Bonds be, or be deemed to be, an obligation of the Township of East Hempfield, the County of Lancaster, the Commonwealth or any political subdivision thereof. The Issuer has no taxing power.

The Issuer has not prepared or assisted in the preparation of this Official Statement except for the statements in respect of the Issuer under this section and under the section entitled “ABSENCE OF LITIGATION,” and except as aforesaid, the Issuer 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 2016 Bonds. Accordingly, except as aforesaid, the Issuer disclaims responsibility for the disclosure set forth herein made in connection with the offer, sale and distribution of the 2016 Bonds.

BONDHOLDERS’ RISKS

Certain risks are inherent to the operation of facilities such as those of the Corporation. Such risks should be considered in evaluating the ability of the Corporation to generate sufficient revenues to pay the principal of, premium, if any, and interest on the 2016 Bonds when due. This section discusses some of these risks, but is not intended to be a comprehensive list of all risks associated with the operation of the facilities of the Corporation or the payment of the 2016 Bonds. In order to identify risk factors and make an informed decision as to whether the 2016 Bonds are an appropriate investment under individual circumstances, potential investors should carefully read and be thoroughly familiar with the entire Official Statement (including all appendices hereto).

General

The 2016 Bonds are payable from payments to be made by Willow Valley Communities pursuant to the Loan Agreement and under the 2016 Note. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the required payments under the Loan Agreement and the 2016 Note and, thus, to enable the Issuer to pay principal, redemption price of and interest on the 2016 Bonds when due.

The 2016 Bonds are limited obligations of the Issuer, payable by the Issuer only from and to the extent of (1) the payments to be made by Willow Valley Communities under the Loan Agreement and under the 2016 Note and which have been assigned by the Issuer to the Bond Trustee, and (2) the funds held by the Bond Trustee under the Bond Indenture. Whether the Corporation will be able to make such payments, as well as payments on any other outstanding debt, will depend on, among other things:

- how capably the Corporation is managed,
- economic conditions,
- competition from other retirement communities and long term care providers,
- future federal and state regulation, enforcement and funding of retirement communities and long term care activities, employment activities, environmental compliance, and tax exempt status,
- the labor market for nurses and other needed employees,

- the rate at and extent to which alternative care methods and retirement living arrangements are developed, and
- other factors that are unpredictable.

These factors, among others, should be considered in evaluating the ability of Willow Valley Communities to make payments to the Issuer sufficient to pay the 2016 Bonds and to preserve the tax-exempt status of the 2016 Bonds for federal income tax purposes. They are briefly summarized in the following sections.

Factors That Could Affect the Future Financial Condition of the Corporation

The future financial condition of the Corporation and its ability to pay its obligations under the Loan Agreement and the 2016 Note could be adversely affected by, among other things, legislation, regulatory actions, economic conditions, increased competition from other providers of similar services, changes in the demand for services currently provided, demographic changes, a decline in the residential real estate market, malpractice claims and other litigation, hiring and retention of qualified staff, and the Corporation's ability to maintain all types of insurance at necessary levels of coverage and premiums. The Underwriter and the Issuer have not made any independent investigation of the extent to which any such factors may have an adverse impact on the financial condition of the Corporation.

The business of the Corporation is highly dependent on a number of factors that may limit the ability of the Corporation to meet its obligations under the Loan Agreement and the 2016 Note, several of which are beyond its control. Among other things, participants in the retirement community industry (such as the Corporation) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations, various competitive factors, changes in third party reimbursement programs (in connection with the Willow Valley Communities' long term care facilities) and adverse developments in the residential real estate market. Some of these factors, which could have a significant adverse impact on the future operations and financial condition of the Corporation, are summarized briefly below.

Dependence on Turnover or Occupancy

Payment of the 2016 Bonds depends in large part upon the ability of the Corporation to attract sufficient numbers of residents to maintain substantial occupancy and continuous turnover of occupancy of its facilities throughout the term of the 2016 Bonds. The ability to maintain substantial occupancy depends to some extent on factors outside the control of the Corporation, such as the resident's right to terminate his or her Resident's Agreement with the Corporation (the "Resident's Agreement") and developments in the residential real estate market.

The Corporation's receipt of entrance fees in the future will depend upon the age, longevity and health of the residents, and whether units are occupied by more than one resident. These factors will affect the frequency of turnover of units and the collection of additional entrance fees. Income would be reduced if residents who die, withdraw or are transferred are not replaced as anticipated. Potential disputes over the adequacy of facilities, the delivery of services, the construction of additional facilities, and the accuracy of representations made in

marketing, among other factors, could cause withdrawals or impair the Corporation's ability to market or remarket such units.

Rights of Residents to Refunds

If a resident has executed a Resident's Agreement and entered the retirement living facilities, upon the death of the resident or termination of his or her Resident's Agreement and withdrawal from occupancy for any reason, the Corporation is required to refund to the resident or his or her estate the refundable portion of the Entrance Fee, less certain unreimbursed expenses of the resident. Any such refund is a general obligation of the Corporation and may come at a time when the Corporation has not received a new Entrance Fee for such unit to cover the cost of the refund. If residents are not replaced quickly, the result may be a material depletion of the Corporation's revenues and assets.

Increases in Number of Residents Requiring Nursing or Personal Care

One of the factors utilized by the Corporation in marketing the retirement living facilities is the availability of 283 beds for nursing care and 262 beds for personal care on Willow Valley Communities' campuses. If due to space shortages in the nursing or personal care facilities, residents need to be placed in nursing care or personal care beds not located on the Corporation's campuses, an adverse effect on the marketing of the Corporation's retirement living facilities and an increase in the Corporation's costs may result.

Sales of Home – Entrance Fees

Prospective residents of the facilities may encounter difficulty in selling their current homes due to general economic conditions affecting the sale of residential real estate and may, therefore, not have sufficient assets to pay the Entrance Fees due upon occupancy or to meet other financial obligations under the Resident's Agreements and, as a result, may terminate their Resident's Agreements. The Corporation attempts to address these issues through its marketing programs.

Continuing Care Provider Law

Willow Valley Communities' continuing care retirement facilities are subject to the provisions of Pennsylvania'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 Willow Valley Communities: (i) obtain a certificate of authority ("COA") from the Pennsylvania Insurance Commissioner (the "Insurance Commissioner"); (ii) provide to each prospective resident a disclosure statement (a "Disclosure Statement") setting forth material information with respect to Willow Valley Communities and the operation of its continuing care facilities; (iii) include certain provisions in agreements for continuing care; and (iv) set aside reserves in specified amounts to ensure that Willow Valley Communities will be able to meet its contractual obligations to its residents. 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 12 months on account of any mortgage loan or other long-term financing or (ii) ten percent of the projected annual operating expenses of the facility exclusive of depreciation. 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.

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.

Competition

The Corporation faces competition from similar organizations currently operating as well as under construction in or near its market area, from other residential programs and communities for older adults and from existing programs and communities offering independent, assisted living and skilled nursing services. The Corporation may face additional competition in the future as a result of the construction of new, or the renovation or expansion of existing independent living, personal care and skilled nursing facilities in the area served by Willow Valley Communities.

Income of Residents

A large percentage of the monthly income of some residents of the Corporation'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. Willow Valley Communities conducts a financial analysis of each potential resident of its independent living units before executing a Resident's Agreement to determine the likely ability of the resident to meet the financial obligations to Willow Valley Communities; 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 Willow Valley Communities.

Utilization Demand

Several factors could, if implemented, affect demand for services of the Corporation's facilities, including: (i) increased or more effective competition from other retirement communities (and nursing and/or personal care homes, with respect to Willow Valley Communities' long-term nursing and personal care facilities); (ii) a reduction in marketability due to facility obsolescence; (iii) advances in scientific and medical technology; and (iv) efforts by governmental agencies to reduce utilization of long-term care facilities by such means as community-based and home health care programs.

Labor Availability and Relations

The employees of Willow Valley Communities are not affiliated with, belong to or are represented by a labor union. There can be no assurance that this will continue in the future, although management is not aware of any union activity at this time.

An additional area of economic exposure for employers, including retirement communities, is misclassification of workers as independent contractors, rather than employees. If a worker is classified as an employee, the employer pays certain taxes based upon the amounts earned by the employee. Independent contractors, however, bear the entire economic burden of such taxes by paying self-employment taxes. Consequently, if an employer classifies a worker as an independent contractor and the Internal Revenue Service (the "IRS") subsequently

reclassifies the worker as an employee, the employer is liable for all taxes the employer otherwise would have paid to the IRS. Although a single misclassification may not have a material adverse effect on the Corporation, systematic misclassifications over a period of time, together with any resulting penalties, could have an adverse financial impact on the Corporation.

Medical Malpractice Insurance

In recent years the number of malpractice suits and the dollar amount of damages awarded has been increasing nationwide. From time to time, nursing homes have experienced substantial increases in malpractice insurance premiums. There have been insolvencies of several medical malpractice insurers and others have withdrawn from underwriting malpractice coverage for nursing homes and physicians in various markets, including Pennsylvania. To the extent that insurance coverage maintained by the Corporation is inadequate to cover judgments against them, such claims must be discharged by payments from the Corporation's own funds. Changes in the availability and cost of malpractice insurance may adversely affect the operating results of the Corporation. In addition, continued high premiums for malpractice insurance could lead to a shortage of physicians, which could disrupt the delivery of quality care at the skilled nursing facility at Willow Valley Communities.

Governmental Regulation

Legislation is periodically introduced in the United States Congress ("Congress") and in the General Assembly of the Commonwealth which could result in limitations on revenues, reimbursements, costs or charges for health care facilities. At present, no determination can be made concerning whether, or in what form, such legislation could or will be introduced and enacted into law.

The operations of the Corporation's facilities, like other health care facilities throughout the country, will be affected on a day-to-day basis by numerous legislative, regulatory and industry-imposed operational and financial requirements which are administered by a variety of federal and state governmental agencies, as well as by self-regulatory associations and commercial medical insurance reimbursement programs. In addition, federal legislation has been enacted and various additional legislative proposals from time to time are introduced in Congress which have the common purpose of providing economic incentives to the health care industry to limit annual increases in total health care costs and accordingly, total charges to patients for health care services. The Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 (collectively referred to herein as the "Affordable Care Act") are designed to overhaul the United States health care system and regulate many aspects of health care delivery and financing. The key provisions of the Affordable Care Act include: (1) dramatically increasing health care coverage of individuals through expansion of Medicaid eligibility and the creation of cooperative insurance purchasing pools; (2) modifying payment methodology and practice for health care providers; (3) evaluating health care providers on a variety of quality and efficacy standards to support pay-for-performance systems; (4) increasing regulations to address fraud and abuse; and (5) exploring and evaluating innovative practices in an attempt to reduce health care related costs. Pennsylvania's new Governor, Tom Wolf, has stated that his administration will opt in to

the Medicaid expansion. There is ongoing litigation to challenge parts of the Affordable Care Act, including Medicaid expansion and the new insurance pools.

Further, the Medicare and Medicaid programs continue to actively promote the use of managed care as a means to reduce health care costs. In addition, the Affordable Care Act and other government initiatives have established new payment models including accountable care organizations, bundled payment arrangements and pay-for-performance models. Under these models providers are paid based on meeting certain quality measures. Some models also include risk sharing based on provider performance and patient outcomes. It is not possible to assess the full impact on the facilities of managed care, new payment models, or any future reforms. Further legislation and government policies affecting health care facilities, governmental and commercial medical insurance reimbursement programs, and the health care industry in general could have an adverse impact on the operations of the facilities.

Risks Relating to the Operation of the Post Acute Care Facilities

General. Willow Valley Communities operates post acute care facilities at its campuses, including nursing facilities and personal care facilities (collectively referred to as the “Post Acute Care Facilities”). A portion of the activities of Willow Valley Communities relate to the operation of its nursing facilities. Payments to Willow Valley Communities for care received at the nursing facilities are made by the residents themselves on a private-pay basis or by the federal government under the Medicare Program. To the extent that new federal and state health care laws and policies reduce the amount of reimbursement available to Willow Valley Communities, the revenues of Willow Valley Communities and the Corporation will be adversely affected.

Regulation of Nursing Home Industry. The nursing home industry is subject to extensive federal, state and, in some cases, local regulation with respect to reimbursement, licensure, certification and health planning. This regulation relates, among other things, to the adequacy of physical plant and equipment, qualifications of personnel, standards of medical and nursing care and operational and financial requirements. Compliance with such regulatory requirements, as interpreted and amended from time to time, can increase operating and, in certain circumstances, capital costs and thereby adversely affect the financial viability of the Corporation. Failure to comply with current or future regulatory requirements could also result in restrictions on admission, overpayment determinations, the revocation of licensure, decertification or the closure of the nursing facilities.

Government reimbursement programs, particularly the Medicaid and the Medicare programs, are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries, and government funding restrictions, all of which materially increase or decrease the rate of program payments to nursing home facilities. As a result, the nursing home industry is sensitive to legislative and regulatory changes in and limitations on governmental spending for such programs.

Licensure and Medicare Participation. Willow Valley Communities has a license from the Pennsylvania Department of Health (DOH’) to operate its long-term nursing care facility. The nursing facility is also certified to participate in the Medicare program. The continued

licensure and Medicare participation, depend upon many factors, including, among other things, accommodations, equipment, services, patient care, safety, personnel, physical environment and accounting policies, procedures and controls. Medicare also requires that nursing homes be rated based on quality and similar measures, and that the results be publicly reported. Federal, state and local agencies survey nursing homes on a regular basis and in response to complaints to determine whether such facilities are in compliance with governmental operating and health standards and conditions for participating in government reimbursement programs. Such surveys include reviews of patient utilization and inspection of standards and patient care. To the extent these applicable standards and conditions are not met, the licensure of the nursing facility and government payor program participation approvals could be limited, suspended or revoked, or the nursing facility could be decertified from participation in the Medicare program.

Medicare Reimbursement. Part A of Medicare covers certain nursing facility services. Nursing facilities are paid a per diem rate that covers all costs (routine, ancillary, and capital) related to services furnished to the beneficiary as reflected on a consolidated bill. The rates are based upon allowable costs from prior cost reports, inflated forward. This data is aggregated nationally by urban and rural area to determine standardized federal per diem rates to which case mix and wage adjustments apply. Per diem payments for each admission are case mix adjusted using a resident classification system based on data from resident assessments, known as the resident utilization group (RUG) system. The labor portion of the federal rates is adjusted for geographic variation wages using the hospital wage index. Payment rates are adjusted annually. Medicare managed care organizations are required to cover such services as well.

Medicaid Reimbursement. The nursing facilities have not received any payments from Medicaid during the past three fiscal years and do not currently anticipate receiving any revenue from Medicaid in the future.

The Medicaid Program in Pennsylvania is known as the Medical Assistance (“MA”) Program and is administered by the Pennsylvania Department of Human Services (“DHS”) (until recently DHS was known as the Pennsylvania Department of Public Welfare). DHS subjects most Pennsylvania nursing facilities to a monetary assessment whether or not such facilities participate in the Medicaid program. For state fiscal year 2015 (i.e. beginning December 1), the assessment rate for Willow Valley Communities’ nursing facilities is \$8.01 per non-Medicare resident day. It is impossible to know with certainty the rate of the assessment, if any, in the future.

Other Third Party Reimbursement. The nursing facilities at Willow Valley Communities also receive or may receive reimbursement from non-governmental third-party payers, such as commercial insurers, employers under self-insurance programs, health maintenance organizations, and preferred provider organizations. Most of these programs make payments at 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. Further, because the private payers typically reimburse at rates higher than those paid by Medicare or Medicaid, if a lesser percentage than projected of a nursing facility’s residents are private pay, the nursing facility’s revenues would be adversely affected.

State Governmental Regulations. The operation of facilities for the elderly is subject to a wide range of State and local government restrictions and regulations, including requirements in Pennsylvania pertaining to continuing care facilities, adult homes, and health care facilities. The construction, renovation and operation of the facilities are subject to various licensure requirements and to approval by individual state agencies. The quality of care rendered in nursing homes is an increasing issue of government interest from the licensure and accreditation perspective. For a Medicare-participating nursing home, both the State Department of Health (as the licensure agency) and the federal government (on behalf of Medicare) have the right to perform surveys that may result in plans of correction, sanctions, and/or termination as a licensed entity or from Medicare, as applicable. If the Corporation fails to maintain such licensure or approvals, or fails to comply with any of a number of other governmental restrictions or regulations applicable to the Post Acute Care Facilities, the ability of the Corporation to operate the Post Acute Care Facilities could be significantly impaired,

In addition, various health and safety regulations and standards apply to nursing facilities, residential living facilities and personal care facilities and are enforced by various state and local departments and agencies. Violations of certain health and safety standards could result in limitation of services, or closure. The facilities are designed, constructed and equipped and the Corporation's staff are selected with due regard to existing standards; however, it is possible that such standards may change, and there is no assurance that in the future the Post Acute Care Facilities will meet any such changed standards, or that the Corporation will not be required to expend significant sums in order to comply with such changed standards.

Regulation of Personal Care Facilities. Willow Valley Communities is currently licensed to operate 316 personal care beds. Personal care facilities services are regulated by DHS. Failure to comply with regulatory requirements or future changes in legislation or regulations affecting personal care may impair Willow Valley Communities' ability to provide such services without incurring certain costs associated with compliance. See APPENDIX A – WILLOW VALLEY COMMUNITIES for a description of personal care services provided by Willow Valley Communities.

Federal and State Fraud and Abuse Enforcement

General. Fraud and abuse prevention laws have been enacted at the federal and state levels. They generally regulate federal and state health care programs (including Medicare and Medicaid) covered services furnished to program beneficiaries, and they impose penalties for improper billing and other abuses. Under these laws, long term care providers may be penalized for billing for services that were not provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to use or not use another service or product, or billed in a manner that does not comply with applicable government requirements. Congress also extended the scope of some fraud and abuse laws to include services provided to beneficiaries of private health care plans. Violations of these laws are punishable by a range of criminal, civil and administrative sanctions. If the Corporation violates one of the fraud and abuse laws, among other possible sanctions, federal or state authorities could recover amounts paid to the Corporation's Post Acute Care Facilities, exclude the organization from participation in the Medicare program, impose civil monetary penalties, and suspend Medicare or Medicaid

payments. Fraud and abuse prosecutions can have a material adverse impact on the financial condition of long term care providers, and those to whom they are related.

Federal Anti-Kickback Law. It is illegal to offer, pay, solicit or receive a payment or any remuneration in return for referring, ordering, purchasing, leasing or recommending or arranging for the referral of, any product or service covered by Medicare, Medicaid or other government health care programs. Violations may result in civil and criminal penalties. The broad prohibitions of the anti-kickback law may be implicated by involvement in numerous commonplace arrangements, including, but not limited to, when nursing facilities and physicians or other health care providers conduct joint business activities, such as medical director contracts, space or equipment rentals and other service and vendor relationships unless such relationships are structured to fit within the safe harbors provided in the anti-kickback law. Penalties could have a material adverse effect on Willow Valley Communities' Post Acute Care Facilities, especially if they were to include exclusion from government health programs, loss of licenses, or substantial fines. See also "Tax Exempt Status" herein. The precise impact on Willow Valley Communities' Post Acute Care Facilities of any such penalties cannot be predicted at this time.

"Self Referral" Prohibitions. Current federal law (known as the "Stark Law") prohibits any physician from referring certain Medicare or Medicaid covered designated health services to a provider of such services with which the physician (or his/her immediate family member) has a financial relationship, unless excepted by statute or regulation. Penalties for violating the Stark Law include denial of payment, refund of payments received, civil monetary penalties, and exclusion from the Medicare and Medicaid programs. The precise impact on Willow Valley Communities' Post Acute Care Facilities of any such violation and corresponding sanction cannot be predicted at this time, but would be adverse if any such sanction is imposed.

False Claims Acts. The federal civil False Claims Act ("Civil FCA") prohibits anyone from knowingly submitting a false, fictitious or fraudulent claim to the federal government. Violation of the Civil FCA can result in civil money penalties, fines and treble damages. The Department of Justice has also used the Civil FCA in its prosecutions of nursing homes for providing substandard care. The imposition of penalties under the Civil or Criminal FCAs on Willow Valley Communities could have a material adverse impact on the financial condition of the Corporation.

Federal Criminal Provisions Relating to All Health Benefit Programs. New health care crimes applicable to private and governmental health benefit programs have been enacted pursuant to which a person who knowingly and willfully executes, or attempts to execute, a scheme or artifice (1) to defraud any health care benefit program, or (2) to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any health care benefit program, in connection with delivery of or payment for health care benefits, items or services, may be fined and/or imprisoned for not more than 10 years. The term of imprisonment can increase if serious bodily injury or death results from the fraud.

Civil Monetary Penalties Law. The Civil Monetary Penalty Statute authorizes the government to impose money penalties against individuals and entities committing a variety of

acts, including, violations of the federal Nursing Facility Requirements of Participation in the Medicare Program, state licensure regulations, and in part, penalties for the knowing presentation of claims that are (i) incorrectly coded for payment, (ii) for services that are known to be medically unnecessary, (iii) for services furnished by an excluded party, or (iv) otherwise false. Violations of the Civil Monetary Penalty Statute can result in civil money penalties plus treble damages. The imposition of any such penalties on Willow Valley Communities could have a material adverse impact on the financial condition of the Corporation and the continued participation of Willow Valley Communities in the Medicare program.

Other Federal Statutes. Long term care providers are subject to criminal prosecution and civil penalties under a variety of federal laws in addition to those discussed in the previous paragraphs, notably the following:

Privacy, Electronic Transactions, and Security Regulations. The confidentiality of resident medical records and other protected health information is subject to considerable regulation by state and federal governments. Legislation and regulations governing the dissemination and use of protected health information have been implemented at both the federal and state levels. For example, the administrative simplification provisions of the federal Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) mandate that long term care providers transmit, use, disclose and secure certain resident health information in accordance with U.S. Department of Health and Human Services standards and requirements. The regulations promulgated pursuant to HIPAA impose very complex procedures and operational requirements with which the Corporation is required to comply. Violation of the standards could result in damages or civil or criminal penalties.

There can be no assurance that differing interpretations of existing laws and regulations or the adoption of new laws and regulations would not have a material adverse effect on the ability of the Corporation to obtain or use potential health information which, in turn, could have a material adverse effect on its business. Similarly, because of the complexity of these regulations, there can be no assurance that the Corporation would not be reviewed, found to have violated these standards and assessed penalties for such violations.

Enforcement Activity. Any violations of the foregoing laws by Willow Valley Communities or any future Members of the Obligated Group could result in substantial monetary fines and damages, as well as possible disqualification from participation in the Medicare program.

Enforcement activity against long term care providers is increasing, and enforcement authorities are adopting more aggressive approaches. In the current regulatory climate, it is anticipated that many nursing homes and other health care providers will be subject to investigation, audit or inquiry regarding billing practices or false claims. As with other long term care providers, Willow Valley Communities may be the subject of Medicare intermediary, the Office of the Inspector General of the U. S. Department of Health and Human Services, the U.S. Attorney General, the Department of Justice and/or state attorney general investigations, audits or inquiries in the future. Because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries is increasing and

could result in enforcement action against Willow Valley Communities and any future Members of the Obligated Group.

Regardless of the merits of a particular case or cases, the Corporation could incur significant legal and settlement costs if it were to become the subject of an investigation or enforcement activity. Prolonged and publicized investigations could be damaging to reputation, business and credit, regardless of the outcome, and could have material adverse consequences on the financial condition of the Corporation.

Regulatory Environment

The Corporation and its industry in general, are subject to licensure and regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health care planning programs, and other federal, state and local governmental agencies. As a result, the industry is sensitive to legislative and regulatory changes in such programs, and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. Over the past several years, Congress has consistently attempted to curb the growth of federal-spending on health care programs. These laws and regulations, as well as similar laws and regulations now in effect, and the adoption of additional laws and regulations in these and other areas, could have an adverse effect on the results of operations of the Corporation.

Future Federal Legislation. Future legislation, regulation, or other actions by the federal government are expected to continue the trend toward reduced reimbursement for providers of services and more pervasive regulation of operations. 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 forecasted financial performance of the Corporation cannot be determined at this time.

Any future changes to the Medicare and Medicaid program could result in substantial reductions in the amounts of Medicare and Medicaid payments to providers in the future, which could substantially reduce the revenues available to the Corporation, and any reduction in the levels of payment in these government payment programs could adversely affect the Corporation's financial condition and their ability to fulfill their obligations.

Regulatory Inquiries

The laws and regulations governing federal reimbursement programs and the laws governing the Corporation's industry generally are complex and subject to varying interpretations, and the Corporation is subject to contractual reviews and program audits in the normal course of business. Penalties for violations of federal regulations governing service providers can be severe, including treble damages, fines, and suspension from federal reimbursement programs such as Medicare. Federal agencies have initiated nationwide investigations into several areas of concern, including, among others: home care services, and cost reporting. The Corporation expects that the level of review and audit to which it and other providers are subject will increase. The Corporation has compliance programs that are designed to detect and correct potential violations of laws and regulations applicable to its programs.

Regulatory authorities have discretion to assert claims for noncompliance with applicable requirements based upon their interpretation of those requirements. Because these complex program requirements are subject to varying interpretations and because, in some instances, there is little clear regulatory or judicial guidance, there can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these requirements and assert claims or penalties, and it is not possible to determine the impact (if any) any such claims or penalties would have upon the Corporation.

Risks Related to Master Trust Indenture Financings

Possible federal and state law limitations on the enforceability of the Corporation's obligations to make payments on notes or guaranties may constitute risks specifically related to master trust indenture financings.

The accounts of the Corporation and any additional persons which become 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 issuance of additional indebtedness) are met, notwithstanding uncertainties as to the enforceability of certain obligations of the Corporation contained in the Master Indenture which bear on the availability of the assets of any future Members of the Obligated Group for payment of debt service.

A future Member of the Obligated Group may not be required to make any payment, loan or other transfer of moneys or assets to provide for the payment of any note, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member to the extent that such transfer would render the Member insolvent or which would conflict with, not be permitted by or which would be subject to recovery for the benefit of other creditors of such Member under applicable laws. There is no clear precedent in the law as to whether such transfers from a Member in order to pay debt service on the Obligations may be voided by a trustee in bankruptcy in the event of bankruptcy of the Member, or by third party creditors in an action brought pursuant to Pennsylvania fraudulent conveyance statutes.

Risks Related to Interest Rate Swap

The Corporation has entered into a Swap Agreement with the Counterparty as described herein under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS - Existing and Proposed Parity Indebtedness." The purpose of the Swap Agreement is to place \$10,000,000 of the obligation of the Corporation with respect to the 2009C Bonds on an approximately fixed rate basis as of December 1, 2015. Payments made to the Counterparty by the Corporation or to the Corporation by the Counterparty under the Swap Agreement are to be made monthly on the basis of a notional principal amount of \$10,000,000 and the relationship between an agreed-upon fixed rate and a variable rate calculated as provided in the Swap Agreement by reference to a percentage of SIFMA. Payments made to the Counterparty by the Corporation are secured by the 2009-2 Note issued under the Master Indenture. Unless earlier terminated, the Swap Agreement is to expire on December 1, 2018.

Under certain circumstances, the Swap Agreement may be terminated prior to its stated termination date. Accordingly, no assurance can be given that the Swap Agreement will continue to be in existence. If the Swap Agreement is terminated, under certain market conditions, the Corporation may owe a termination payment to the Counterparty. Such a termination payment generally would be based upon the market value of the Swap Agreement on the date of termination and could be substantial. In addition to the foregoing risks, the payment of any Settlement Amounts by the Corporation pursuant to the Swap Agreement may result in its failure to maintain certain financial ratios, or result in the failure to comply with certain financial covenants contained in the Master Indenture, which failure may result in events of default under such agreement. See also, “SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS - Existing and Proposed Parity Indebtedness” herein.

Fluctuations in Market Value of Investments

General. Earnings on its investments have historically provided the Corporation 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 Corporation’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.

Tax-Exempt Status

Tax-Exempt Status of Interest on the Bonds. The Internal Revenue Code (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the 2016 Bonds, to be excludable from gross income of the owners thereof for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the issuers file an information report with the IRS. The Issuer and Willow Valley Communities have agreed that Willow Valley Communities will have the primary responsibility of complying with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the 2016 Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also “TAX EXEMPTION AND OTHER TAX MATTERS” below.

In December, 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax-Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased under the TE/GE Division.

There is no assurance that any IRS examination of the 2016 Bonds (or other bonds constituting part of the same issue for tax purposes) will not adversely affect the market for or market value of the 2016 Bonds during the pendency of such examination. See “TAX EXEMPTION AND OTHER TAX MATTERS” below.

Tax-Exempt Status of Willow Valley Communities. The tax-exempt status of the interest payable on the 2016 Bonds to the owners thereof presently depends upon maintenance by Willow Valley Communities of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity which engages in transactions that result in impermissible private benefit or inurement is the revocation of its tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of nonprofit health care providers or nonprofit continuing care retirement communities, it could do so in the future. Loss of tax-exempt status by Willow Valley Communities could result in loss of tax exemption for the interest on the 2016 Bonds, and defaults in covenants regarding the 2016 Bonds and other obligations would be triggered. Loss of tax-exempt status by Willow Valley Communities could also result in substantial tax liabilities related to its respective income and, in general, could have material adverse consequences on the financial condition of Willow Valley Communities.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals and other tax-exempt entities in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a “closing agreement,” a contractual agreement pursuant to which a taxpayer (or in this case, a tax-exempt organization) and the IRS agree to settle a disputed matter. Given the exemption risks involved in certain transactions, Willow Valley Communities may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could have a materially adverse impact on the financial condition of the Corporation.

Less onerous sanctions, referred to generally as “intermediate sanctions,” have been enacted which focus enforcement on private persons who transact business with a tax-exempt organization rather than the tax-exempt organization itself, but these sanctions do not replace the other remedies available to the IRS mentioned above.

Willow Valley Communities may be audited by the IRS. An IRS audit could result in additional taxes, interest and penalties, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ. An IRS audit ultimately could affect the tax-exempt status of Willow Valley Communities, as well as the exclusion from gross income for federal income tax purposes of the interest on the 2016 Bonds paid or payable to the owners thereof and any other tax-exempt debt issued for Willow Valley Communities.

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”). Willow Valley Communities participates in activities that may generate UBTI. These activities are currently immaterial to the Corporation 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 Willow Valley Communities, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the 2016 Bonds.

Licensing, Surveys, Investigations and Audits

Health care and retirement community facilities, including those operated by Willow Valley Communities, are subject to the requirements of numerous governmental, licensing, certification and accreditation authorities. These include, but are not limited to, the Medicare program, state licensing agencies and private payers. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by Willow Valley Communities. These activities generally are conducted in the normal course of business of health care and retirement community facilities. Nevertheless, an adverse result could cause a loss or restriction in licensure, certification or accreditation, reduce payments, or require repayment of amounts previously remitted to the provider. Accordingly, an adverse result could have a material and adverse effect on the operations or financial condition of the Corporation.

Actions in any of these areas could result in the loss of utilization or revenues, or Willow Valley Communities’ ability to operate all or a portion of its health care and retirement community facilities, and, consequently, could have a material and adverse effect on the Corporation’s ability to make the debt service payments relating to the 2016 Bonds.

Environmental Laws and Regulations

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, Willow Valley Communities 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 Willow Valley Communities 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 Corporation.

Bankruptcy and Creditors' Rights

In the event of bankruptcy of Willow Valley Communities or any future Member of the Obligated Group, the rights and remedies of the holders of the 2016 Bonds are subject to various provisions of the federal Bankruptcy Code. If Willow Valley Communities or any future Member of the Obligated Group were to file a petition in bankruptcy, payments made by Willow Valley Communities or any such Member of the Obligated Group during the 90-day (or in some circumstances one-year) period immediately preceding the filing of such petition may be voidable as preferential transfers to the extent such payments allow the recipients to receive more than they would have received in the event of any such debtor's liquidation, subject to certain defenses. Security interests and other liens granted to the Bond Trustee or the Master Trustee by Willow Valley Communities or any other Member of the Obligated Group which files a bankruptcy petition which are perfected during such preference period also may be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection and to the extent such security interests allow the Bond Trustee or Master Trustee to receive more than they would have received in the event of any such debtor's liquidation, subject to certain defenses. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against Willow Valley Communities or any other Member of the Obligated Group which filed a bankruptcy petition and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee or the Master Trustee against such debtor. If the Bankruptcy Court so ordered, the property of Willow Valley Communities or any other Member of the Obligated Group which filed a Chapter 11 bankruptcy petition, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such entity despite any security interest of the Bond Trustee or the Master Trustee therein. The rights of the Bond Trustee or the Master Trustee to enforce any security interests it may have in property owned by Willow Valley Communities or any other Member of the Obligated Group which filed a bankruptcy petition could be substantially delayed during the pendency of any bankruptcy proceeding filed by such entity.

Willow Valley Communities or any future Member of the Obligated Group that was the subject of a bankruptcy petition under Chapter 11 of the Bankruptcy Code could file a plan of reorganization for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to

the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan is feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims is considered to have accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the plan is accepted by at least one impaired class (excluding votes cast by insiders) and the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In the event of bankruptcy of Willow Valley Communities or any future Member of the Obligated Group, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, Willow Valley Communities or any other Obligated Group Member as a debtor in possession, or a bankruptcy trustee appointed by the Bankruptcy Court, could take action that may adversely affect the exclusion of interest on the 2016 Bonds from gross income for federal income tax purposes.

The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Loan Agreement, or of the Master Trustee to enforce rights and remedies under the Master Indenture, may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. Enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or to undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The various legal opinions delivered concurrently with the issuance of the 2016 Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policies 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.

Litigation, Malpractice Claims and Insurance

One or more substantial medical malpractice claim or claims arising from the corporate or business activities of Willow Valley Communities in excess of its 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 Willow Valley Communities and any other Member 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 Willow Valley Communities and its 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 Willow Valley Communities if determined or settled adversely. Claims for punitive damages may not be covered by insurance under Pennsylvania law. Although Willow Valley Communities currently carries malpractice and general liability insurance which management of Willow Valley Communities considers adequate, Willow Valley Communities is unable to predict the availability, cost or adequacy of such insurance now or in the future.

Enforceability

The joint and several obligations described herein of Willow Valley Communities and any future Member of the Obligated Group may not be enforceable to the extent (i) Indebtedness under the Master Indenture is issued for a purpose that is not consistent with the charitable purposes of Willow Valley Communities or any future Member of the Obligated Group from which such payment is sought or (ii) such payments will be made from property that is donor-restricted or that is subject to a direct or express trust that does not permit the use of such property for such payments. In addition, non-profit affiliates of Willow Valley Communities are not permitted to pay dividends, so transfers to Willow Valley Communities or future Obligated Group Members could be challenged by other creditors. Due to the absence of clear legal precedent in this area, the extent to which the property of Willow Valley Communities or any future Obligated Group Member is restricted cannot be determined and could be substantial.

Willow Valley Communities or any future Obligated Group Member may not be required to make payments on the 2016 Note to the extent that any such payment or transfer would conflict with, not be permitted by, or be subject to recovery for the benefit of other creditors of such entity under applicable fraudulent conveyance, bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights. There is no clear precedent in the law as to whether payments by Willow Valley Communities or any future Obligated Group Member on Obligations issued by or for the benefit of another entity may be voided by a trustee in bankruptcy in the event of a bankruptcy of Willow Valley Communities or any future Obligated Group Member or by third party creditors in an action brought pursuant to fraudulent transfer statutes of the Commonwealth of Pennsylvania. Under the United States Bankruptcy Code, a debtor or court appointed trustee in bankruptcy and, under fraudulent transfer statutes of the Commonwealth of Pennsylvania, a creditor of a related obligor or guarantor, may avoid any obligation incurred by a related obligor or guarantor, if, among other bases therefor, (i) the guarantor or Obligated Group Member has not received reasonably equivalent value in exchange for the guaranty, and (ii) either (x) the guaranty renders the guarantor or Obligated Group Member insolvent, as defined in the United States Bankruptcy Code or fraudulent transfers statutes of the Commonwealth of Pennsylvania, or undercapitalized, or (y) the guarantor or Obligated Group Member intended to, or believed it would, incur debts beyond its ability to repay at maturity.

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 Willow Valley Communities or any future Obligated Group Member to pay debt service on Obligations issued by or for the benefit of another entity, a court might not enforce such obligation in the event it is determined that reasonably equivalent value for such obligation was not received and that the incurrence of such obligation has rendered or will render the paying entity insolvent or the paying entity is or will thereby become undercapitalized or such paying entity believes it will, or intends to, incur debt beyond its ability to repay at maturity.

Possible Limitations on Security

The effectiveness of the security interest in the Gross Revenues (as defined in the Master Indenture) of the Obligated Group granted in the Master Indenture may be limited by a number of factors, including: (i) co-mingling of proceeds of Gross Revenues with other moneys of the Obligated Group not subject to the security interest in Gross Revenues; (ii) statutory liens; (iii) rights arising in favor of the United States of America or any agency thereof; (iv) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (v) federal bankruptcy laws which may affect the enforceability of the Master Indenture or the security interest in the Gross Revenues of the Obligated Group which are earned within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against the Obligated Group; (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Master Trustee; (vii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Uniform Commercial Code, as from time to time in effect; (viii) the rights of holders of Permitted Encumbrances (as defined in the Master Indenture); and provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers.

Additional Indebtedness

The Master Indenture permits the Corporation and any future members of the Obligated Group to incur future Permitted Indebtedness (as defined in the Master Indenture) which may be equally and ratably secured with any outstanding note or guaranty, including the 2016 Note, the 2012 Note, the 2010 Note, 2009-1 Note, the 2009-2 Note and the 2009-3 Note. See APPENDIX C – “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS” hereto. Any holder of such Permitted Indebtedness would be entitled to share ratably with the Bond Trustee as holder of the 2016 Note and the holders of the 2012 Note, the 2010 Note, 2009-1 Note, the 2009-2 Note and the 2009-3 Note, in any moneys realized from the exercise of remedies in the event of a default by the Corporation.

Limited Security; Potential for Dilution through Additional Parity Obligations

The 2016 Note is secured by a pledge of certain receivables and revenues of the Corporation and by a mortgage upon certain real property of Willow Valley Communities. The security interest in accounts receivable, receipts and certain contract rights granted by the Corporation to the Master Trustee pursuant to the Master Indenture may be affected by various

matters, including (i) federal bankruptcy laws which could, among other things, preclude enforceability of the security interest as to certain revenues arising subsequent to the commencement of bankruptcy proceedings and limit such enforceability as to revenues arising prior to such commencement to the extent a security interest therein would constitute a voidable preference or fraudulent conveyance, (ii) rights of third parties in cash, securities and instruments arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (v) claims that might obtain priority if continuation statements or financing statement amendments are not filed in accordance with applicable laws, (vi) the rights of holders of prior perfected security interests in equipment and other goods owned by any Member or Members of the Obligated Group and in the proceeds of sale of such property, (vii) statutory liens and (viii) the rights of parties secured by Permitted Encumbrances as defined in the Master Indenture. Accordingly, such security interest may not provide substantial value in the event of default.

If an event of default does occur, it is uncertain that either the Master Trustee or the Bond Trustee could successfully obtain an adequate remedy at law or in equity on behalf of the owners of the 2016 Bonds. In addition, Obligations other than the 2016 Note and the Existing Parity Obligations under the Master Indenture may be issued from time to time in the future pursuant to the Master Indenture, and such Obligations, if and when issued, will be secured on a parity with the Obligations and the Existing Parity Obligations. In particular, any parity Obligations issued under the Master Indenture to secure any future indebtedness could be in an amount sufficient to give such new lenders or bondholders effective control over the exercise of remedies if an event of default were to occur. In addition, should entities other than Willow Valley Communities become Members of the Obligated Group in the future, Willow Valley Communities would become jointly and severally liable for any Obligations issued on behalf of such additional Members under the Master Indenture. See “Obligated Members – Diminution of Security” below.

The property of Willow Valley Communities consists of buildings and facilities comprising a continuing care retirement community. Consequently, it could be difficult to find a buyer or lessee for the property, and, upon a default, the Bond Trustee or the Master Trustee may not obtain an amount equal to the aggregate liabilities of the Corporation (including liabilities in respect of the defaulted 2016 Bonds then outstanding) from the sale or lease of the property, whether pursuant to a judgment against any Member of the Obligated Group or otherwise.

Amendments to Master Indenture, Bond Indenture and Loan Agreement

Certain amendments to the Master Indenture may be made with the consent of the holders of a majority of the principal amount of Obligations Outstanding under the Master Indenture. Such majority may be composed wholly or partially of the holders of additional Obligations. Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the holders of a majority of the outstanding principal amount of the 2016 Bonds. In addition, certain document amendments may be made without bondholder consent or notice. Any amendment could materially and adversely affect the security for the 2016 Bonds.

Rights of Holders

The rights of the Bond Trustee and the Master Trustee to take certain actions in the event of default by the Corporation are subject to the provisions of the Bond Indenture and the Master Indenture. Generally, the holders of Obligations may direct the Master Trustee to exercise certain rights and remedies in the event of certain defaults by Willow Valley Communities and any future Obligated Group Members. Holders of Obligations vote based upon the principal amount of Obligations they hold.

Obligated Members - Diminution of Security

The allowable amount of debt which may be incurred under the Master Indenture or by the Corporation is based on the historical or projected revenues of the Corporation. Currently Willow Valley Communities is the only Member of the Obligated Group, however, the Master Indenture provides for the possible addition of Members to the Obligated Group. If additional Members are added to the Obligated Group in the future, and if Willow Valley Communities or any other Member of the Obligated Group were to incur additional debt based upon the revenues of any other Member of the Obligated Group whose note or obligation subsequently was held unenforceable, the interests of the owners of the 2016 Bonds would then be payable from a diminished, legally accessible flow of revenues.

Absence of Restrictions on Affiliates

The economic strength of the Corporation could be affected by the economic strength of any affiliate of the Corporation (whether or not such affiliate becomes a future Member of the Obligated Group). The Master Indenture does not impose restrictions on the Corporation's affiliates which are not Obligated Group Members.

Other Factors Generally Affecting Health Care Providers and Retirement Communities

Unemployment, decreased insurance coverage provided by employers or other adverse economic conditions or a depressed residential real estate market could increase the proportion of patients who are uninsured or who are otherwise unable to pay fully for the cost of their care, and increased numbers of patients suffering from uninsured and extended illness could adversely affect the results of operation of the Corporation.

Other potential risk factors may also affect the operation, and therefore revenues, of Willow Valley Communities or any future Obligated Group Members and their ability to maintain sufficient operating margins, including, among others: (i) the cost and availability of energy; (ii) the cost and availability of insurance, such as fire and general comprehensive liability and professional liability insurance, that facilities of similar size and type generally carry; (iii) uninsured acts of God (including floods) or punitive damage judgments as to which insurance is not available; (iv) natural and man-made disasters, including without limitation bioterrorism-induced epidemics; (v) imposition of wage and price controls for the health care or retirement care industry; (vi) a decrease in population or change in demographics in the service areas of Willow Valley Communities or any future Obligated Group Members; and (vii) an increase in the rate of inflation and difficulties in increasing service charges and other fees, while

at the same time maintaining the amount and quality of health care and retirement living services.

TAX EXEMPTION AND OTHER TAX MATTERS

Federal Income Tax Matters

On the date of delivery of the 2016 Bonds, Rhoads & Sinon LLP, bond counsel, will issue an opinion to the effect that under existing statutes, regulations and judicial decisions, interest on the 2016 Bonds is excludable from gross income of the owners of the 2016 Bonds for purposes of federal income taxation and is not an item of tax preference of the owners of the 2016 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 Willow Valley Communities as a tax-exempt organization under Section 501(c)(3) of the Code, will assume the accuracy of certifications made by the Issuer and Willow Valley Communities pertaining to the use, expenditure and investment of the proceeds of the 2016 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 Issuer and Willow Valley Communities will comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2016 Bonds in order that the interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Issuer and Willow Valley Communities have covenanted to comply with all such requirements, which include, among others, restrictions upon the yield at which proceeds of the 2016 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 2016 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 2016 Bonds (and any other such obligations). Failure to comply with such requirements could cause the interest on the 2016 Bonds to be included in gross income retroactive to the date of issuance of the 2016 Bonds.

Ownership of the 2016 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 2016 Bonds. Bond Counsel will express no opinion as to such collateral tax consequences, and prospective purchasers of the 2016 Bonds should consult their tax advisors.

No representation is made or can be made by the Issuer, Willow Valley Communities or any other party associated with the issuance of the 2016 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 2016 Bonds to inclusion in gross income for Federal income tax purposes or so as to otherwise affect the marketability or market value of the 2016 Bonds. Enactment of any legislation that subjects the interest on the 2016 Bonds to inclusion in

gross income for federal income tax purposes or otherwise imposes taxation on the 2016 Bonds or the interest paid thereon may have an adverse effect on the market value or marketability.

The proposed form of Bond Counsel opinion is attached hereto as an Appendix hereto.

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 Issuer and Willow Valley Communities described above. No ruling has been sought from the IRS with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal bonds. If an audit of the 2016 Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the 2016 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 2016 Bonds, the Issuer may have different or conflicting interests from the owners of the 2016 Bonds. Also, public awareness of any future audit of the 2016 Bonds could adversely affect the value and liquidity of the 2016 Bonds during the pendency of the audit, regardless of its ultimate outcome.

Original Issue Premium. If a 2016 Bond is issued at a price that exceeds the stated redemption price at maturity of the 2016 Bond, the excess of the purchase price over the stated redemption price at maturity constitutes "premium" on that 2016 Bond. Under Section 171 of the Code, the purchaser of that 2016 Bond must amortize the premium over the term of the 2016 Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the owner's basis in the 2016 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the 2016 Bond prior to its maturity. Even though the owner's basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Pennsylvania Tax Matters

On the date of delivery of the 2016 Bonds, Bond Counsel will also issue an opinion to the effect that under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the 2016 Bonds are exempt from personal property taxes within Commonwealth of Pennsylvania and the interest on the 2016 Bonds is exempt from the Commonwealth of Pennsylvania's Personal Income Tax and the Commonwealth of Pennsylvania's Corporate Net Income Tax.

Profits, gains or income derived from the sale, exchange or other disposition of the 2016 Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania, in accordance with Pennsylvania Act No. 1993-68.

No representation is made or can be made by the Issuer, Willow Valley Communities or any other party associated with the issuance of the 2016 Bonds, including Bond Counsel, as to whether or not any legislation now or hereafter introduced and enacted in the Commonwealth of

Pennsylvania will be applied retroactively so as to subject interest on the 2016 Bonds to state or local taxation in the Commonwealth of Pennsylvania or so as to otherwise affect the marketability or market value of the 2016 Bonds. Enactment of any legislation that subjects the interest on the 2016 Bonds to state or local taxation within the Commonwealth of Pennsylvania or otherwise imposes or authorizes state or local taxes on the 2016 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 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 2016 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 2016 Bonds should consult with their professional tax advisors to determine the effect of the interest expense disallowance on their federal income tax liability.

Proposed and Future Tax Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the 2016 Bonds or otherwise prevent holders of the 2016 Bonds from realizing the full benefit of the tax exemption of interest on the 2016 Bonds. Further, such proposals may impact the marketability or market value of the 2016 Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the 2016 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2016 Bonds would be impacted thereby.

Purchasers of the 2016 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2016 Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the 2016 Bonds are subject to the approval of Rhoads & Sinon, LLP, Harrisburg, Pennsylvania, Bond Counsel. Such opinion is expected to be in substantially the form of Appendix D and will be delivered with the 2016 Bonds. Certain legal matters also will be passed upon for the Corporation by its counsel, Blakinger Thomas, PC, Lancaster, Pennsylvania, for the Issuer by its counsel, Blakinger Thomas, PC, Lancaster, Pennsylvania and for the Underwriter by its counsel, Stevens & Lee, P.C., Lancaster, Pennsylvania.

INDEPENDENT AUDITORS

The consolidated financial statements of Willow Valley Communities and controlled affiliate as of December 31, 2014 and 2013 and for each of the years then ended, appearing in Appendix B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report also appearing in Appendix B hereto. KPMG LLP has not been engaged to perform and has not performed, since the date of its report included in Appendix B hereto, any procedures on the consolidated financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

ABSENCE OF LITIGATION

There is no litigation now pending against the Issuer, the Corporation or, to the knowledge of their respective officers, threatened, restraining or enjoining the issuance, sale, execution or delivery of the 2016 Bonds, or in any way contesting or affecting the validity of the 2016 Bonds, any proceeding of the Issuer or the Corporation taken concerning the issuance or sale thereof or the security provided for the payment of the 2016 Bonds or the existence or powers of the Issuer relating to the issuance of the 2016 Bonds.

RATING

Fitch Ratings (the "Rating Service") has assigned a rating of "A" to the 2016 Bonds (the "Rating"). Such rating reflects only the view of the Rating Service at the time such rating was issued, and neither the Issuer nor the Corporation makes any representation as to the appropriateness of the rating. Any explanation of the significance of the rating may be obtained from the Rating Service. The Corporation furnished to the Rating Service information and materials relating to the 2016 Bonds and to itself, certain of which information and materials have not been included herein. A rating is not a recommendation to buy, sell or hold securities. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the Rating Service if in the judgment of such Rating Service circumstances so warrant. A downward revision or withdrawal of such rating may have a substantial adverse effect on the market price of the 2016 Bonds.

CONTINUING DISCLOSURE

Failure to File. For fiscal years 2009 through 2012, the Corporation failed to file on the Electronic Municipal Market Access System (“EMMA”) its annual financial statements and the operating data specified in the continuing disclosure agreement for the 2009 Bonds.

Remedial Acton. The Corporation has updated its annual financial statements and operating data filings on EMMA for fiscal years 2009 through 2012 by supplying the missing information. In addition, the Corporation has taken steps internally to ensure that all required continuing disclosure materials are complete and timely filed going forward.

2016 Continuing Disclosure. In order to satisfy the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission, Willow Valley Communities will enter into a Continuing Disclosure Agreement (the “Disclosure Agreement”) with the Trustee for the benefit of the owners of the Series 2016 Bonds to provide certain annual and quarterly financial information and operating data to the Municipal Securities Rulemaking Board (the “MSRB”), through EMMA and to provide notice to the MSRB of certain events, pursuant to the requirements of the Rule. See APPENDIX E – “PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Under the Disclosure Agreement, the remedy for a breach or default by the Corporation of its covenants to provide annual financial information and event notices will be an action to compel specific performance and no monetary damages may be recovered under any circumstances. A breach or default under the Disclosure Agreement will not constitute an Event of Default under the Indenture or the Loan Agreement.

The Authority is not required to provide disclosure regarding its financial condition because, among other things, its financial condition is not material to an investment in the Series 2016 Bonds. In addition, the Authority has no responsibility for compliance by Willow Valley Communities with the Disclosure Agreement or for the information provided by the Corporation thereunder.

UNDERWRITING

The 2016 Bonds are being purchased by B.C. Ziegler & Company (the “Underwriter”), at a purchase price of \$43,490,372.70, which amount represents the par amount of the 2016 Bonds plus an original issue premium of \$5,569,261.45 and less an underwriter’s discount of \$303,888.75. The Contract of Purchase provides that the Underwriter will purchase all of the 2016 Bonds if any are purchased. The Corporation has agreed to indemnify the Underwriter and the Issuer against certain liabilities, including certain liabilities arising under federal and state securities laws in connection with the 2016 Bonds. The Corporation has also agreed to pay certain expenses in connection with the issuance of the 2016 Bonds.

The Underwriter may offer and sell the 2016 Bonds to certain dealers (including dealers depositing the 2016 Bonds into investment trusts) and others at prices lower than the public offering prices stated on the cover page hereof. The initial offering prices may be changed from time to time by the Underwriter.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Corporation, that are not purely historical, are forward-looking statements, including statements regarding the Corporation's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Corporation on the date hereof, and the Corporation assumes no obligation to update any such forward-looking statements. The Corporation's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Corporation. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CERTAIN RELATIONSHIPS AMONG PARTIES

Rhoads & Sinon LLP, has been engaged by Willow Valley Communities to serve as Bond Counsel in connection with the Bonds, and has previously been engaged by the Corporation, the Issuer, the Bond Trustee and the Master Trustee for other specific matters. Stevens & Lee, P.C. which is serving as counsel to the Underwriter in connection with the Bonds, has previously been engaged by the Bond Trustee and the Master Trustee for other specific matters. Blakinger Thomas, PC, Lancaster, Pennsylvania, is serving as counsel to the Issuer and counsel to the Corporation in connection with the issuance of the 2016 Bonds.

MISCELLANEOUS

The descriptions of the provisions of the Loan Agreement, the 2016 Note, the Master Indenture and the Bond Indenture contained herein and in Appendix C and all references to other materials not purporting to be quoted in full, are only brief summaries of certain provisions thereof and do not constitute complete statements of such documents or provisions. All such references are further qualified in their entirety by reference to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and the possible exercise of judicial discretion in enforcing such rights. Reference is hereby made to the complete documents for further information, copies of which are available from the offices of B.C. Ziegler & Company at 200 South Wacker, Suite 2000, Chicago, Illinois 60606 prior to delivery of the 2016 Bonds and thereafter from the principal corporate trust office of the Bond Trustee. Any statements made in this Official Statement or the Appendices hereto involving

matters of opinion or 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 such opinions or 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 its Appendices) 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 attached Appendices A, B, C, D and E are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The distribution of this Official Statement has been approved by the Issuer and the Corporation. However, the Issuer is not responsible for any information set forth herein except that contained under the captions "THE ISSUER" and information related to the Issuer under the caption "ABSENCE OF LITIGATION."

EAST HEMPFIELD TOWNSHIP INDUSTRIAL
DEVELOPMENT AUTHORITY

By: /s/ Ronald C. Fink, Jr.
Name: Ronald C. Fink, Jr.
Title: Chairman

WILLOW VALLEY COMMUNITIES

By: /s/ James W. Hostetter
Name: James W. Hostetter
Title: President

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APPENDIX A
WILLOW VALLEY COMMUNITIES

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WILLOW VALLEY COMMUNITIES

Introduction

Willow Valley Communities (the “Corporation” or “Willow Valley”) was incorporated on December 6, 1982, originally under the name Willow Valley Manor, as a not-for-profit corporation under the Pennsylvania Non-Profit Corporation Law of 1972. By letter dated August 4, 1987, the Internal Revenue Service has determined the Corporation to be an organization described in Section 501(c)(3) and not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation changed its name from “Willow Valley Manor” to “Willow Valley Retirement Communities” effective March 2, 2000 and “Willow Valley Retirement Communities” to “Willow Valley Communities” effective October 22, 2013.

In early 2014, the Corporation started SmartLife VIA Willow Valley to offer a lifecare at home membership based program in Lancaster County designed to deliver high quality care and services in the member’s home.

In 2014, the Corporation formed Connections at Home VIA Willow Valley, LLC, a wholly owned subsidiary of the Corporation, to operate a home care agency that provides services including companion and homemaking services, wellness visits and personal assistance.

The Corporation does not have affiliation with any religious, fraternal, or charitable organization. The Corporation and all of its Facilities are located in the Township of West Lampeter in the County of Lancaster, Pennsylvania, approximately 3-4 miles south of the City of Lancaster off Route 222.

Mission

The mission statement of the Corporation is:

We inspire each person to embrace the possibilities of a life lived forward.

The Facilities

The Corporation owns and operates three senior living communities in the County of Lancaster, Pennsylvania (the “Communities”) known as Willow Valley Manor, which includes the Providence Park at Willow Valley expansion, Willow Valley Lakes Manor, which includes the Willow Gables and Spring Run at Willow Valley expansions, and Willow Valley Manor North, which includes the Willow Valley Manor North Garden Apartments expansion. The land, buildings and related facilities at each of these locations and the land, buildings and related facilities to be financed with the proceeds of the 2016 Bonds, as described herein, are collectively hereinafter referred to as the “Facilities.”

The Manor Campus, which includes Willow Valley Manor and Willow Valley Manor North, is approximately 81 acres in total and the Lakes Campus, which includes Willow Valley Lakes Manor, is located approximately one mile from the Manor Campus and is about 140 acres in total. Each of the Communities features garden apartments in three, four or five-story buildings, designed around a central courtyard. Some of the Communities also have villa or townhouse style and/or apartment units that are detached from the common areas of the apartment buildings. Common areas feature luxurious formal and casual dining rooms as well as activity and resident service areas. Amenities of each Community are available to residents of the other Communities and include such things as a heated indoor pool and spa, exercise, nutrition and lifestyle counseling, exercise equipment, grand pianos, lobby fireplaces, craft rooms for painting, sewing and other arts, private dining rooms, libraries, shuffleboard, billiard tables, woodworking areas, bank branches, and a pharmacy. As continuing care retirement communities, each

campus has its own supportive living area providing greater assistance, including personal care and skilled or dementia care accommodations, for those who may need it.

	Years in Service	Attached Independent Living Units	Detached Independent Living Units	Personal Care Units	Skilled Nursing Beds
Willow Valley Manor	32	295	54	0	0
Willow Valley Lakes Manor	30	372	132	0	80
Willow Valley Manor North	22	422	50	106	203
Spring Run at Willow Valley	13	210	0	156	0
Total		1299	236	262	283

To ensure the Communities are kept up-to-date, the Corporation undertakes a complete renovation of the common areas on a regular basis, as well as resident apartments, after they have been occupied for 10 years.

Independent Living

The independent living apartments include Studio, One Bedroom, One Bedroom Deluxe, Two Bedroom and Two Bedroom Deluxe with Study styles. In addition to the apartment units, there are several styles of Midrise, Villa and Townhouse units available. Some units may include fireplaces, full-size washers and dryers, heated underground parking, sunrooms, decks and patios.

The independent living units are configured as follows:

UNIT TYPE	Approximate Square Feet	Number of Units	Community
Studio	464	69	Willow Valley Manor Willow Valley Lakes Manor
One Bedroom	674	268	All
One Bedroom Deluxe	1,152	27	Willow Valley Manor Willow Valley Lakes Manor
Two Bedroom	936	316	All
Two Bedroom Deluxe	1,259	178	All
Two Bedroom Deluxe with Study	1,443-1,505	293	All
Garden Apartment, Midrise & Villas, Townhomes	900-3,200	182	Willow Valley Manor, Willow Valley Manor North, Willow Valley Lakes Manor

Healthcare Facilities

There are currently four supportive living areas run by the Corporation that provide personal care, skilled and dementia care accommodations: Arbor View and The Glen are located on the Manor Campus and Lakeside and Meadow Ridge are located on the Lakes Campus. Fees for supportive living are included in the basic entrance fees; no additional cost is required for residents. The personal care, skilled nursing and dementia care accommodations are available to non-lifecare residents of Willow Valley on a space available basis for private pay and Medicare patients.

The contracts of Willow Valley residents provide for semi-private accommodations in the personal care and skilled nursing areas; private accommodations are available for an extra charge. A limited number of contracts provide for private accommodations in personal care based on availability. All rooms have wall-to-wall carpeting and individually controlled heating and air conditioning. Some of the services in

Arbor View, The Glen, Lakeside, and Meadow Ridge include: 24-hour assistance, three meals per day in one of the supportive living dining rooms, housekeeping and linen services, and emergency call service. Similar to the independent living areas, the supportive living areas have comfortable sitting areas, multi-purpose rooms for social and organized recreational activities, dining rooms, country kitchens and beauty salon/barber shop facilities.

The Project

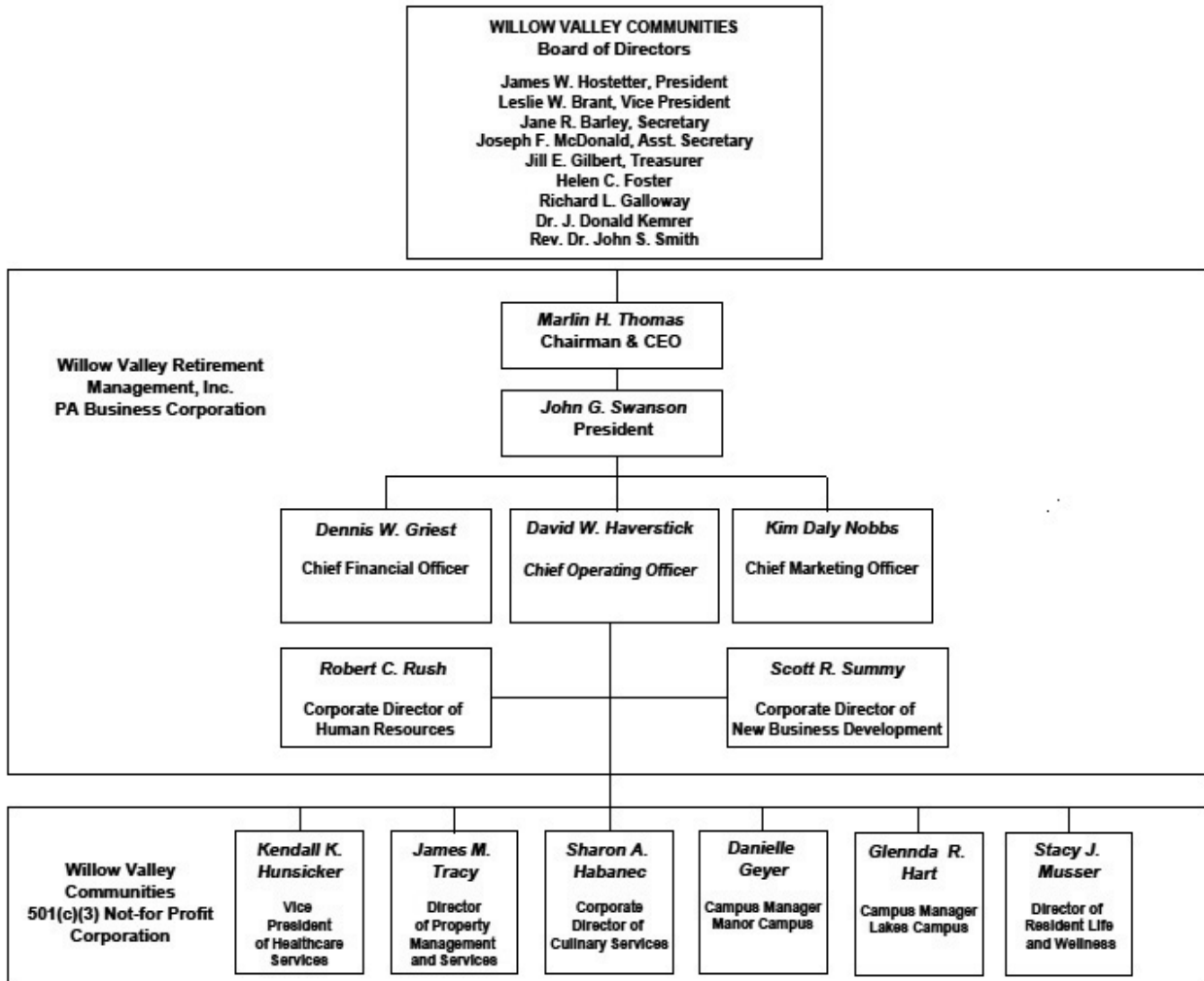
A portion of the proceeds of the 2016 Bonds will be utilized for the construction, equipping and furnishing of The Vistas at Providence Park. The Vistas will be a five-story, fifty-three unit residential apartment building located on the Manor Campus. Several unique features of these 1,700 to 2,000 square-foot luxury residences will be large, oversized windows and classic, elegant finishes throughout. In addition, this approximately 160,000 square-foot building will include underground parking facilities and a rooftop lounge. The general contractor and architect for the project is CCS Building Group and RLPS Architects, respectively.

Affiliations

The Corporation is a member of LeadingAge and LeadingAge PA.

GOVERNANCE

The Corporation is governed by a Board of Directors. The day-to-day operations of the Facilities are managed by on-site personnel. In addition to those on-site administrators who are direct employees of the Corporation, the Board has entered into a management contract with Willow Valley Retirement Management, Inc. d/b/a Willow Valley Living (“Willow Valley Living”) for some of the key administrative functions, including accounting, finance, budgeting, centralized purchasing, information systems and human resource functions for the Corporation. The following is a chart showing the basic organizational structure and some of the key administrators.



The Board of Directors

The Willow Valley Communities' Board of Directors has full authority for the direction and affairs of the Corporation. The Board of Directors consists of nine Directors. Annually, the directors elect members of the Board who shall serve for three-year terms. The current officers and members of the Board are as follows:

James W. Hostetter, Sr., CPA, CFP, President

Mr. Hostetter is a self-employed certified public accountant in the accounting firm of Hostetter and Hostetter, CPA's, with an office in Lancaster County, Pennsylvania. He also owns, lives on, and operates a 145-acre family farm. He and his wife, Mary Louise, attend Willow Street Mennonite Church and are involved with various church functions. Mr. Hostetter also serves on a local bank's advisory board. His term expires in April 2017.

Leslie W. Brant, Vice-President

Mr. Brant is a retired financial executive. His professional experience includes 35 years at BNY Mellon. He progressed through the ranks to Senior Director, providing wealth management services. Year after year, he achieved solid results for BNY Mellon and built relationships with clients and community leaders. Mr. Brant has served on various boards and committees as a volunteer, as a member, and as chairman of several professional organizations. He currently serves as the board chair of Wellspan Health Population Services and as a board member of the AAA of Southern PA, headquartered in York. His term expires in April 2016.

Jill E. Gilbert, Treasurer

Mrs. Gilbert has been an accountant with Trout, Ebersole and Groff, LLP since 1995, and a partner since 2007. She specializes in audits of local governments, employee benefits and non-profit organizations. She received a Bachelor of Science degree in Business Administration with concentrations in accounting and finance from Elizabethtown College in 1995. Mrs. Gilbert is a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants. She is also a member of the Elizabethtown Rotary Club, and the vice-chairman of the Elizabethtown Fire Company Endowment Fund Board. Her term expires in April 2016.

Jane R. Barley, Secretary

Mrs. Barley, a graduate of Millersville University with a B.S. in Elementary Education, taught second grade in the Penn Manor School District for several years and was the business administrator for Star Rock Farms. She is active in the community and serves on the Superintendent's Council for Penn Manor School District. A member of Bethany Evangelical Congregational Church, Mrs. Barley is involved with a variety of church activities, and is actively involved with fifteen grandchildren and playing tennis and pickleball. Her term expires in April 2018.

Joseph F. McDonald, Assistant Secretary

Mr. McDonald has had a rewarding career in the field of education. He taught in elementary schools, has served as a Vice-Principal, Elementary Principal, and Assistant Superintendent. He also taught in Athens, Greece and served as the High School Principal at the prestigious Nido De Aguilas International School in Santiago, Chile. Throughout his career, Mr. McDonald has belonged to a number of professional organizations and has held various positions in his local communities. His term expires in April 2018.

Dr. J. Donald Kemrer

Dr. Kemrer is a retired physician from his family practice in Lancaster, Pennsylvania. From 1999 to 2004, he served as President of the Willow Valley Communities Board of Directors. Dr. Kemrer is a member of Neffsville Mennonite Church. His term expires in April 2017.

Rev. Dr. John S. Smith

Rev. Dr. Smith attended Juniata College, graduating in 1971. Subsequent to graduation, he enlisted in the United States Marines Corps after which he taught at the community college level while simultaneously earning a master's degree in counseling psychology. He began his professional career as a school psychologist working in a number of school districts in both Lancaster and Lebanon counties. Rev. Smith retired from his work as a school psychologist in June 2003. He also studied at Evangelical Theological Seminary earning Master of Arts and Master of Divinity degrees. He completed his academic training by earning a Ph.D. degree from Newburgh Theological Seminary in Christian Counseling. Rev.

Smith was the pastor of Bethany Evangelical Congregational Church in Lancaster County, retiring in June 2012. His term expires in April 2018.

Richard L. Galloway

Mr. Galloway's diverse background includes owning and operating a chain of convenience stores, banking, building a Christian TV station, starting a computer company and a commercial real estate business. In 1989, he and his wife, Dixie, founded New York City Relief, a mobile ministry to the poor and homeless in New York City and New Jersey. His term expires in April 2017.

Helen C. Foster

Mrs. Foster is the owner and principal of Foster Strategy, L.L.C., a marketing and development consultancy, specializing in 55+ consumers and age-qualified real estate. Based in New Orleans, LA, the firm serves a select base of clients across the U.S., many of which are "best in class" in their respective markets or business sectors. An active 55+ housing advocate, Mrs. Foster serves as an advisor, speaker, editorial contributor and awards judge for leading organizations including NAHB (National Association of Homebuilders), ULI (Urban Land Institute), PCBC (Pacific Coast Builders Conference), and ICAA (International Council on Active Aging). Her term expires in April 2018.

Senior Management of the Corporation

Management of the Facilities has been and is expected to continue to be provided by a management team. This management team of the Corporation is supported, pursuant to the Management Agreement with Willow Valley Living. The following are brief resumes of the current senior managers of the Corporation.

Kendall K. Hunsicker, Vice President of Healthcare Services & Director of Compliance

Mrs. Hunsicker (57) is responsible for the overall operations of The Glen, Arbor View, and Lakeside, the three healthcare facilities associated with each of the Communities. She is a highly qualified healthcare professional. She received her Bachelor of Science degree in Health Information Management from York College (PA), then went on to earn a Master of Business Administration from the University of Notre Dame. Mrs. Hunsicker is a Registered Health Information Administrator and has her Nursing Home Administrator (NHA) license. With more than 30 years experience in various areas of healthcare, Mrs. Hunsicker says she appreciates the opportunity to continually expand her knowledge and apply it to innovations that benefit Willow Valley residents.

Sharon A. Habanec, Corporate Director of Culinary Services

Mrs. Habanec (55) is responsible for Culinary Services in all three Communities. She has a career that spans 27 years at Willow Valley Communities. Mrs. Habanec oversees all dining operations, menus, staffing, resident satisfaction and overall food quality. She and her team have been actively developing additional dining options for residents including al fresco dining, take out and a farm to plate initiative that provides residents with an abundance of fresh, local produce and also supports our local farmers. Sharon's passion for team satisfaction and continued growth and development has been the key to the success of her department.

Jim Tracy, Director of Property Management and Services (PM&S)

Mr. Tracy (52) has been a member of the Willow Valley Communities team since January 2013. His responsibilities include the oversight of the PM&S Teams – Maintenance, Grounds, Housekeeping &

Floor Care, Security & Transportation, and Renovations – to ensure the maintenance, viability, and renewal of strategic assets for the Corporation.

Mr. Tracy has over 30 years' experience as an Electrical Engineer, Project Manager, and Facilities/Maintenance Manager. He received his Bachelor of Science degree from the University of Pittsburgh and is a registered PA Professional Engineer. Mr. Tracy also serves as an evening technical instructor at Lancaster County Career and Technology.

Danielle Geyer, Manor Campus Manager

Mrs. Geyer (38) serves as the Campus Manager for the Manor Campus. She serves as the Administrator for approximately 1,000 Residents and is responsible for providing oversight to the Administrative Team, Residential Nursing, Chaplaincy, and Social Work. Mrs. Geyer joined Willow Valley Communities in 2001. Prior to assuming her current position, she served as the Manager of Resident Services at Willow Valley Manor. Mrs. Geyer holds a Master's Degree in Social Work from Millersville University and has devoted her career to working in the field of aging.

Glennnda Hart, Lakes Campus Manager

Mrs. Hart (53) serves as the Campus Manager for the Lakes Campus. She serves as the Administrator for approximately 1,000 Residents and is responsible for providing oversight to the Administrative Team, Residential Nursing, Chaplaincy, and Social Work. Mrs. Hart first joined Willow Valley in 1985 as a part-time Social Worker when the first Willow Valley Healthcare facility opened at the Manor. She received her Bachelors of Arts Degree in Social Work from Millersville University. Over the next 16 years, as Willow Valley expanded, she obtained her Personal Care Home and Administrations license and expanded her responsibilities and accepted various management positions in the Supportive Living settings. In 2010, after a 9-year period of time exploring the nursing home world outside of Willow Valley, Mrs. Hart returned to Willow Valley Communities as a Personal Care Home Administrator prior to obtaining her present role as Campus Manager.

Stacy Musser, Director of Resident Life and Wellness

Mrs. Musser (47) has maintained a steadfast commitment to Willow Valley throughout her 30 years of service. Beginning her early working career in the Culinary Services Department, she quickly developed her skills and held various positions. She spent 13 years in residential administration assisting the Executive Director and managing a team of 15 receptionists at multiple sites. Mrs. Musser has previously been presented with the Facilitator of the Year award by Leading Age, the Pennsylvania association of not-for-profit senior services.

In 2010, she accepted the position of Director of Resident Life and Wellness where she is responsible for Willow Valley's state-of-the-art Cultural Center and its activities and wellness programs. In 2013, under her leadership, Willow Valley was awarded the Best 50+ Lifestyle Award for our Fitness & Wellness Program by the National Association of Home Builders. Most recently, in 2015, Willow Valley Communities was a gold winner in the National Mature Media Awards Program for Willow Valley's *Renaissance* magazine. The program recognizes the nation's finest marketing, communications, educational materials, and programs designed and produced for older adults based on overall excellence of design, content, creativity and relevance to the senior market.

Staff of the Corporation

As of November 30, 2015, the Corporation employed 1,306 people. With approximately half of the employees being part-time employees, the total staff equates to 884 full-time equivalent employees. The distribution of employees by functional area follows:

FUNCTION	EMPLOYEES
Culinary Services	477
Healthcare Services	500
Housekeeping/Laundry	122
Property Management/Maintenance	80
General Administration	107
Marketing & Sales	16
SmartLife VIA Willow Valley	4

Employee benefits include medical/dental insurance, 401(k) retirement plans with company match, paid time off, holiday pay, time & 1/2 for work on 7 recognized holidays, direct deposit, and company discounts. Currently no employees of the Corporation are represented by a union.

Management Agreement and Development Contract with Willow Valley Living

The Corporation originally entered into a Management Agreement on March 3, 1988 with Willow Valley Associates, Inc. (“Associates”), a Pennsylvania for-profit corporation, to provide general overall management of the then-existing Facilities. The current Management Agreement is with Willow Valley Living, which had been the operating unit of the Associates that had been providing management services to the Corporation but was incorporated as an independent, for-profit Pennsylvania entity on January 25, 2000. The Corporation has maintained the contractual relationship and, most recently, re-entered into the current Management Agreement effective May 1, 2014. The stated expiration of the current contract is April 30, 2019.

The Management Agreement provides that Willow Valley Living will oversee and supervise the management of the Manor Campus and the Lakes Campus under the general policy direction of the Board of Directors for the Corporation. Specifically, Willow Valley Living will provide services and expertise in the areas of accounting, finance, budgeting, purchasing, marketing, and complete human resource functions to the approximately 1,300 employees of the Corporation.

In return for services provided, Willow Valley Living receives a monthly fee based on the number of residential units, apartments, and health center beds available for occupancy. The base rates of the current contract are \$103.76 per residential unit and \$121.98 per health center bed; these rates are adjusted annually during the duration of the contract based on changes to the Consumer Price Index. The contract may be terminated by the Corporation at any time after April 30, 2017 or if occupancy for the independent living units at Willow Valley drops below 70%.

In return for services provided to SmartLife VIA Willow Valley, Willow Valley Living receives a marketing fee equal to five percent (5%) of all membership fees collected for the first 200 Members and an operating fee equal to six percent (6%) of collected revenues for monthly service fees, fee-for-service income and application fees.

In return for services provided to Connections at Home VIA Willow Valley, LLC, Willow Valley Living receives an operating fee equal to six percent (6%) of collected revenues for services provided.

Willow Valley Living also provides real estate development services to the Corporation. These services performed for specific Board of Directors designated projects include feasibility analysis, governmental and regulatory approvals, design, planning financing and equipping. The developer's fee can range from seven percent (7%) to nine percent (9%) dependent on the total project cost.

Senior Management of Willow Valley Living

Marlin H. Thomas, Chairman and Chief Executive Officer

Mr. Thomas (71) began his business life working in the family poultry business. As this business grew, the Thomas Family had a vision to be involved in the hospitality business. The Thomas Family opened a 30-unit motor inn and a 100-seat family restaurant in 1966 and 1967, respectively.

Under Mr. Thomas' leadership, four decades later, Associates owns and operates three hotels including the DoubleTree Resort by Hilton Lancaster and the Hilton Garden Inn and Homewood Suites by Hilton in Harrisburg. Associates also owns and operates commercial and residential rental properties and it recently announced the exciting transformational plan in redevelopment and expansion to bring new business services to the former Willow Valley Inn & Suites site and adjoining 87 acres.

In the early 1980's, Associates began the development and management of retirement communities with a vision of retirement in a hospitality model. Today, the award-winning Willow Valley Communities is among the most respected and largest retirement communities in the United States, with more than 2,500 Residents from 37 states.

John G. Swanson, President

Mr. Swanson (61) joined Willow Valley in 1991 and is responsible for overseeing the development and management services provided by Willow Valley Living to the Corporation.

Prior to joining Willow Valley, Mr. Swanson was senior director with A.V. Powell & Associates, an actuarial and consulting firm providing services to continuing care retirement communities nationally. Before entering the field of retirement housing and long-term care, his experience has included employment with Toll Brothers, Inc., a publicly held NYSE residential home-building company, and with a national public accounting firm with a specialty in real estate development.

Mr. Swanson is a member of the Board of Directors of Teachers Protective Mutual Life Insurance Company and serves on the NAHB 50+ Housing Council Board of Trustees Committee. In the past, he has served on the Boards of Directors of the Lancaster Chamber of Commerce and Industry, the United Way of Lancaster County, and the National Chronic Care Consortium.

A graduate of Lehigh University with a Bachelor of Science degree in Business and Economics, he earned his Master of Business Administration degree from the Rutgers University Graduate School of Business. His professional affiliations include the American Institute of Certified Public Accountants, the New Jersey Society of Certified Public Accountants, and the Pennsylvania Institute of Certified Public Accountants.

David W. Haverstick, Chief Operating Officer

Mr. Haverstick (67) is Chief Operating Officer of Willow Valley Living. He joined Willow Valley in 2004 and is responsible for the primary operational areas of Willow Valley Communities, including Campus operations, Property Management and Services, Healthcare and Dining. Prior to joining Willow Valley, he was Vice President of Operations at Shell Point Retirement Community in Fort Myers, Florida.

He also has served as Executive Director of the Lancaster County (PA) Office of Aging. Mr. Haverstick is a graduate of the University of Pennsylvania's Graduate School of Social Policy and Practice (MSW degree), and Temple University's School of Social Administration (BSW degree).

Mr. Haverstick has devoted his career to serving seniors, both in Lancaster and Florida. He is known for his commitment to excellence in programs, services and care for Willow Valley's residents. Mr. Haverstick is retiring at the end of January 2016 and Willow Valley Living is in the process of selecting his replacement.

Dennis W. Griest, Chief Financial Officer

Mr. Griest (58) is Chief Financial Officer of Willow Valley Living. He joined Willow Valley in 1990 and is responsible for overseeing the financial operations and risk management for the Corporation. Prior to joining Willow Valley he was Controller for Schreiber Wholesale Services, Inc. in Lititz, PA. Mr. Griest received a Bachelor of Science degree in Accounting from Shippensburg University. Mr. Griest is a member of the Board of Directors of CARE, Ltd.

Kim Daly Nobbs, Chief Marketing Officer

Ms. Daly Nobbs (50) serves as Chief Marketing Officer for Willow Valley Living, where she oversees strategic marketing, sales, and community relations. Prior to joining Willow Valley, she operated a consulting firm focused on organizational culture and development, strategic planning, and marketing and executive coaching. Ms. Daly Nobbs has also held several executive leadership roles in senior living and long-term care provider organizations, including 12 years at Willow Valley before starting her consulting business.

Ms. Daly Nobbs has been a frequent speaker at regional and national senior living conferences and currently serves as adjunct faculty at York College of Pennsylvania, where she teaches the strategic planning, marketing, and public relations segment of the NHA certification course. She is a certified Cultural Transformation consultant through the Barrett Values Centre, an international organization designed to help leaders measure and manage the cultures of their organizations. She also serves as Facilitator for the Fellows in the Leadership Program for LeadingAge PA.

Robert C. Rush, Corporate Director of Human Resources

Mr. Rush (64) has spent over 36 years as a human resources professional (thirteen of these spent in healthcare/long-term care). He earned a Bachelor of Arts degree in Business Administration from Franklin & Marshall College and a Master of Business Administration from Lebanon Valley College. Mr. Rush also holds a Senior Professional in Human Resources (SPHR) certification.

Mr. Rush is a member of the Lancaster Society for Human Resource Management and The Appalachian Health Care Human Resources Society. He shares his professional skills with the Lancaster County Business Group on Health and the Strasburg Township Zoning Board. Mr. Rush also acts as Secretary to the Lancaster County Career and Technology Center Practical Nursing Program Advisory Board and serves as a member of the Highmark BlueShield Advisory Board.

Scott R. Summy, Corporate Director of New Business Development

Mr. Summy (54) has spent most of his working career at Willow Valley and recently achieved the 36-year milestone. His career in hospitality began while working at the Willow Valley Inn and Resort where he had the opportunity to learn the true art of hospitality from the Thomas family. It was this experience that fostered his passion of customer service. To see the delight and joy on the faces of the

customer when they received great service was very gratifying and energizing. After joining Willow Valley Communities in 1984 with the opening of Willow Valley Manor, he served as the Manager of Dining Services responsible to develop the dining program for Willow Valley's residents.

Mr. Summy currently serves on the Board of Directors for Leading Age PA, the state association for not-for-profit retirement communities. He is a member of the Board of Directors for Lancaster Area Senior Services. He also serves on the Board of Directors for the Lancaster County Career and Technology Foundation. Additionally, he serves on the Lancaster Chamber of Commerce Executive Forum for Aging Services Providers.

Willow Valley Associates, Inc.

Associates and its related entities own and operate several resort and hotel properties in South Central Pennsylvania. In addition to the hospitality operations, Associates owns and operates commercial and residential rental properties and provides management and development services to its properties from an administrative center in Willow Street, Pennsylvania.

Associates is a Pennsylvania for-profit corporation. It was incorporated in 1970.

Associates was the organization with which the Corporation originally entered into a management agreement in 1988. In 2000, Willow Valley Living began performing the retirement management functions previously performed by Associates.

In the five decades since Associates began, many decisions to expand into new areas of operations were based not only on business unit profitability, but on the opportunity to increase overall visits to the Associates' family of companies.

RESIDENT AGREEMENTS AND FEES

General

The Corporation offers full Lifecare, Type A contracts to Residents of the independent living units of the Communities. With a Type A contract, an unlimited amount of nursing care is provided in addition to housing and residential services. Residents pay the same charge for care while occupying a personal care, memory support or nursing accommodation as they would in an independent living residence. The Corporation is the only all-Lifecare senior living provider in Lancaster County.

All Resident Agreements require an up-front entrance fee and ongoing monthly service fees, both of which are subject to change periodically. The Corporation currently offers a choice of three refund plans for each contract. Entrance fees vary based on the refund plan chosen.

From 1984 to 1991, Willow Valley offered only a 33% refundable option, known as the Traditional Plan. In 1992, a zero refund option, known as the Capital Preservation Plan was added. In 1998, a third refund option called the Estate Preservation Plan was introduced offering a 67% refund. Beginning in 2003, the Estate Preservation Plan refund option was changed to 90%. The predominant option in effect currently is the zero refund option.

For all terminations prior to 120 days, the Resident is given a full refund of the entrance fees paid. For voluntary terminations after 120 days, the refund is reduced 2% per month for each month of occupancy. The minimum refund is 0%, 33%, 67% or 90%, according to the refund option selected.

For involuntary terminations of Resident Agreements effective prior to March of 1992, all of which were Traditional Plans, 33% of the entrance fee currently charged for a similar unit at the date of termination is refundable. Under Resident Agreements effective after 1992, the refund will be based on the applicable percentage (33%, 67% or 90%, depending on the applicable refund option) of the original entrance fee paid by the resident. All refunds are paid within the twelve-month period following the apartment vacancy.

The vast majority of new Resident Agreements are Capital Preservation (zero refund) contracts. A current breakdown of refund plans follows:

CONTRACT TYPE	NUMBER OF CURRENT CONTRACTS	PERCENTAGE
Lifecare – Zero Refund	1,779	77.45%
Lifecare – Standard (33% Refund)	444	19.33%
Estate Preservation Plan (67% Refund)	11	.048%
Estate Preservation Plan (90% Refund)	63	2.74%

Services under Current Resident Agreement

The following residential nursing services are provided as part of a Resident Agreement:

Residential Services. The Corporation provides medical professionals available twenty-four (24) hours a day to respond to emergency calls in the residence. The residence has an Emergency Call System connected directly to a centrally monitored station.

Nursing support is provided to residents for short-term illnesses through brief visits to the residence to monitor progress and assess continuing needs.

The Corporation encourages residents to remain healthy. Programs promoting wellness are offered providing exercise as well as nutrition and lifestyle counseling. Other programs, such as blood pressure and weight clinics are offered by the Corporation.

Long term care services provided as part of Resident Agreement

Temporary Care. If a Resident is in need of temporary care in Supportive Living, it shall take place after consultation among the Corporation’s administration, the Resident, the Resident’s spouse, and/or Resident’s responsible party. The Corporation shall provide care in a semi-private accommodation in the skilled nursing care, memory support or personal care area of a Supportive Living Community as well as required medical supplies at no additional cost over the Resident’s Monthly Service Fee. Medical supplies do not include personal hygiene items or durable medical goods, such as wheelchairs and walkers.

Permanent Care. If a Resident is in need of permanent care in Supportive Living, it shall take place after consultation among the Corporation’s administration, Resident, Resident’s spouse, and/or Resident’s responsible party. The Corporation shall provide care in a semi-private accommodation in the skilled nursing care, memory support or personal care area of a Willow Valley Supportive Living Community as well as required prescription medicines and medical supplies at no additional cost over the Resident's Monthly Service Fee. Prescription medicines shall be subject to a maximum annual allowance, which is \$4,244 for 2015. Medical supplies do not include personal hygiene items or durable medical goods, such as wheelchairs and walkers.

Resident Agreements for Providence Park at Willow Valley and all new Resident Agreements effective after September of 2014 do not include prescription drugs.

Accommodations Provided Under Spring Run at Willow Valley and Providence Park at Willow Valley Contracts. Resident Agreements for Spring Run at Willow Valley and Providence Park at Willow Valley provide for private accommodations in personal care in a Willow Valley Supportive Living Community, subject to availability.

Accommodations Provided Under Willow Gables and North Garden Apartment Contracts. Resident Agreements effective after September of 2014 for Willow Gables townhomes and North Garden Apartments provide for private accommodations in personal care in a Willow Valley Supportive Living Community, subject to availability.

Services included as part of the Monthly Fee

Culinary Services. Willow Valley Manor, Lakes Manor and Manor North furnish each Resident two (2) meals a day: breakfast and dinner. Reasonable special dietary needs are accommodated on request. Resident Agreements for Midrise units, Willow Gables townhomes, Garden Apartments, Spring Run at Willow Valley and Providence Park at Willow Valley do not include meals.

All Resident Agreements effective after September of 2014 do not include two (2) meals a day, but include a dining credit program, which allows Residents to purchase meals at a discounted price. Residents may opt out of this program for a reduced monthly fee.

- *Meal Delivery Service.* Willow Valley Communities provides meal delivery service to the residence if Resident is receiving care for minor illness and if such is ordered by the Resident's physician or the Willow Valley Communities' administration. This service is limited to a maximum of fourteen (14) consecutive days. A Resident requiring further meal delivery service will be evaluated by Willow Valley Communities' administration and/or Resident's personal physician for possible placement in Willow Valley Communities Supportive Living for whatever nursing services are required.

Utilities and Services. Willow Valley Communities furnishes water, heat, electricity, sewer, and air-conditioning to each residence and is responsible for trash removal, sidewalk and roadway snow removal, and grounds maintenance.

Housekeeping. Willow Valley Communities is responsible for the housekeeping in all public areas; however, it is the Resident's responsibility to maintain the residence unit in a clean, sanitary condition and to perform all routine housekeeping tasks.

Willow Valley Communities provides annual housecleaning services to maintain the residence. Willow Valley Communities reserves the right to inspect the residence periodically and, if the residence appears to be in need of extra cleaning as determined by Willow Valley Communities, to schedule periodic maid service. The Resident will be charged for this service.

Resident Agreements for Willow Gables townhomes and Providence Park at Willow Valley include weekly housekeeping services.

Storage. Residents have available a designated storage area for those items not required for daily routine. The Willow Valley Communities' administration reserves the right to define the types of items that cannot be stored in the storage area.

Maintenance. Willow Valley Communities is responsible for all necessary repairs, maintenance and replacement of property and equipment owned by Willow Valley Communities, as determined by its administrative staff. The Resident is responsible for the Resident's own property.

Linen Service. Linen service is provided for bed linens supplied by Willow Valley Communities on a weekly schedule at no charge. Personal items may be laundered by the Resident using the washers and dryers in the conveniently located laundry rooms. The use of these appliances is provided at no charge to the Residents.

Resident Agreements for Midrise units, Villa units, Willow Gables townhomes, Garden Apartments, Spring Run at Willow Valley, and Providence Park at Willow Valley, as well as all Resident Agreements effective after September of 2014 do not provide for linen services.

Social Services and Activities. Willow Valley Communities provides a planned schedule of social, educational, recreational and spiritual activities designed to stimulate and support the overall physical, spiritual, and emotional well-being of Residents. Residents are encouraged to join as many activities as they wish.

Transportation. Willow Valley Communities provides regularly scheduled transportation, at no charge to Residents, for shopping trips to local malls and shopping centers, as well as transportation between the Communities, the Cultural Center, and the Clubhouse at Providence Park.

The Center for Vitality. The Center for Vitality offers a wellness program focused on increasing the vitality of the Residents of Willow Valley Communities. This comprehensive program includes exercise and aquatic programs in addition to educational programs and nutritional counseling. The Center for Vitality is located at the Cultural Center with a satellite fitness and aquatics center at Manor North and satellite exercise rooms and classes at Manor and Lakes Manor.

Services available for an extra charge

Dining Room Guest Privilege. Residents are encouraged to host and register guests for meals served in the Dining Rooms. Prices charged for these guest meals are billed on the Resident's monthly statement.

Trips and Tours. Trips and tours (other than shopping trips) are available to Residents.

Cultural Center Amenities. The Day Spa and Vitality Café offer services to Residents for a fee. In addition, Residents may be charged a fee for certain performances at the Cultural Center Performing Arts Theater and certain fitness and aquatics classes.

Clubhouse Amenities. Local Table restaurant is open for evening dining and entertainment where Residents can purchase dinner meals and beverages.

The Clubhouse Café and Ice Cream Parlor is open weekends and during the week on a seasonal basis.

Residents may be charged for certain events and classes offered in the Sports Center at the Clubhouse.

Cable TV, Internet, and Telephone. Willow Valley provides standard cable television, internet service, and telephone service for a fee. The charge is added to the Resident's monthly statement.

Maid Service. Maid service is available from the housekeeping department. If a Resident uses this service, the Resident is charged at the current hourly rate for the service. The charge is added to the Resident's monthly statement.

Café. Cafés located in the Communities are open for lunch. Residents can purchase soups, sandwiches, salads, beverages, and many other hot and cold food items at the Cafés.

Beauty Salon. Barber/beauty salons located in the Communities are open standard hours several days each week.

Transportation. Individual transportation for a Resident's appointments is provided on a fee-for-service basis.

Facility Fees

Entrance fees and monthly fees vary by refund level (higher fees for higher refund opportunities), by unit size (higher fees for larger units) and sometimes by unit location or additional amenities (e.g., decks, patios, sunrooms or premium views). Entrance fees have changed and will change over time. Monthly fees are also reviewed periodically and may be increased or decreased annually. Factors that are reviewed in determining monthly fees include but are not limited to: the results of operations of the Corporation, government regulations, reserve fund maintenance, and occupancy levels. Residents receive written notice of such adjustments 60 days in advance. Add-ons to the entrance and monthly fees are applicable for such things as a second Resident living in a unit.

The fees listed below are the current fees, applicable for incoming new residents. There are incremental increases to the basic entrance fees listed below that are sometimes applicable for certain views, amenities such as decks, patios, or sunrooms, and for a second Resident in a unit.

Unit Type	2016 Capital Preservation (0% refund) Entrance Fee	2016 Traditional (33% refund) Entrance Fee	2016 Estate Preservation (90% refund) Entrance Fee	2016 Monthly Fee for Single Occupancy
Studio	\$97,300	\$114,400	\$168,500	\$1746
One Bedroom	\$124,300 - \$192,300	\$146,400 - \$226,400	\$215,500 - \$333,500	\$1,969 - \$2,321
One Bedroom Deluxe	\$170,300 - \$195,300	\$201,400 - \$230,400	\$296,500 - \$339,500	\$2,205 - \$2,357
Two Bedroom	\$160,300 - \$363,300	\$188,400 - \$428,400	\$278,500 - \$631,500	\$2,077 - \$3,472
Two Bedroom Deluxe	\$227,300 - \$252,300	\$267,400 - \$298,400	\$394,500 - \$439,500	\$2,395 - \$2,656
Two Bedroom Deluxe w/Study	\$238,300 - \$291,300	\$281,400 - \$344,400	\$414,500 - \$507,500	\$2,629 - \$3,151
Garden Apartment, Midrise & Villas	\$163,300 - \$346,300	\$193,400 - \$408,400	\$285,500 - \$602,500	\$2,024 - \$3,569
Willow Gables & Providence Park Villas & Townhomes	\$317,300 - \$512,300	\$374,400 - \$604,400	\$552,500 - \$891,500	\$3,153 - \$4,816

Over the past four fiscal years monthly fees at the Facilities have increased by the following percentages:

2015	2014	2013	2012
3.90%	3.90%	2.75%	3.00%

Qualification for Residency

The Communities are designed for persons aged 55 and older who are capable of living without the assistance of another person. Admission requires several steps. The Corporation reviews both the financial and medical status of the prospective residents. The prospective resident must demonstrate that he or she has assets sufficient to pay the entrance fee and sufficient income after payment of the entrance fee to pay the monthly service fee, including anticipated increases plus other personal expenses. The prospective resident must have his or her physician complete a medical form, and the resident's medical status is reviewed by the Corporation's nursing and social work staff to determine if the prospective resident is capable of independent living.

A prospective resident executes a Resident's Agreement for the residence selected, pays a \$250 per person non-refundable processing fee, and makes a deposit equal to 10% of the applicable total entrance fee for the residence reserved. Within 30 days of financial and medical approval, an additional deposit of 25% of the entrance fee and second person entrance fee (if applicable) is due. The remaining 65% of the entrance fee is payable on or before the earlier of (1) the date the resident occupies the apartment or (2) 90 days after the selection of the particular residence, whether or not the resident moves in.

Residents are required to maintain certain insurance coverages, including Medicare Part A and Part B, as well as supplemental coverage, covering day 21 – 100 in skilled nursing care.

SmartLife VIA Willow Valley Membership Services

Care Coordination. A Lifecare Coordinator is assigned to each Member. The Lifecare Coordinator works in conjunction with a Care Coordination Team to bring together services covered under the plan and to support the Member living in his or her home for as long as safely and medically appropriate. The Lifecare Coordinator makes regular visits, at least annually, and prepares a care plan to meet the Member's care needs.

Member Home Inspection. During the first year of Membership and every second year thereafter, SmartLife VIA Willow Valley provides a functional inspection of the home site for the purpose of ascertaining any functional and safety problems, unless Member's health condition justifies more frequent inspections.

Home Site Services. Home site services included are Home Care Services, Companion Services, Homemaker Services, and Temporary Meals. Home site services are provided as determined by the Care Coordination Team. The Member must exhibit one or more Activities of Daily Living (ADL) deficiencies to be eligible for home site services.

Home site services also includes a Personal Emergency Response Unit. The Member does not need to exhibit an ADL deficiency to be eligible for this service.

Facility-Based Services. When determined to be appropriate by the Care Coordination Team and prescribed by a physician, SmartLife VIA Willow Valley provides facility-based personal care, memory support and nursing care accommodations. SmartLife VIA Willow Valley provides the appropriate care in a personal care private room, dementia care semi-private room or skilled care semi-private room at a Willow Valley Communities' supportive living or a program-participating facility in accordance with the Member plan selected.

Transportation Services. If the Member is unable to drive or instructed by his or her physician not to drive to and from medically necessary outpatient surgery or short procedures, SmartLife VIA Willow

Valley provides transportation. This does not include transportation to regular physician office visits, dialysis and routine specialist appointments.

Adult Day Care. SmartLife VIA Willow Valley provides adult day care services as determined to be appropriate by the Care Coordination Team in an approved provider program to the extent provided for in the plan selected.

Activities and Leisure Events. SmartLife VIA Willow Valley provides planned and scheduled social, recreational, spiritual, educational and cultural events, and other special activities designed to meet the needs of the Members.

Meals. SmartLife VIA Willow Valley provides two meals per day for a maximum of one week due to a medical need as determined to be appropriate by the Care Coordination Team.

Lifestyle and Wellness Programs. Members are encouraged to remain healthy through the development of a personal wellness plan. Programs promoting exercise and a healthy lifestyle are offered from time to time, free of charge or with an applicable fee for service.

Emergency Response System. As determined to be appropriate, SmartLife VIA Willow Valley will provide an Emergency Response System with 24-hour coverage and monitored by a contracted provider.

Services and Programs Available for Extra Charge. Other services and programs are available to the Member at the Member's expense. A list of services (and charges) that are currently available is provided with the Member Agreement.

Licensure

General. The operation of the Corporation and each of the Facilities is subject to the requirements of the Continuing Care Provider Registration and Disclosure Act of Pennsylvania, approved June 18, 1984, P.L. 391, No. 82, Section 1 to 25, 40 P.S. Section 3201 § 3201 et seq. (the "Act"). The Act requires, among other things, that the Corporation (i) obtain a Certificate of Authority ("COA") from the Pennsylvania Insurance Commissioner (the "Commissioner"), (ii) provide to each prospective resident a Disclosure Statement setting forth material information with respect to the Facilities and its operation, and (iii) set aside reserves in specified amounts to ensure that the Corporation will be able to meet its contractual obligations to residents.

Certificate of Authority. The Act provides that no provider may engage in the business of providing continuing care in the Commonwealth of Pennsylvania without first applying for and obtaining a COA from the Commissioner. Within ten business days of receipt of an application, the Pennsylvania Insurance Department (the "Department") is required to issue a Notice of Filing to the applicant. The Department must enter an order issuing the COA or rejecting the application within 60 days of the date of the Notice of Filing. The Commissioner will issue a COA only if all of the requirements set forth in the Act are satisfied. The Certificate of Authority for a facility may be revoked for failure to file an annual disclosure statement, failure to deliver a disclosure statement to a prospective resident of the independent living units, knowingly making any untrue statements or omitting material information from the disclosure statement or willfully violating any provision of the Act or any regulation or rule thereunder.

On April 16, 2014, the Commissioner issued a COA in the name of Willow Valley Communities, which encompassed the three Facilities and SmartLife VIA Willow Valley. Previously on September 20, 2001, the Commissioner issued a COA in the name of Willow Valley Retirement Communities. Prior to this date the COAs had been issued in individual facility names.

Disclosure Statement. The Act requires that, at the time of or prior to the execution of the Resident Agreement, or at the time of or prior to the transfer of any money or other property to the Corporation by or on behalf of a prospective resident, whichever shall first occur, the Corporation must deliver a Disclosure Statement to the prospective resident setting forth, among other things, (i) the name and business address of the officers, directors, trustees, managing or general partners and any person with a 10% or greater equity or beneficial interest in the provider, and (ii) the nature and extent of any affiliation with a religious organization. In addition, the Disclosure Statement must describe the physical property comprising the Facilities, the construction timetable, the services that will be provided pursuant to the Resident Agreement and those that will be available at an extra charge, the fees required of residents, and a statement of reserves. The Corporation is required to update the information in the Disclosure Statement on an annual basis and to file with the Commissioner within four months following the end of the Corporation's fiscal year a copy of the amended Disclosure Statement.

Reserve Requirements. Under Section 3209 of the Act, the Corporation is required to establish and maintain liquid reserves in an amount equal to or exceeding the greater of: (1) the total of all principal and interest payments due during the ensuing twelve months on account of any mortgage loan or other long-term financing of the Corporation; or (ii) 10% of the projected annual operation expenses of the Corporation exclusive of depreciation. The Corporation is required under the Act to notify the Commissioner in writing at least ten days prior to reducing the funds available to satisfy this reserve requirement and may expend no more than one-twelfth of the required balance each calendar month.

The Commissioner requires, as a condition of issuing a COA, that the Corporation deposit into an escrow account any Entrance Fees or payments by a prospective resident that are in excess of 5% of the then existing Entrance Fee for the living unit, and which are received by the Corporation prior to the date the resident is permitted to occupy the living unit. Those funds may be released by the Corporation only upon the meeting by the Corporation of the following statutory conditions:

- (a) If the Entrance Fee gives the resident the right to occupy a living unit which has been previously occupied, the Entrance Fee and any income earned thereon shall be released to the Corporation at such time as the living unit becomes available for occupancy for the new resident.
- (b) If the Entrance Fee applies to a living unit which has not been previously occupied, the Entrance Fee shall be released to the Corporation at such time as the Commissioner is satisfied that:
 - i. Aggregate Entrance Fees have been received or are receivable by the Corporation, pursuant to executed Resident Agreements, equal to not less than 50% of the sum of the Entrance Fees due at full occupancy of the portion of any of the Facilities under construction. Entrance fees are deemed to be receivable only if the Corporation has received a deposit of 35% or more of the Entrance Fee due from the individual signing the contract.
 - ii. The Entrance Fees which have been received or are receivable pursuant to subparagraph (i) above, plus anticipated proceeds of any first mortgage loan or other long-term financing commitment, plus funds from other sources in the actual possession of the Corporation, are equal to not less than 50% of the aggregate cost of constructing or purchasing, equipping and furnishing the Facilities, plus not less than 50% of the funds estimated by the Corporation as part of its COA application to be necessary to fund start-up losses of the facility.
 - iii. A commitment has been received by the Corporation for any permanent mortgage loan or other long-term financing described in the COA application and any

conditions of the commitment prior to disbursement of funds thereunder, other than completion of the construction of the facility, have been substantially satisfied.

Resident Agreement. The Act requires that the Corporation and each resident enter into a Resident Agreement for the residential unit to be occupied. A resident will have the right to rescind the Resident Agreement, without penalty or forfeiture, within seven days after making an initial deposit or executing the Resident Agreement. If a resident dies before occupancy, or if through illness, injury or incapacity the resident is precluded from becoming a resident under the terms of the Resident Agreement, the Resident Agreement is automatically rescinded and the resident or his legal representative is entitled to receive a full refund of all monies paid to the Corporation, except those costs specifically incurred by the Corporation at the request of the resident and set forth in writing in a separate addendum, signed by both parties to the Resident Agreement.

Other Statutory Provisions. The Act sets forth civil penalties for any person or provider who enters into a contract for continuing care with a resident without complying with all of the requirements of the Act, regardless of whether or not the person liable had actual knowledge of the existence of the violation. The Act also sets forth criminal penalties for willful and knowing violations of the Act of up to a \$10,000 fine or imprisonment for not more than two years or both, for each violation.

UTILIZATION AND FINANCIAL INFORMATION

Occupancy

The table below sets forth historical levels of occupancy based on beds in service for the facilities of the Corporation for the previous five years.

WILLOW VALLEY COMMUNITIES UTILIZATION INFORMATION

Year	Skilled Nursing		Personal Care		Apartment Living
	Patient Days	Average Occupancy Percentage	Patient Days	Average Occupancy Percentage	Average Occupancy Percentage
2010	89,789	90.4	63,486	80.9 (1)	90.0
2011	93,751	94.4	62,572	79.3 (1)	89.0
2012	98,124	96.8	68,326	85.5 (2)	86.2
2013	96,774	95.7	63,920	80.0	87.6 (3)
2014	96,424	95.4	66,988	83.8	89.0

- (1) Personal Care occupancy is based on a reduction of 32 beds at The Glen at Willow Valley effective January 1, 2009 due to ongoing renovation at this location.
- (2) Renovation work was completed at The Glen at Willow Valley during the first quarter of 2012
- (3) Apartment occupancy excludes 42 villa units at Providence Park during initial fill-up

Sources of Revenue

The sources of revenue for the Corporation over the past five fiscal years ending December 31 follow:

	2014	2013	2012	2011	2010
Private Pay	94%	93%	94%	93%	93%
Medicare	6%	7%	6%	7%	7%

Balance Sheets

The following Balance Sheets of the Corporation for each year in the five-year period ended December 31, 2014 have been derived from the Corporation's audited financial statements. This information should be read in conjunction with the audited financial statements of the Corporation and related notes thereto and the report of independent public accountants included in Exhibit B to this Official Statement.

WILLOW VALLEY COMMUNITIES
Balance Sheets
Fiscal Year Ending December 31,

ASSETS:	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets:					
Cash and cash equivalents	\$ 3,160,598	\$ 3,667,129	\$ 1,350,132	\$ 1,022,802	\$ 1,301,201
Investments	9,014,001	7,370,052	8,620,600	6,159,332	5,393,830
Investments whose use is limited	1,895,978	4,886,582	8,210,874	2,632,885	6,439,128
Accounts receivable	6,066,966	5,938,394	4,868,319	4,608,098	4,794,392
Prepaid expenses	794,882	704,520	853,810	802,958	840,350
Total current assets	<u>20,932,425</u>	<u>22,566,677</u>	<u>23,903,735</u>	<u>15,226,075</u>	<u>18,768,901</u>
Investments	73,522,533	73,551,084	69,629,710	67,697,870	69,894,703
Investments whose use is limited	9,172,276	10,793,668	8,651,090	7,683,101	7,513,993
Net investment in direct financing lease	6,333,145	6,333,234	6,383,875	—	—
Property and equipment, net of accumulated depreciation	255,709,338	244,837,818	233,613,380	235,761,738	231,652,489
Deferred costs, net of accumulated amortization	4,273,674	4,646,345	4,941,798	4,966,490	5,473,723
TOTAL ASSETS	<u>\$ 369,943,391</u>	<u>\$ 362,728,826</u>	<u>\$ 347,123,588</u>	<u>\$ 331,335,274</u>	<u>\$ 333,303,809</u>
LIABILITIES, DEFERRED REVENUE & NET ASSETS:					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 5,076,976	\$ 5,383,423	\$ 4,670,779	\$ 5,425,277	\$ 4,501,189
Accounts payable – construction	2,468,237	3,548,523	2,787,077	2,789,627	2,371,180
Entrance fee deposits	1,895,978	2,755,184	3,899,957	1,609,554	2,067,948
Long-term debt - current portion	2,210,284	2,131,398	1,640,000	2,030,000	1,985,000
Total current liabilities	<u>11,651,475</u>	<u>13,818,528</u>	<u>12,997,813</u>	<u>11,854,458</u>	<u>10,925,317</u>
Long-term debt	85,513,318	87,723,602	89,855,000	86,205,000	88,235,000
Line of credit	6,318,183	6,318,183	6,366,023	2,463,150	—
Fair value of interest rate swaps	43,039	67,327	—	178,940	428,907
Refund liability	40,340,155	40,570,325	41,255,093	41,828,864	43,801,112
Deferred revenue – unamortized entrance fees	156,462,244	147,631,505	135,533,900	133,434,008	134,675,962
Net assets:					
Unrestricted	67,543,345	64,441,077	58,888,125	53,231,098	53,127,528
Temporarily restricted	2,071,632	2,158,279	2,227,634	2,139,756	2,109,983
Total net assets	<u>69,614,977</u>	<u>66,599,356</u>	<u>61,115,759</u>	<u>55,370,854</u>	<u>55,237,511</u>
TOTAL LIABILITIES, DEFERRED REVENUE AND NET ASSETS	<u>\$ 369,943,391</u>	<u>\$ 362,728,826</u>	<u>\$ 347,123,588</u>	<u>\$ 331,335,274</u>	<u>\$ 333,303,809</u>

Statement of Operations and Changes in Net Assets

The following Statements of Operations and Changes in Net Assets of the Corporation for each year in the five year period ended December 31, 2014 have been derived from the Corporation's audited financial statements. This information should be read in conjunction with the audited financial statements of the Corporation and related notes thereto and the report of independent public accountants included in Exhibit B to this Official Statement.

WILLOW VALLEY COMMUNITIES
Statement of Operations and Changes in Net Assets
Fiscal Year Ending December 31,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
CHANGES IN UNRESTRICTED NET ASSETS:					
Revenue, gains and other support:					
Resident services, including amortization of deferred revenue	\$ 70,946,467	\$ 66,744,036	\$ 64,304,849	\$ 63,577,922	\$ 61,880,550
Member services, including amortization of deferred revenue	75,413	—	—	—	—
Healthcare	11,399,082	11,142,435	11,475,399	11,954,608	11,499,836
Investment income	3,762,516	3,421,740	2,737,926	2,031,089	2,456,593
Other	3,705,572	3,645,092	2,946,061	2,857,668	3,136,272
Net assets released from restrictions	298,199	262,682	165,164	149,474	114,986
Total revenue, gains and other support	<u>90,187,249</u>	<u>85,215,985</u>	<u>81,629,399</u>	<u>80,570,761</u>	<u>79,088,237</u>
Expenses:					
Administrative	10,550,206	9,928,555	9,646,553	9,374,413	9,704,865
Culinary services	14,576,455	14,219,922	14,034,196	13,757,417	13,989,889
Healthcare services	20,984,765	20,891,546	20,657,084	19,801,831	19,693,241
Housekeeping	3,418,457	3,431,271	2,891,104	2,823,750	2,826,048
Property management and services	2,973,980	2,805,222	2,678,728	2,619,600	2,511,968
Maintenance	7,331,744	6,793,777	6,686,866	6,566,838	6,778,960
Resident services	4,044,410	4,078,833	3,811,242	3,666,585	3,705,933
Member services	63,084	—	—	—	—
Marketing and sales	2,188,945	2,215,798	1,587,480	1,537,862	1,419,220
Interest and financing costs	1,884,133	1,906,961	2,352,669	2,509,152	3,185,697
Depreciation and amortization	18,985,437	17,052,940	16,037,041	14,964,208	14,328,899
Total expenses	<u>87,001,616</u>	<u>83,324,825</u>	<u>80,382,963</u>	<u>77,621,656</u>	<u>78,144,720</u>
Operating income (loss)	3,185,633	1,891,160	1,246,436	2,949,105	943,517
Net unrealized gain (loss) on trading investments	(107,653)	3,729,119	4,350,453	(3,095,502)	4,657,600
Loss from early extinguishment of debt	—	—	(118,802)	—	(1,475,351)
Change in fair value of interest rate swaps	24,288	(67,327)	178,940	249,967	(165,595)
	<u>(83,365)</u>	<u>3,661,792</u>	<u>4,410,591</u>	<u>(2,845,535)</u>	<u>3,016,654</u>
Excess (deficiency) of operating revenues, gains and other support over expenses	<u>3,102,268</u>	<u>5,552,952</u>	<u>5,657,027</u>	<u>103,570</u>	<u>3,960,171</u>
Increase (decrease) in unrestricted net assets	<u>3,102,268</u>	<u>5,552,952</u>	<u>5,657,027</u>	<u>103,570</u>	<u>3,960,171</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	211,552	193,327	253,042	179,247	304,755
Net assets released from restrictions	(298,199)	(262,682)	(165,164)	(149,474)	(114,986)
Increase (decrease) in temporarily restricted net assets	<u>(86,647)</u>	<u>(69,355)</u>	<u>87,878</u>	<u>29,773</u>	<u>189,769</u>
CHANGE IN NET ASSETS:	3,015,621	5,483,597	5,744,905	133,343	4,149,940
NET ASSETS, beginning of year	<u>66,599,356</u>	<u>61,115,759</u>	<u>55,370,854</u>	<u>55,237,511</u>	<u>51,087,571</u>
NET ASSETS, end of year	<u>\$ 69,614,977</u>	<u>\$ 66,599,356</u>	<u>\$ 61,115,759</u>	<u>\$ 55,370,854</u>	<u>\$ 55,237,511</u>

Interim Statements of Operations

The data for the eleven months ended November 30, 2015 and 2014 presented below have not been audited. The results for the eleven-month period ended November 30, 2015 should not be considered indicative of the results for the full fiscal year. This information should be read in conjunction with the audited financial statements of the Corporation and related notes thereto and the report of independent public accountants included in Exhibit B to this Official Statement.

WILLOW VALLEY COMMUNITIES
Statements of Operations and Changes in Net Assets
Eleven Months Ending November 30,

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue, gains and other support:		
Resident services, including amortization of deferred revenue	\$ 67,541,099	\$ 64,889,205
Member services, including amortization of deferred revenue	290,049	60,342
Healthcare	10,204,130	10,472,559
Investment income	1,248,326	1,468,431
Other	3,912,975	3,391,765
Total revenue, gains and other support	83,196,579	80,282,302
Expenses:		
Administrative	10,051,585	9,712,299
Culinary services	13,898,170	13,285,527
Healthcare services	19,457,482	19,291,364
Housekeeping	3,156,846	3,136,923
Property management and services	2,779,835	2,762,546
Maintenance	6,372,437	6,825,629
Resident services	3,767,040	3,423,741
Member services	91,115	72,500
Marketing and sales	1,849,836	2,055,787
Interest and financing costs	1,746,136	1,748,358
Depreciation and amortization	18,669,750	16,937,184
Total expenses	81,840,232	79,251,858
Operating income (loss)	1,356,347	1,030,444
Net unrealized gain (loss) on trading investments	(620,266)	2,655,125
Change in fair value of interest rate swaps	43,039	22,323
	(577,227)	2,677,448
Excess (deficiency) of operating revenues, gains and other support over expenses	779,120	3,707,892
Increase (decrease) in unrestricted net assets	779,120	3,707,892
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	178,764	164,798
Disbursements	(290,609)	(293,199)
Increase (decrease) in temporarily restricted net assets	(111,845)	(128,401)
CHANGE IN NET ASSETS:	667,275	3,579,491

Historical Debt Service Coverage

Shown below is a financial summary and the historic debt service coverage ratios for the Corporation for the years ended December 31, 2010 through 2014.

	2014	2013	2012	2011	2010
Excess (deficiency) of Operating Revenues, Gains and Other Support over Expenses	\$3,102,268	\$5,552,952	\$5,657,027	\$103,570	\$3,960,171
Add: Depreciation and Amortization	18,985,437	17,052,939	16,037,041	14,964,208	14,328,899
Interest Expense	1,061,044	1,077,442	1,399,109	1,510,779	2,176,356
Entrance Fees received net of refunds paid on resale units	24,679,700	26,346,509	19,153,582	11,910,856	11,006,630
Net Unrealized Losses on Trading Investments	107,653			3,095,502	
Loss on Early Extinguishment of Debt			118,802		1,475,351
Increase in Fair Value of Interest Rate Swaps		67,327			165,595
Less: Amortization of Deferred Revenue	16,938,337	16,078,445	15,337,058	15,583,452	14,600,079
Decrease in Fair Value of Interest Rate Swaps	24,288		178,940	249,967	
Net Unrealized Gains on Trading Investments		3,729,119	4,350,453		4,657,600
Total cash flow available for debt service	30,973,477	30,289,605	22,499,110	15,751,496	13,855,323
Maximum Annual Debt Service	\$5,387,639 ^(a)	\$5,389,847 ^(a)	\$5,393,078 ^(a)	\$5,393,454 ^(a)	\$5,397,439 ^(a)
Debt Service Coverage Ratio	5.75x	5.62x	4.17x	2.92x	2.57x

(a) Assumes average interest rate on the Adjustable Rate Demand Revenue Bonds Series A, B and C of 2009 incurred during the fiscal year (2010 – 0.231%, 2011 – 0.157%, 2012 – 0.150%, 2013 – 0.009%, 2015 - .0005%)

Historical Days Cash on Hand

Shown below is a summary of the history of days cash on hand for the Corporation for the years ended December 31, 2010 through 2014

	2014	2013	2012	2011	2010
Unrestricted Cash and Investments	\$98,963,695	\$102,421,694	\$95,005,758	\$81,942,604	\$83,928,354
÷ (Total Operating Expenses – Depreciation & Amortization)	68,230,814	66,271,885	64,345,922	62,657,448	63,815,821
÷ 365	186,934	181,567	176,290	171,664	174,838
Days Cash on Hand	529	564	539	477	480

Management's Discussion of Utilization and Financial Performance

Fiscal Year Ended December 31, 2010. Total revenues increased by 3.1% from 2009. Contributing to increased revenues were significant realized gains in the investment portfolio, strong occupancy in supportive living and stability in independent living occupancy. For the fiscal year ended December 31, 2010, unrestricted net assets increased by \$3.96 million. Operating expenses increased by \$2.57 million, or 3.4%, compared to 2009. One factor influencing the increase in expenses was a sharp increase in the costs associated with the Corporation's group health insurance program. In addition, the completion of significant apartment renovation projects increased depreciation expense in 2010.

Fiscal Year Ended December 31, 2011. Total revenues increased by 1.9% from 2010. Two main contributors were significant contract termination income resulting in increased amortization of deferred revenue and a strong Medicare Part A census that increased healthcare revenue. For the fiscal year ended December 31, 2011, unrestricted net assets increased by \$103,500. Operating expenses decreased by \$523,000 or 0.7%, compared to 2010 as a result of several factors including a lower fixed debt interest rate during 2011 due to the debt restructuring performed at the end of 2010 and a favorable variable debt interest rate during 2011 that reduced interest expense. In 2011, the Corporation also saw significant reduction in group health insurance and workers compensation costs from the prior year.

Fiscal Year Ended December 31, 2012. Total revenues increased by 1.3% from 2011. Contributing to increased revenues were stronger Resident monthly fee income and realized gains in the investments portfolio. For the fiscal year ended December 31, 2012, unrestricted net assets increased by \$5,657,500. Operating expenses increased by \$2,761,000, or 3.6%, compared to 2011. A leading contributor to the higher expenses was the completion of significant renovation work to The Glen (a five story supportive living building) during the first quarter of 2012 resulting in full operations for nine months in 2012 as compared to reduced operations throughout 2011. These capital costs of renovation and several other minor renovation projects began depreciating in 2012 contributing to a significant increase in depreciation expense. In addition, the State of Pennsylvania increased the 2012 per day assessment charge on skilled care beds by 23% resulting in increased expense.

Fiscal Year Ended December 31, 2013. Total Revenues increased by 4.4% from 2012. Strong contract termination income, Resident monthly fee revenue from the Providence Park at Willow Valley expansion and realized gains in the investment portfolio were the leading contributors to the increased revenue. For the fiscal year ended December 31, 2013, unrestricted net assets increased by \$5,553,000. Operating expenses increased by \$2,942,000, or 3.6% compared to 2012. An increase of approximately \$1,241,000 in the Corporation's self-insured group health insurance plan in 2013 was the leading contributor to the increase in expenses. Also contributing to increased expenses were building and equipment repairs and marketing and sales branding costs.

Fiscal Year Ended December 31, 2014. Total revenues increased by 5.9% from 2013. A full year of Resident monthly fee and amortization of deferred revenue income from the 42 villa units at Providence Park was a major contributor to this increase. In addition, a new revenue source (Member services revenue) came from the lifecare at home program (SmartLife VIA Willow Valley), which began in the late summer of 2014. For the fiscal year ended December 31, 2014, unrestricted net assets increased by \$3,102,000. Operating expense increased by \$3,677,000, or 4.4% compared to 2013. Higher utility costs resulting from a prolonged period of extremely cold weather in early 2014 was a major contributor to increased expenses. In addition, rising food costs, building and equipment repairs and depreciation costs contributed to the expense increase in 2014.

Outstanding Indebtedness

The Lancaster Industrial Development Authority, on behalf of the Corporation, issued Adjustable Rate Demand Revenue Bonds in July 2009. The proceeds of the 2009 Series A, B and C Bonds were \$20,000,000 each for a total of \$60,000,000. These funds were utilized to refinance an existing line of credit, to finance the renovation of the existing healthcare facilities, and to pay the costs of issuance of the 2009 Bonds. The Corporation has entered into a direct pay letter of credit facility with PNC Bank, National Association supporting these bonds. As of December 31, 2015, there is \$55,850,000 principal amount outstanding.

The Lancaster Industrial Development Authority, on behalf of the Corporation, issued Tax Exempt Revenue Note, Series of 2010 in December 2010. The proceeds of the 2010 Note totaled \$25,235,000. These funds were utilized to advance refund the 1997, 1998, and a portion of the 2001 Bonds and to pay the costs of issuance of the 2010 Note. As of December 31, 2015, there was \$20,545,000 principal amount outstanding.

The Paradise Township Sewer Authority, on behalf of the Corporation, issued Tax Exempt Revenue Note, Series of 2012 in December 2012. The proceeds of the 2012 Note totaled \$10,000,000. These funds were utilized to refund the remaining portion of the 2001 Bonds, to pay the costs of issuance of the 2012 Note and for the construction of independent living units at Providence Park at Willow Valley. As of December 31, 2015, there was \$9,118,318 principal amount outstanding.

On December 1, 2015, the Corporation entered into an interest rate swap agreement with PNC Bank, National Association to manage its exposure to interest rate changes on a portion of its variable rate 2009 Series C Bonds in a notional amount of \$10,000,000. The Corporation is obligated to pay a fixed rate of interest of 0.705% to PNC Bank, National Association and will receive a variable rate of interest based on SIFMA Municipal Swap Index. This swap agreement terminates on December 1, 2018. For additional information concerning this swap agreement and certain risks relating to this swap agreement, see “SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Sources of Payment – Existing and Proposed Parity Indebtedness” and “BONDHOLDERS’ RISKS – Risks Relating to Interest Rate Swap” in this Official Statement.

The Corporation secured a \$7 million non-revolving line of credit with PNC Bank, National Association to finance the construction of the City of Lancaster (the “City”) water line and pump station. The water line and pump station are leased to the City with the City paying rent to the Corporation equal to all debt service payments on the line of credit. An amount equal to the principal balance of the line of credit and all accrued and unpaid interest will be paid to the Corporation by the City upon the City’s planned purchase of the water line and pump station. The unsecured line of credit has a variable interest rate with interest payable monthly. As of December 31, 2015, there was \$6,215,853 outstanding under the line of credit.

The Corporation has developed investment policies with respect to its operating reserves, depreciation reserves, and insurance reserves. The investment policies and investment manager are reviewed and changed periodically by the Board. The objective of the policies is to preserve and enhance in real terms the market value of the portfolio. The investment manager is given a benchmark rate of return by which the performance of the portfolio is evaluated. Currently the investment guidelines provide for investment of the various reserves of the Corporation in the following classes of assets and allocation percentages:

	Cash Equivalent	Fixed Income	Equity	Specialized Investments
Operating Reserves	0 – 5%	25 – 50%	40 – 70%	0 – 20%
Depreciation Reserves	10 – 50%	30 – 50%	20 – 40%	
Insurance Reserves		100%		

COMPETITIVE SITUATION AND MARKETING

The Corporation draws residents from a wide geographic area, with about 50% of residents coming from Pennsylvania’s Lancaster, Delaware, Montgomery and Chester Counties. A secondary market consisting of New Jersey, Virginia, Delaware, Maryland and Florida accounts for approximately 36% of residents. A total of 37 states are represented in the current population.

Origin	Percentage of Current Residents
Lancaster County, Pennsylvania	21%
Other Areas in Pennsylvania	29%
New Jersey	12%
Maryland	9%
Delaware	6%
Virginia	5%
Florida	4%
Other	14%

Lancaster is considered a top four-season retirement destination, and, as such, tends to garner the attention of those wishing to live in a varied climate, especially those in the Northeast. The County’s proximity to major metropolitan areas allows prospective residents to live in a country setting while remaining connected to the areas from which they came. In addition to its desirable location, Willow Valley has received various regional and national awards, increasing attention from regional and national markets.

The Corporation is the only exclusively Life Care, Type A contract senior living community in Lancaster County. As such, and because of Willow Valley’s wide geographic draw, the Corporation monitors not only local communities, but national communities in terms of fees and amenities to ensure its competitiveness. Each year, the Corporation conducts a competitive analysis that compares Willow Valley with a group of organizations it considers relevant. Information gathered in these analyses is incorporated into the planning process to develop new products and programs.

Because of its unique regional draw from other areas (many of which have a higher cost of living), Willow Valley compares favorably to competitors’ entrance and monthly fees, while far exceeding any competitor’s overall package of physical environment, programs and amenities. This exceptional value proposition, in the opinion of the management of the Corporation, is one of the primary strengths in marketing Willow Valley.

Marketing of Willow Valley is administered by the management staff of the Corporation. Presently there are 15 people—13 full-time and two part-time staff—engaged in the marketing and sales function of the Corporation.

At present, the Corporation has a waiting list for certain residences in residential living. The breakdown of that waiting list as of November 30, 2015 by residence type is as follows:

<u>Residence Type</u>	
One Bedroom	6
One Bedroom Deluxe	2
Two Bedroom	5
Two Bedroom Deluxe	7
Two Bedroom Deluxe with Study	24
Villa/Townhome	55

As market demand has changed over the years with regard to desired residence sizes, the Corporation has continually modified its residence mix. Apartments under 1,200 square feet have significantly less demand than larger apartments. The apartment sizes for the Project are designed to meet the expectations of Willow Valley's most robust market.

APPENDIX B

**CONSOLIDATED FINANCIAL STATEMENTS OF
WILLOW VALLEY COMMUNITIES AND CONTROLLED AFFILIATE**

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**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Consolidated Financial Statements and Schedules

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplemental Information	
2014 Consolidating Information:	
Schedule of Consolidating Information, Balance Sheet	24
Schedule of Consolidating Information, Statement of Operations	25
Schedule of Consolidating Information, Statement of Changes in Net Assets (Deficit)	26
Schedule of Consolidating Information, Statement of Cash Flows	27



KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report

The Board of Directors
Willow Valley Communities:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Willow Valley Communities and controlled affiliate as of December 31, 2014 and 2013, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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 consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 consolidated financial position of Willow Valley Communities and controlled affiliate, as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2014 consolidating information is presented for purposes of additional analysis 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 audits 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.

KPMG LLP

Harrisburg, Pennsylvania
April 21, 2015

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Consolidated Balance Sheets

December 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 3,293,375	3,667,129
Investments	9,014,001	7,370,052
Investments whose use is limited – current portion	1,895,978	4,886,582
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2014 and 2013	5,773,822	5,938,394
Prepaid expenses	801,414	704,520
Total current assets	20,778,590	22,566,677
Investments	73,522,533	73,551,084
Investments whose use is limited:		
Statutory minimum liquid reserves	7,095,544	7,055,636
Other	2,076,732	3,738,032
Net investment in direct financing lease	6,333,145	6,333,234
Property and equipment, net of accumulated depreciation	255,709,338	244,837,818
Deferred costs, net of accumulated amortization of \$4,112,597 in 2014 and \$3,656,715 in 2013	4,273,674	4,646,345
Total assets	\$ 369,789,556	362,728,826
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,089,268	5,383,423
Accounts payable – construction	2,468,237	3,548,523
Entrance fee deposits	1,895,978	2,755,184
Long-term debt – current portion	2,210,284	2,131,398
Total current liabilities	11,663,767	13,818,528
Line of credit	6,318,183	6,318,183
Long-term debt – less current portion	85,513,318	87,723,602
Fair value of interest rate swaps	43,039	67,327
Refund liability	40,340,155	40,570,325
Deferred revenue – unamortized entrance fees	156,462,244	147,631,505
Total liabilities	300,340,706	296,129,470
Net assets:		
Unrestricted	67,377,218	64,441,077
Temporarily restricted	2,071,632	2,158,279
Total net assets	69,448,850	66,599,356
Total liabilities and net assets	\$ 369,789,556	362,728,826

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Consolidated Statements of Operations

Years ended December 31, 2014 and 2013

	2014	2013
Changes in unrestricted net assets:		
Operating revenues, gains, and other support:		
Resident services, including amortization of deferred revenue of \$16,915,837 for 2014 and \$16,078,445 for 2013	\$ 70,946,467	66,744,036
Member services, including amortization of deferred revenue of \$22,500 for 2014	148,143	—
Healthcare	11,399,082	11,142,435
Investment income	3,762,516	3,421,740
Other	3,681,350	3,645,092
Net assets released from restrictions	298,199	262,682
Total operating revenues, gains, and other support	<u>90,235,757</u>	<u>85,215,985</u>
Expenses:		
Administrative	10,691,189	9,928,555
Culinary services	14,576,455	14,219,922
Healthcare services	20,984,765	20,891,546
Housekeeping	3,418,457	3,431,271
Property management and services	2,980,426	2,805,222
Maintenance	7,342,355	6,793,777
Resident services	4,044,410	4,078,833
Member services	108,849	—
Marketing and sales	2,199,775	2,215,798
Interest and financing costs	1,884,133	1,906,961
Depreciation and amortization	18,985,437	17,052,940
Total expenses	<u>87,216,251</u>	<u>83,324,825</u>
Operating income	3,019,506	1,891,160
Net unrealized (losses) gains on trading investments	(107,653)	3,729,119
Change in fair value of interest rate swaps	24,288	(67,327)
Excess of operating revenues, gains, and other support over expenses	<u>2,936,141</u>	<u>5,552,952</u>
Increase in unrestricted net assets	<u>\$ 2,936,141</u>	<u>5,552,952</u>

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2014 and 2013

	2014	2013
Unrestricted net assets:		
Total operating revenues, gains, and other support	\$ 90,235,757	85,215,985
Total expenses	(87,216,251)	(83,324,825)
Net unrealized (losses) gains on trading investments	(107,653)	3,729,119
Change in fair value of interest rate swaps	24,288	(67,327)
Increase in unrestricted net assets	2,936,141	5,552,952
Temporarily restricted net assets:		
Contributions	211,552	193,327
Net assets released from restrictions	(298,199)	(262,682)
Decrease in temporarily restricted net assets	(86,647)	(69,355)
Increase in net assets	2,849,494	5,483,597
Net assets, beginning of year	66,599,356	61,115,759
Net assets, end of year	\$ 69,448,850	66,599,356

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 2,849,494	5,483,597
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,985,437	17,052,940
Amortization of deferred revenue	(16,938,337)	(16,078,445)
Net unrealized losses (gains) on trading investments	107,653	(3,729,119)
Net realized gains on sales of securities	(1,697,710)	(1,601,784)
Change in fair value of interest rate swaps	(24,288)	67,327
Proceeds from resident entrance fees and unit deposits	24,514,857	21,232,833
Change in temporarily restricted funds	86,647	69,355
Changes in operating assets and liabilities:		
Accounts receivable	164,572	(1,070,075)
Prepaid expenses	(96,894)	149,290
Accounts payable and accrued liabilities	(294,155)	712,644
Net cash provided by operating activities	27,657,276	22,288,563
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(29,401,075)	(27,847,005)
Change in accounts payable – construction	(1,080,286)	761,446
Costs of acquiring initial contracts	(83,211)	(134,920)
Proceeds from direct financing lease	89	50,641
Purchases of investments and investments whose use is limited	(41,684,169)	(49,296,984)
Sales of investments and investments whose use is limited	46,270,824	53,138,775
Net cash used in investing activities	(25,977,828)	(23,328,047)
Cash flows from financing activities:		
Payments of long-term debt	(2,131,398)	(1,640,000)
Payments of line of credit	—	(47,840)
Proceeds from resident entrance fees and unit deposits on new construction	5,551,924	11,346,181
Refunds of resident entrance fees	(5,387,081)	(6,232,505)
Change in temporarily restricted funds	(86,647)	(69,355)
Net cash (used in) provided by financing activities	(2,053,202)	3,356,481
Net (decrease) increase in cash and cash equivalents	(373,754)	2,316,997
Cash and cash equivalents, beginning of year	3,667,129	1,350,132
Cash and cash equivalents, end of year	\$ 3,293,375	3,667,129
Supplemental disclosure of cash flow information:		
Interest paid during the year, net of capitalized interest	1,063,015	1,061,081

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(1) Description of Operations and Summary of Significant Accounting Policies

(a) Description of Operations

Willow Valley Communities, formerly Willow Valley Retirement Communities, is a Pennsylvania not-for-profit corporation whose facilities are located in Lancaster, Pennsylvania. Willow Valley Communities provides life care to residents of Willow Valley Manor (Manor), a retirement facility that includes 295 residential units and a 60-bed healthcare facility; Willow Valley Lakes Manor (Lakes Manor), a retirement facility that includes 373 residential units, an 80-bed healthcare facility, 16 villa apartments, 36 midrise apartments, and 80 duplex and triplex residential units (the duplex and triplex units are collectively known as Willow Gables); Willow Valley Manor North (Manor North), a retirement facility that includes 472 residential units and a 251-bed healthcare facility; and Spring Run at Willow Valley (Spring Run), a retirement facility that includes 210 residential units and a 138-bed healthcare facility. As an expansion of the Manor, Willow Valley Communities has constructed 54 duplex and triplex units known as Providence Park at Willow Valley. Phase one consisting of 42 duplex and triplex units was completed in 2013. Phase two consisting of 12 triplex units was completed in 2014.

Residents pay a one-time entrance fee plus a monthly fee for room, board, housekeeping, and certain other resident services. Upon admission to a healthcare facility, residents continue to pay the monthly service fee. There is no additional charge for nursing care for life care residents. Individuals who enter a healthcare facility and are not covered under a life care contract are charged a per diem fee during their stay. Both residents and nonresidents are charged for optional goods and services such as household supplies, laundry, cable television, etc.

(b) Description of Controlled Affiliate

On March 26, 2014 Willow Valley Communities entered in to an operating agreement as the sole member of Connections at Home VIA Willow Valley, LLC a home care agency. Services provided include companion and homemaking, as well as, wellness visits and personal and hospice assistance.

(c) Basis of Consolidation

The accompanying consolidated financial statements have been prepared to focus on Willow Valley Communities and the controlled affiliate (collectively, the Organization) as a whole. All material intercompany transactions have been eliminated in consolidation.

(d) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and present balances and transactions according to the existence or absence of donor-imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as net assets released from restrictions in the consolidated statements of operations and changes in net assets.

There are three classes of net assets – permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets are net assets subject to donor-imposed stipulations that are required to be maintained permanently by the Organization. The Organization has no permanently restricted net assets.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Unrestricted net assets are net assets not subject to donor-imposed stipulations.

(e) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. The actual results could differ from those estimates.

(f) Cash and Cash Equivalents

Cash and cash equivalents can include investments in highly liquid debt instruments with a maturity of three months or less.

(g) Investments and Investments Whose Use Is Limited

Investments and investments whose use is limited comprised of fixed income, marketable equity securities, U.S. Treasury obligations, mutual funds, and other federal agency obligations are recorded at fair value.

Investment income or loss is recognized when earned. Investments and investments whose use is limited are classified as current or noncurrent based on the Organization's expected use of the funds.

Investments and investments whose use is limited are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially differ from the amounts reported in the accompanying consolidated financial statements.

Investments whose use is limited represents cash and other liquid investments that have been reserved by the board of directors or through law or contract. The amounts are invested within the parameters provided to the fund manager by the board of directors. Investments whose use is limited consist of certain liquid reserves required by the Pennsylvania Continuing Care Provider Registration and

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Disclosure Act, deposits with trustees under debt agreements related to proceeds of debt issuance, and debt service reserves required under the respective bond indentures. Also, included in these amounts are the entrance fee deposits of prospective residents held in escrow.

(h) *Property and Equipment*

Property and equipment are stated at cost. Depreciation is provided for assets placed in service over their estimated useful lives, which range from 4 years for certain furniture, fixtures, and equipment to 40 years for buildings. Assets are depreciated using the straight-line method. When assets are sold or retired, the asset values and related accumulated depreciation are eliminated from these accounts and any resulting gain or loss is included in operating income. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized. Interest cost from tax-exempt bonds, net of amounts earned on unexpended bond proceeds, is capitalized for assets constructed that require a period of time to prepare them for their intended use.

(i) *Deferred Costs*

Deferred costs include deferred financing costs and costs of acquiring initial care contracts.

Deferred financing costs are amortized over the terms of the related financing, using a method that approximates the effective-interest method.

Costs of acquiring initial care contracts include direct costs of acquiring Manor North, Willow Gables, Spring Run and Providence Park contracts, and certain solicitation costs. These costs are capitalized through the date of substantial occupancy of the residential units. Costs of acquiring initial care contracts are amortized on a straight-line basis over the average expected lives of the original residents.

(j) *Operating Income*

The consolidated statements of operations include an intermediate measure of operations labeled as “operating income.” Changes in the performance indicator, which are excluded from this measure, are changes in the fair value of interest rate swaps and net unrealized (losses) gains on trading investments.

(k) *Performance Indicator*

The consolidated statements of operations include a performance indicator of operations labeled as “excess of operating revenues, gains, and other support over expenses.”

(l) *Derivative Instruments*

Willow Valley Communities entered into an interest rate swap to limit its exposure to interest rate changes on its variable-rate demand bonds. Hedge accounting has not been designated; therefore, variations in fair value of the derivative are reported within the Organization’s performance indicator in the consolidated statements of operations.

By using derivative products to manage exposures to changes in interest rates, the Organization is subject to credit risk and market risk. Credit risk is the failure of the counterparty on the derivative instrument to perform under the terms of the derivative instrument. Depending on interest rate

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

movements, one party will owe the other party a payment under the applicable derivative contract. The Organization attempts to manage the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties rated “A” or better by Moody’s Investor Service. The swap payments and termination payments under the derivative agreements are not on parity with the outstanding debt obligations.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring internal parameters and reviews that limit the types and degree of market risk that may be undertaken. Neither Willow Valley Communities nor the counterparty to these agreements is required to deposit collateral dependent on the market valuation of the derivatives contracts. Therefore, a negative market valuation of these instruments will not have an adverse impact on the cash flows of the Organization.

(m) Entrance Fees

Willow Valley Communities has various entrance fee contracts, which provide for refund options. A resident, upon termination of occupancy, is entitled to receive a refund of a portion of the entrance fee pursuant to the terms of their contract. The refund is required to be paid only upon subsequent receipt of the resale proceeds for that independent living unit. The gross amount of entrance fees subject to contractual refund provisions under existing contracts is \$92,283,218 and \$87,183,066 as of December 31, 2014 and 2013, respectively, of which \$40,340,155 and \$40,570,325 is classified as “refund liability” on the consolidated balance sheets and \$51,943,063 and \$46,612,741 as “deferred revenue – unamortized entrance fees” as of December 31, 2014 and 2013, respectively.

Willow Valley Communities amortizes nonrefundable deferred revenue from entrance fees over the actuarially determined remaining life expectancy of each individual or joint and last survivor life expectancy of each pair of residents occupying the same unit.

Entrance fee deposits represent amounts received from individuals currently awaiting residency or desiring residency at a future date. These amounts are fully refundable. Upon occupancy, these amounts are reclassified to “deferred revenue-unamortized entrance fees” and “refund liability” based upon terms of their contract.

(n) Revenue

Resident services revenue includes the amortization of deferred revenue from entrance fees and contract termination income and monthly contract fees.

Member services revenue includes the amortization of deferred revenue from initial membership fees and monthly contract fees from members.

Healthcare revenue is reported at the estimated net realizable amount to be received from residents and others including Medicare and other third-party payors for services rendered. Medicare reimbursement is subject to audit and adjustment in future periods.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(o) Future Service Obligation

Willow Valley Communities annually prepares a calculation of the present value of the cost of future services and use of the retirement community facilities to be provided to current residents in excess of related anticipated future revenues, and compares that amount with the balance of deferred revenue from entrance fees. If this calculated amount exceeds the deferred revenue from entrance fees less unamortized initial marketing costs, a liability is recorded with a corresponding charge to income. The calculation was performed assuming a discount rate of 5.0% for 2014 and 2013, respectively, and an inflation rate of 3.5% for expense and maintenance fees for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the present value of the cost of future services and use of facilities in excess of related anticipated revenues does not exceed the balance of deferred revenue from entrance fees, less unamortized initial marketing costs. Therefore, no additional liability for the obligation to provide future services is required to be recorded.

(p) Donor Restrictions

The Organization 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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

(q) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Organization has no impaired long-lived assets as of December 31, 2014 and 2013.

(r) Statutory Reserve Requirement

The Pennsylvania Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loan or 10% of the projected annual operating expenses of the facilities exclusive of depreciation and amortization, computed only on the proportional share of financing or operating expenses that is applicable to residents under entrance agreement contracts. Willow Valley Communities has calculated the statutory minimum liquid reserve of \$7,095,544 as of December 31, 2014 and presented this amount as with the caption "Investments whose use is limited: Statutory minimum liquid reserves" within the consolidated balance sheets.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(s) Income Taxes

Willow Valley Communities has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes pursuant to Section 501(a) of the Internal Revenue Code.

Connections at Home VIA Willow Valley, LLC is a disregarded entity of the Willow Valley Communities for federal tax purposes.

(2) Property and Equipment

A summary of property and equipment at December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 51,958,110	45,501,604
Buildings	345,574,018	324,192,145
Furniture, fixtures, and equipment	32,661,092	27,715,552
Construction in progress	<u>10,376,084</u>	<u>15,547,009</u>
	440,569,304	412,956,310
Less accumulated depreciation	<u>184,859,966</u>	<u>168,118,492</u>
	<u>\$ 255,709,338</u>	<u>244,837,818</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$18,529,555 and \$16,622,567, respectively.

The Organization had disposals of \$1,788,081 and \$4,629,557 for the years ended December 31, 2014 and 2013.

Construction in progress as of December 31, 2014 principally consisted of expenditures to date on sitework and the construction of the Providence Park townhomes, apartment unit renovations community wide and core renovations at Willow Valley Manor North.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(3) Investments

(a) Investments Whose Use Is Limited

The composition of investments whose use is limited at December 31 is set forth in the following table.

	2014	2013
Funds held in escrow for entrance fee deposits:		
Cash and money market funds	\$ 1,895,978	6,461,235
Limited under debt indentures:		
Debt service:		
Cash and money market funds	5,100	5,100
Limited under Pennsylvania Continuing Care:		
Provider Registration and Disclosure Act:		
Cash and money market funds	324,265	1,754,357
U.S. Treasury obligations	4,547,381	3,745,883
Other federal agency obligations	2,223,898	1,555,396
	7,095,544	7,055,636
Temporarily restricted by donors:		
U.S. Treasury obligations	2,071,632	2,158,279
Total investments whose use is limited	11,068,254	15,680,250
Investments whose use is limited – current portion	(1,895,978)	(4,886,582)
Investments whose use is limited – noncurrent	\$ 9,172,276	10,793,668

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(b) Other Investments

Investments monitored by the board of directors, but otherwise unrestricted at December 31 include the following:

	<u>2014</u>	<u>2013</u>
Cash and money market funds	\$ 5,569,367	4,309,628
U.S. Treasury obligations	3,444,634	3,060,424
Total current investments	<u>\$ 9,014,001</u>	<u>7,370,052</u>
Marketable equity securities	\$ 33,532,060	34,469,269
U.S. Treasury obligations	9,607,518	10,671,640
Other federal agency obligations	7,906,672	8,351,049
Foreign bonds	666,434	759,045
Municipal bonds	720,447	473,204
Corporate debt obligations	13,243,000	13,603,360
Mutual funds	7,846,402	5,223,517
Total noncurrent investments	<u>\$ 73,522,533</u>	<u>73,551,084</u>

Investment income and realized and unrealized gains (losses) from investments whose use is limited and other investments comprise the following for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Income:		
Investment income, net of expenses of \$254,277 and \$211,210 for the years ended December 31, 2014 and 2013, respectively	\$ 2,064,806	1,819,956
Net realized gains on sales of securities	1,697,710	1,601,784
	<u>3,762,516</u>	<u>3,421,740</u>
Other changes in unrestricted net assets:		
Net unrealized (losses) gains on trading securities	(107,653)	3,729,119
Total investment return	<u>\$ 3,654,863</u>	<u>7,150,859</u>

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of U.S. Treasury obligations available to advance educational opportunities for Willow Valley Communities' employees. These assets totaled \$230,594 and \$225,219 at December 31, 2014 and 2013, respectively. In addition, funds are available to supplement the monthly fees of residents who may be temporarily unable to pay. These assets totaled \$1,841,038 and \$1,933,060 at

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

December 31, 2014 and 2013, respectively. These are included as investments whose use is limited in the accompanying consolidated financial statements.

(5) Long-Term Debt and Line of Credit

Willow Valley Communities is the obligated group for the Organization's long-term debt and line of credit.

Long-term debt consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
2009 Series A Bonds, interest payable semiannually with variable interest rates (.03% as of December 31, 2014); annual principal payments ranging from \$305,000 beginning in 2010 to \$1,225,000 in 2039; collateralized by gross revenues and all buildings and equipment	\$ 18,315,000	18,685,000
2009 Series B Bonds, interest payable semiannually with variable interest rates (.03% as of December 31, 2014); annual principal payments ranging from \$305,000 beginning in 2010 to \$1,225,000 in 2039; collateralized by gross revenues and all buildings and equipment	18,315,000	18,685,000
2009 Series C Bonds, interest payable semiannually with variable interest rates (.03% as of December 31, 2014); annual principal payments ranging from \$2,105,000 beginning in 2032 to \$2,935,000 in 2039; collateralized by gross revenues and all buildings and equipment	20,000,000	20,000,000
2010 Bank Qualified Loan, interest payable monthly at 3.04% for seven years; annual principal payments ranging from \$915,000 beginning in 2011 to \$1,590,000 in 2031; collateralized by gross revenues and all buildings and equipment	21,530,000	22,485,000
2012 Bank Qualified Loan, interest payable monthly at 2.08% for seven years; monthly principal payments ranging from \$35,708 beginning in 2014 to \$52,756 in 2032; collateralized by gross revenues and all buildings and equipment	<u>9,563,602</u>	<u>10,000,000</u>
Total long-term debt	87,723,602	89,855,000
Long-term debt – current portion	<u>(2,210,284)</u>	<u>(2,131,398)</u>
Long-term debt – less current portion	<u>\$ 85,513,318</u>	<u>87,723,602</u>

The proceeds of the 2009 Series A, B, and C Bonds were \$20,000,000 each for a total of \$60,000,000. These funds were utilized to refinance an existing line of credit, to finance the renovation of the existing healthcare facilities, and to pay the costs of issuance of the 2009 Bonds. Willow Valley Communities has entered into

WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

a direct pay letter of credit liquidity facility (the Letter of Credit) with PNC Bank, N.A. for these bonds. The annual fee for the Letter of Credit is 1.25% of outstanding bonds. The Letter of Credit expires on July 22, 2018. The 2009 Bond Trust Indenture requires Willow Valley Communities to maintain certain financial covenants.

Should Willow Valley Communities be required to access the letter of credit liquidity facilities securing the 2009 Series A, B, and C variable-rate demand bonds due to an inability to remarket the bonds, Willow Valley Communities would be required to repay such draws that are shorter than the stated maturity terms of the bonds. The amounts classified as long-term debt – current portion in the accompanying consolidated balance sheet at December 31, 2014 are those payments that would be due within one year of the consolidated balance sheet date assuming Willow Valley Communities' inability to remarket outstanding variable-rate demand bonds.

The proceeds of the 2010 Bank Qualified Loan totaled \$25,235,000 and were used to advance refund the 1997, 1998, and a portion of the 2001 Bonds and to pay the costs of issuance of the 2010 Bank Qualified Loan.

The proceeds of the 2012 Bank Qualified Loan totaled \$10,000,000 and were used to refund the remaining portion of the 2001 Bonds, to pay the costs of issuance of the 2012 Bank Qualified Loan and were utilized in the construction of independent living units at Providence Park at Willow Valley.

Willow Valley Communities secured a \$7 million nonrevolving line of credit with a local bank to finance the construction of the City of Lancaster water line and pump station. Debt and related interest will be reimbursed to Willow Valley Communities by the City of Lancaster upon their planned purchase of the water line and pump station. The unsecured line of credit has a variable interest rate with interest payable monthly. The interest rate on the line of credit was 2.75% at December 31, 2014 and 2013, respectively. The expiration date of the line of credit is February 12, 2016, or such later date as may be designated by the bank. The line of credit agreement requires Willow Valley Communities to maintain certain financial covenants. During 2014, the amount outstanding remained at \$6,318,183 throughout the year. Borrowings outstanding under the line of credit totaled \$6,318,183 at December 31, 2014 and 2013, respectively.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The following is a summary of the annual maturities of debt over the next five years and thereafter assuming that the bonds will be repaid based on their original maturity schedules and assuming that liquidity facilities have been accessed due to the inability to remarket the bonds:

	<u>2009</u> <u>Bonds</u>	<u>2010</u> <u>Bank loan</u>	<u>2012</u> <u>Bank loan</u>	<u>Scheduled</u> <u>maturity</u>	<u>Assumes</u> <u>liquidity</u> <u>facility</u> <u>accessed</u>
2015	\$ 780,000	985,000	445,284	2,210,284	2,210,284
2016	820,000	1,020,000	453,845	2,293,845	57,323,845
2017	860,000	1,045,000	463,594	2,368,594	1,508,594
2018	900,000	1,080,000	473,035	2,453,035	1,553,035
2019	940,000	1,110,000	482,668	2,532,668	1,592,668
Thereafter	<u>52,330,000</u>	<u>16,290,000</u>	<u>7,245,176</u>	<u>75,865,176</u>	<u>23,535,176</u>
	<u>\$ 56,630,000</u>	<u>21,530,000</u>	<u>9,563,602</u>	<u>87,723,602</u>	<u>87,723,602</u>

(6) Derivative Instruments

On August 22, 2013, Willow Valley Communities entered into an interest rate swap agreement to limit its exposure to interest rate changes on its variable-rate demand bonds 2009 Series C with a notional amount of \$20,000,000 to pay a fixed rate of interest of 0.39% and receive a variable rate of interest based on SIFMA Municipal Swap Index to manage interest rate exposure related to its variable interest rate payment obligations on the 2009 Series C Bonds. This swap agreement terminates on August 22, 2015.

In addition, on October 31, 2013, Willow Valley Communities entered into an interest rate cap transaction agreement to limit its exposure to interest rate changes on its variable-rate demand bonds 2009 Series A and B Bonds with a notional amount of \$37,370,000 to cap the variable rate interest at 0.90%. This interest rate cap transaction terminated on December 31, 2014.

The following table summarizes the changes in fair values for the 2009 Series C Bonds derivative instrument reported in the statements of operations for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Accumulated swap liability, beginning of year	\$ (67,327)	—
Net change	<u>24,288</u>	<u>(67,327)</u>
Accumulated swap liability, end of year	<u>\$ (43,039)</u>	<u>(67,327)</u>

(7) Retirement Plan

Willow Valley Communities has a defined contribution retirement plan covering substantially all employees of Willow Valley Communities who have completed one year of service of 1,000 hours or more and have reached the age of 21 years. A participant is fully vested for the employee contribution upon participation in the plan. Willow Valley Communities may make matching contributions to each participant based on his or

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

her elective deferrals in a percentage set by Willow Valley Communities prior to the end of each plan year, up to 3%. In addition, Willow Valley Communities may make a discretionary contribution as determined by Willow Valley Communities. The amount a participant is vested in Willow Valley Communities match is dependent upon their length of service.

For the years ended December 31, 2014 and 2013, retirement plan expense totaled approximately \$355,090 and \$317,117, respectively.

(8) Commitments and Contingencies

Willow Valley Communities has entered into a five-year contract through April 30, 2019 with a management company to manage each facility. In return for services provided, the management company receives a monthly fee based on the number of all residential units, apartments, and health center beds available for occupancy. Total expenses under this agreement for the years ended December 31, 2014 and 2013 were \$2,758,275 and \$2,592,519, respectively. The contract may be terminated at any time by mutual written agreement of the parties. In addition, Willow Valley Communities purchased development services from the management company in 2014 and 2013. These development services were \$465,628 and \$500,507 for the years ended December 31, 2014 and 2013.

Willow Valley Communities purchases construction services from a company that is related to the management company. The total construction costs from the related company were \$23,394,431 and \$23,059,426 for the years ended December 31, 2014 and 2013. Willow Valley Communities is obligated under certain construction commitments totaling approximately \$9,610,644 and \$14,990,321 as of December 31, 2014 and 2013, respectively.

Willow Valley Communities has a letter of credit with Fulton Bank, N.A. in the amount of \$4,000,000 at December 31, 2014, under which separate letters of credit may be granted. As of December 31, 2014, there were five letters of credit totaling an aggregate amount of \$1,701,538 offsetting the available balance of \$4,000,000, which are as follows:

A letter of credit required by the Captive Insurance Company (CARE, LTD) to fund the difference between CARE, LTD's loss fund and the aggregate (reinsurance loss level) and to secure payment of potential claims, in the amount of \$1,108,082 at December 31, 2014. Three letter of credits required by West Lampeter Township to secure site improvements for the Lakes Manor expansion, in the amount of \$4,572, the Manor North expansion, in the amount of \$335,699, and the Providence Park expansion, in the amount of \$214,133, at December 31, 2014. Also, a letter of credit required by the Suburban Lancaster Sewer Authority to secure the public improvements shown in the sewer design plan for the Providence Park expansion, in the amount of \$39,052, at December 31, 2014. There were no draws on these lines as of December 31, 2014.

The Organization is also party to various claims arising in the ordinary course of business. Management, after consultation with legal counsel, does not believe that the resolution of these matters will have a material effect on the Organization's consolidated financial position.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(9) Fair Value

(a) Financial Instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Organization's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Organization based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, entrance fee deposits, refund liability, and deferred revenue – The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Investments and investments whose use is limited – These assets are carried at fair value, which is based primarily on quoted market prices at the reporting date. When quoted prices in active markets are not available the Organization relies on a pricing service to estimate fair value.

Fair value of interest rate swap – The carrying amount for the swap agreement is a fair value estimate based on the anticipated discounted cash flows using indicative mid-market levels, adjusted to reflect counterparty nonperformance risk of both Willow Valley Communities and the counterparty. The fair value estimates are derived from proprietary models based upon financial principles and reasonable estimates about relevant future market conditions.

Long-term debt – The fair value of variable rate bonds payable is based on current interest rates for bonds of similar nature and maturities and the carrying amounts included in long-term debt in the consolidated balance sheets for variable-rate bonds payable approximate fair value. The fair value of bank qualified loans is determined by discounting future cash flows of each instrument at rates that reflect, among other things, market interest rates and Willow Valley Communities' credit standing.

The fair value of the Organization's total long-term debt approximated \$88,798,000 and \$89,930,000 at December 31, 2014 and 2013, respectively.

(b) Fair Value Hierarchy

The Organization determines fair value measurements using the fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements)

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2014 and 2013:

	December 31, 2014			Total	Redemption or liquidation
	Level 1	Level 2	Level 3		
Assets:					
Trading securities:					
Cash and money market funds	\$ 7,794,710	—	—	7,794,710	Daily
Marketable equity securities:					
Mutual Funds and ETFs	37,213,603	—	—	37,213,603	Daily
Equities	2,986,065	—	—	2,986,065	Daily
Real Estate Investment Trusts	748,937	—	—	748,937	Daily
Preferred Convertible Stock	429,857	—	—	429,857	Daily
	<u>41,378,462</u>	<u>—</u>	<u>—</u>	<u>41,378,462</u>	
U.S. Treasury obligations	19,671,165	—	—	19,671,165	Daily
Other federal agency obligations	—	10,130,570	—	10,130,570	Daily
Municipal bonds	—	720,447	—	720,447	Daily
Foreign bonds	—	666,434	—	666,434	Daily
Corporate debt obligations	—	13,243,000	—	13,243,000	Daily
	<u>—</u>	<u>13,243,000</u>	<u>—</u>	<u>13,243,000</u>	
Total	<u>\$ 68,844,337</u>	<u>24,760,451</u>	<u>—</u>	<u>93,604,788</u>	

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

	December 31, 2013			Total	Redemption or liquidation
	Level 1	Level 2	Level 3		
Assets:					
Trading securities:					
Cash and money market funds	\$ 12,530,320	—	—	12,530,320	Daily
Marketable equity securities:					
Mutual Funds and ETFs	35,908,200	—	—	35,908,200	Daily
Equities	2,867,439	—	—	2,867,439	Daily
Real Estate					
Investment Trusts	633,032	—	—	633,032	Daily
Preferred Convertible Stock	284,115	—	—	284,115	Daily
	<u>39,692,786</u>	<u>—</u>	<u>—</u>	<u>39,692,786</u>	
U.S. Treasury obligations	19,636,226	—	—	19,636,226	Daily
Other federal agency obligations	—	9,906,445	—	9,906,445	Daily
Municipal bonds	—	473,204	—	473,204	Daily
Foreign bonds	—	759,045	—	759,045	Daily
Corporate debt obligations	—	13,603,360	—	13,603,360	Daily
Total	<u>\$ 71,859,332</u>	<u>24,742,054</u>	<u>—</u>	<u>96,601,386</u>	

(10) Functional Expenses

Expenses by functional classification for the years ended December 31, 2014 and 2013 are residential services of \$79,115,907 and \$76,244,817, respectively, and support and management of \$8,100,344 and \$7,080,008, respectively.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(11) Net Investment in Direct Financing Lease

The following lists the components of the net investment in direct financing as of December 31:

	<u>2014</u>	<u>2013</u>
Total minimum lease payments to be received	\$ 6,422,545	6,598,797
Minimum lease payments receivable	6,422,545	6,598,797
Less unearned income	<u>(89,400)</u>	<u>(265,563)</u>
Net investment in direct financing	\$ <u>6,333,145</u>	<u>6,333,234</u>

(12) Subsequent Events

The Organization has evaluated subsequent events from the consolidated balance sheet date through April 21, 2015 the date at which the consolidated financial statements were available to be issued, and determined there are no items to disclose.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**
Schedule of Consolidating Information, Balance Sheet
December 31, 2014

Assets	<u>Obligated Group</u>			TOTAL
	WILLOW VALLEY COMMUNITIES	CONNECTIONS AT HOME VIA WILLOW VALLEY	ELIMINATION ENTRIES	
Current assets:				
Cash and cash equivalents	\$ 3,160,598	132,777	—	3,293,375
Investments	9,014,001	—	—	9,014,001
Investments whose use is limited – current portion	1,895,978	—	—	1,895,978
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2014 and 2013	6,066,966	14,316	(307,460)	5,773,822
Prepaid expenses	794,882	6,532	—	801,414
Total current assets	<u>20,932,425</u>	<u>153,625</u>	<u>(307,460)</u>	<u>20,778,590</u>
Investments	73,522,533	—	—	73,522,533
Investments whose use is limited:				
Statutory minimum liquid reserves	7,095,544	—	—	7,095,544
Other	2,076,732	—	—	2,076,732
Net investment in direct financing lease	6,333,145	—	—	6,333,145
Property and equipment, net of accumulated depreciation	255,709,338	—	—	255,709,338
Deferred costs, net of accumulated amortization of \$4,112,597 in 2014 and \$3,656,715 in 2013	4,273,674	—	—	4,273,674
Total assets	<u>\$ 369,943,391</u>	<u>153,625</u>	<u>(307,460)</u>	<u>369,789,556</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 5,076,976	319,752	(307,460)	5,089,268
Accounts payable – construction	2,468,237	—	—	2,468,237
Entrance fee deposits	1,895,978	—	—	1,895,978
Long-term debt – current portion	2,210,284	—	—	2,210,284
Total current liabilities	<u>11,651,475</u>	<u>319,752</u>	<u>(307,460)</u>	<u>11,663,767</u>
Line of credit	6,318,183	—	—	6,318,183
Long-term debt – less current portion	85,513,318	—	—	85,513,318
Fair value of interest rate swaps	43,039	—	—	43,039
Refund liability	40,340,155	—	—	40,340,155
Deferred revenue – unamortized entrance fees	156,462,244	—	—	156,462,244
Total liabilities	<u>300,328,414</u>	<u>319,752</u>	<u>(307,460)</u>	<u>300,340,706</u>
Net assets (deficit):				
Unrestricted	67,543,345	(166,127)	—	67,377,218
Temporarily restricted	2,071,632	—	—	2,071,632
Total net assets (deficit)	<u>69,614,977</u>	<u>(166,127)</u>	<u>—</u>	<u>69,448,850</u>
Total liabilities and net assets (deficit)	<u>\$ 369,943,391</u>	<u>153,625</u>	<u>(307,460)</u>	<u>369,789,556</u>

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**
Schedule of Consolidating Information, Statement of Operations
Year ended December 31, 2014

	<u>Obligated Group</u>			<u>TOTAL</u>
	<u>WILLOW VALLEY COMMUNITIES</u>	<u>CONNECTIONS AT HOME VIA WILLOW VALLEY</u>	<u>ELIMINATION ENTRIES</u>	
Changes in unrestricted net assets (deficit):				
Operating revenues, gains, and other support:				
Resident services, including amortization of deferred revenue of \$16,915,837 for 2014	\$ 70,946,467	—	—	70,946,467
Member services, including amortization of deferred revenue of \$22,500 for 2014	75,413	73,605	(875)	148,143
Healthcare	11,399,082	—	—	11,399,082
Investment income	3,762,516	—	—	3,762,516
Other	3,705,572	—	(24,222)	3,681,350
Net assets released from restrictions	298,199	—	—	298,199
Total operating revenues, gains, and other support	<u>90,187,249</u>	<u>73,605</u>	<u>(25,097)</u>	
Expenses:				
Administrative	10,550,206	165,155	(24,172)	10,691,189
Culinary services	14,576,455	—	—	14,576,455
Healthcare services	20,984,765	—	—	20,984,765
Housekeeping	3,418,457	—	—	3,418,457
Property management and services	2,973,980	7,371	(925)	2,980,426
Maintenance	7,331,744	10,611	—	7,342,355
Resident services	4,044,410	—	—	4,044,410
Member services	63,084	45,765	—	108,849
Marketing and sales	2,188,945	10,830	—	2,199,775
Interest and financing costs	1,884,133	—	—	1,884,133
Depreciation and amortization	18,985,437	—	—	18,985,437
Total expenses	<u>87,001,616</u>	<u>239,732</u>	<u>(25,097)</u>	<u>87,216,251</u>
Operating income (loss)	3,185,633	(166,127)	—	3,019,506
Net unrealized losses on trading investments	(107,653)	—	—	(107,653)
Change in fair value of interest rate swaps	24,288	—	—	24,288
Excess (deficit) of operating revenues, gains, and other support over expenses	3,102,268	(166,127)	—	2,936,141
Increase (decrease) in unrestricted net assets (deficit)	<u>\$ 3,102,268</u>	<u>(166,127)</u>	<u>—</u>	<u>2,936,141</u>

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**
Schedule of Consolidating Information, Statement of Changes in Net Assets (Deficit)
Year ended December 31, 2014

	<u>Obligated Group</u>			<u>TOTAL</u>
	<u>WILLOW VALLEY COMMUNITIES</u>	<u>CONNECTIONS AT HOME VIA WILLOW VALLEY</u>	<u>ELIMINATION ENTRIES</u>	
Unrestricted net assets (deficit):				
Total operating revenues, gains, and other support	\$ 90,187,249	73,605	(25,097)	90,235,757
Total expenses	(87,001,616)	(239,732)	25,097	(87,216,251)
Net unrealized losses on trading investments	(107,653)	—	—	(107,653)
Change in fair value of interest rate swaps	24,288	—	—	24,288
Increase (decrease) in unrestricted net assets (deficit)	<u>3,102,268</u>	<u>(166,127)</u>	<u>—</u>	<u>2,936,141</u>
Temporarily restricted net assets:				
Contributions	211,552	—	—	211,552
Net assets released from restrictions	(298,199)	—	—	(298,199)
Decrease in temporarily restricted net assets	(86,647)	—	—	(86,647)
Increase (decrease) in net assets (deficit)	<u>3,015,621</u>	<u>(166,127)</u>	<u>—</u>	<u>2,849,494</u>
Net assets, beginning of year	<u>66,599,356</u>	<u>—</u>	<u>—</u>	<u>66,599,356</u>
Net assets (deficit), end of year	<u>\$ 69,614,977</u>	<u>(166,127)</u>	<u>—</u>	<u>69,448,850</u>

See accompanying notes to consolidated financial statements.

**WILLOW VALLEY COMMUNITIES
AND CONTROLLED AFFILIATE**
Schedule of Consolidating Information, Statement of Cash Flows
Year ended December 31, 2014

	<u>Obligated Group</u>	<u>CONNECTIONS AT HOME VIA WILLOW VALLEY</u>	<u>TOTAL</u>
	<u>WILLOW VALLEY COMMUNITIES</u>	<u>WILLOW VALLEY</u>	<u>TOTAL</u>
Cash flows from operating activities:			
Increase (decrease) in net assets (deficit)	\$ 3,015,621	(166,127)	2,849,494
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by operating activities:			
Depreciation and amortization	18,985,437	—	18,985,437
Amortization of deferred revenue	(16,938,337)	—	(16,938,337)
Net unrealized losses on trading investments	107,653	—	107,653
Net realized gains on sales of securities	(1,697,710)	—	(1,697,710)
Change in fair value of interest rate swaps	(24,288)	—	(24,288)
Proceeds from resident entrance fees and unit deposits	24,514,857	—	24,514,857
Change in temporarily restricted funds	86,647	—	86,647
Changes in operating assets and liabilities:			
Accounts receivable	178,888	(14,316)	164,572
Prepaid expenses	(90,362)	(6,532)	(96,894)
Accounts payable and accrued liabilities	(613,907)	319,752	(294,155)
Net cash provided by operating activities	<u>27,524,499</u>	<u>132,777</u>	<u>27,657,276</u>
Cash flows from investing activities:			
Acquisition of property, plant, and equipment	(29,401,075)	—	(29,401,075)
Change in accounts payable – construction	(1,080,286)	—	(1,080,286)
Costs of acquiring initial contracts	(83,211)	—	(83,211)
Proceeds from direct financing lease	89	—	89
Purchases of investments and investments whose use is limited	(41,684,169)	—	(41,684,169)
Sales of investments and investments whose use is limited	46,270,824	—	46,270,824
Net cash used in investing activities	<u>(25,977,828)</u>	<u>—</u>	<u>(25,977,828)</u>
Cash flows from financing activities:			
Payments of long-term debt	(2,131,398)	—	(2,131,398)
Proceeds from resident entrance fees and unit deposits on new construction	5,551,924	—	5,551,924
Refunds of resident entrance fees	(5,387,081)	—	(5,387,081)
Change in temporarily restricted funds	(86,647)	—	(86,647)
Net cash used in financing activities	<u>(2,053,202)</u>	<u>—</u>	<u>(2,053,202)</u>
Net (decrease) increase in cash and cash equivalents	(506,531)	132,777	(373,754)
Cash and cash equivalents, beginning of year	3,667,129	—	3,667,129
Cash and cash equivalents, end of year	<u>\$ 3,160,598</u>	<u>132,777</u>	<u>3,293,375</u>

See accompanying notes to consolidated financial statements.

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APPENDIX C

**DEFINITIONS OF CERTAIN TERMS AND
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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The following summaries of certain provisions of the Bond Indenture, the Loan Agreement, and the Master Indenture and are not to be regarded as full statements thereof; and reference should be made to the instruments themselves for all terms and provisions thereof.

DEFINITION OF TERMS

“2016 Bonds” or **“Bonds”** means the Authority’s Revenue and Revenue Refunding Bonds, Series of 2016 (Willow Valley Communities Project), limited to an aggregate principal amount of \$38,225,000.

“2016 Note” or **“Series 2016 Master Note”** means the promissory note issued by the Corporation to the Master Trustee under the Master Indenture as security for the 2016 Bonds.

“Accelerable Instrument” means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness or other financial obligation evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof (or a credit enhancer exercising the rights of such holder) may request that the Master Trustee declare such Obligation or Indebtedness or other financial obligation due and payable prior to the date on which it would otherwise become due and payable.

“Acceptable Rating Agency” shall mean Fitch Ratings, Standard & Poor’s Corporation, or Moody’s Investors Service Inc., or their respective successors, or upon the discontinuation of such rating services, any other nationally-recognized rating service as shall be designated by a Certified Health Center Resolution delivered to the Trustee. Whenever “highest rating category,” “one of the two highest rating categories,” or a phrase of similar import is used herein, such phrase refers to the rating category or categories of the appropriate rating service or services without regard to any refinement or gradation of such rating category or categories by numerical modifier or otherwise, unless otherwise specifically stated.

“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 Uniform Commercial Code as enacted in the Commonwealth of Pennsylvania

“Act” means the Pennsylvania Economic Development Financing Law, 73 PS §371, et seq. as amended.

“Act of Bankruptcy” means any of the following events:

(a) the Corporation shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation, respectively, or of all or a substantial part of its property, (ii) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), or (iii) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(b) a proceeding or case shall be commenced, without the application or consent of the Corporation, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, dissolution, winding-up, or the composition or adjustment of debts, of the Corporation, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation or of all or a substantial part of the assets of the Corporation, or (ii) similar relief in respect of the Corporation, under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(c) an order or decree shall be entered appointing a receiver, receivers, custodian or custodians for any of the revenues of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or discharged or stayed on appeal within 60 days after the entry thereof; or

(d) any proceeding shall be instituted, with the consent or acquiescence of the Authority, or any plan shall be entered into by the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or State statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any part or all of the trust estate, including the revenues and other moneys derived by the Authority under the Agreement; or

(e) the Authority (i) files a petition in bankruptcy or under Title 11 of the United States Code, as amended, (ii) makes an assignment for the benefit of its creditors, (iii) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the Trust Estate, including the revenues and other moneys derived by the Authority under the Agreement or (iv) is generally not paying its debts as such debts become due; or

(f) the Authority is adjudged insolvent by a court of competent jurisdiction, (ii) on a petition in bankruptcy filed against the Authority, the Authority is adjudged as bankrupt or (iii) an order, judgment or decree is entered by any court of competent jurisdiction appointing, without the consent of the Authority, a receiver, custodian or trustee of the Authority or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within 60 days from the date of entry thereof; or

(g) the Authority shall file a petition or answer seeking reorganization or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(h) under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property, and such custody or control shall not be terminated within 30 days from the date of assumption of such custody or control.

“Adjusted Expenses” means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, minus (a) interest on Long-Term Indebtedness, (b) depreciation and amortization, (c) any unrealized loss resulting from changes in the value of investment securities, (d) extraordinary or nonrecurring expenses or losses (including without limitation any losses on the sale or other disposition of fixed or capital assets or facilities not in the ordinary course of business and losses on the extinguishment of debt), (e) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense and, if such calculation is being made with respect to the Obligated Group, excluding any such expenses attributable to transactions between any Members of the Obligated Group, (f) any losses resulting from any reappraisal, revaluation or write-down of any fixed or capital asset, facility or good-will, (g) any unrealized losses on or related to any Hedging Obligations or other hedges or derivatives, and (h) any losses or expenses or other items that would be considered by the Obligated Group Agent to be non-cash items of the Person or group of Persons involved.

“Affiliate” means a Person that controls or is controlled by the Corporation or, if both are controlled by the same third party, such third party. One Person shall be deemed to control another if it, directly, indirectly through control over a third party, or jointly with one or more controlled third parties, (i) owns more than 50%

of the outstanding voting stock of or other equity interests in the other, (ii) has the power to elect or approve the election of more than 50% of the governing body of the other or (iii) has the power to approve the operating and capital budgets and other major expenditures of the other, or (iv) is the sole member of the other.

“Agreement” means the Loan Agreement, dated the date of delivery thereof, between the Authority and the Corporation.

“Ancillary Obligation” means an Obligation, expressly identified as such in a Supplemental Master Indenture or in an Officer's Certificate delivered to the Master Trustee, as being entered into in order to evidence or secure financial obligations of a Member in an agreement that is ancillary to any direct Indebtedness, such as a reimbursement agreement, liquidity agreement, standby bond purchase agreement, rate maintenance agreement or similar agreement, unless and until and to the extent any such agreement constitutes a direct obligation of a Member to repay money borrowed, credit extended or the equivalent thereof, at which time such Obligation shall be deemed a Debt Obligation.

“Authority” means the East Hempfield Township Industrial Development Authority, a body corporate and politic duly organized, existing and in good standing under the laws of the Commonwealth of Pennsylvania.

“Balloon Long Term Indebtedness” means (1) Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity by Long-Term Indebtedness so that such Short-Term Indebtedness will be Outstanding, in the aggregate, for more than one year as certified in an Officer's Certificate (other than Qualifying Intermediate-Term Indebtedness), twenty-five percent (25%) or more of the initial principal amount of which Long-Term or Short-Term Indebtedness matures (or is payable at the option of the holder) in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (2) any portion of an issue of Long-Term Indebtedness which, if treated as a separate issue of Indebtedness, would meet the test set forth in clause (1) of this definition and which Indebtedness is designated as Balloon Indebtedness in an Officer's Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

“Board” shall mean the governing body of the Authority;

“Board of Directors of the Corporation” shall mean the Board of Directors of the Corporation, or a committee thereof or other body vested, wholly or partially, from time to time, with the power of management and control of the business affairs and property of the Corporation;

“Bond Counsel” means Counsel of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states or their political subdivisions.

“Bond Indenture” shall mean Trust Indenture, dated as of February 1, 2016, between the Authority and Fulton Bank, N.A., as bond trustee, securing Health Center Revenue Bonds issued thereunder.

“Bond Redemption and Improvement Fund” shall mean the Bond Redemption and Improvement Fund established under the Bond Indenture.

“Bond Trustee” shall mean Fulton Bank, N.A., a corporate trust office of which is located in the City of Lancaster, Lancaster County, Pennsylvania, as trustee under the Bonds Indenture and its successors in such trust..

“Book Entry Form” or “Book Entry System” means a form or system, as applicable, under which (i) the ownership of beneficial interests in the Bonds may be transferred only through a book entry and (ii) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as holder, with the physical bond certificates “immobilized” in the custody of the Depository.

“Bond Year” means that period commencing on the date of issue of the Bonds through December 1, 2016, and, thereafter, the period of twelve consecutive months commencing on December 2 and ending on the following December 1.

“Book Value,” when used in connection with Property, Plant and Equipment or other Property of the Corporation shall mean the value of such property, net of accumulated depreciation, as it is carried on the books of the Corporation in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Corporation, means the aggregate of the values so determined with respect to such property of the Corporation determined in such a manner that no portion of such value of property of the Corporation is included more than once.

“Business Day” means, with respect to the Bonds, a day which is not (a) a Saturday or Sunday, (b) a day on which banking institutions in the Commonwealth of Pennsylvania, the State of New York, or in any city where the designated office of the Trustee, the office of the Bank at which a draw on the Letters of Credit may be made, the designated office of the Tender Agent, or the designated office of the Remarketing Agent is located are required or authorized by law (including executive order) or other governmental action to be closed or on which the designated office of the Trustee, the office of the Bank, the designated office of the Tender Agent, or the Remarketing Agent is closed for a reason not related to financial condition, or (c) a day on which The New York Stock Exchange is closed.

“Calculated Daily Operating Expense” for a June 30 testing date is equal to total operating expense less depreciation and non-cash amortization expenses for the preceding six months divided by 181 and for a December 31 testing date is equal to total operating expense less depreciation and non-cash amortization expenses for the preceding twelve months divided by 365.

“Capital Project” or “2016 Capital Project” means the acquisition and construction of certain alterations, additions, and improvements to the Mortgaged Property to which a portion of the net proceeds of the Series of 2016 Bonds shall be applied.

“Capitalized Interest” means amounts irrevocably deposited in escrow to pay interest on Long-Term Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is required to be applied to pay interest on Long-Term Indebtedness or Related Bonds.

“Capitalized Lease” means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

“Capitalized Rentals” means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

“Certificate” means a certificate or report, in form and substance satisfactory to the Authority and the Trustee, executed: (a) in the case of an Authority Certificate, by an authorized officer of the Authority; (b) in the case of a Corporation Certificate, by an authorized officer of the Corporation; and (c) in the case of a Certificate of any other Person, by such Person, if an individual, and otherwise by an authorized officer, partner or other representative of such Person; provided that in no event shall any individual be permitted to execute any Certificate in more than one capacity.

“Certified Resolution” means, as the context requires: (a) one or more resolutions of the Authority, certified by the Secretary or Assistant Secretary of the Authority, to have been duly adopted and to be in full force and effect as of the date of certification; or (b) one or more resolutions of the governing body of the Corporation or a duly authorized committee thereof, certified by the Secretary or Assistant Secretary of the Corporation or other officer serving in a similar capacity to have been duly adopted and to be in full force and effect as of the date of certification.

“Clearing Fund” means the Clearing Fund established under the Indenture.

“Closing Date” means the date of initial authentication and delivery of the Bonds in exchange for the purchase price therefore.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such sections which are applicable to the Related Bonds or the use of the proceeds thereof

“Commonwealth” means the Commonwealth of Pennsylvania.

“Completion Indebtedness” shall mean any Indebtedness incurred for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which some Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformity with the documents pursuant to which such Indebtedness was originally incurred, including funding debt service reserve funds related thereto.

“Consultant” shall mean a Person (other than an individual), who shall be Independent, appointed by the Board of Directors of the Corporation, satisfactory to the Trustee and the Authority, qualified to pass upon questions relating to the financial affairs of nursing homes and life care facilities and having a national reputation for skill and experience in the financial affairs of nursing homes and life care facilities.

“Conversion Date” means each Fixed Rate Conversion Date and Variable Rate Conversion Date.

“Corporation” or **“Corporation”** means Willow Valley Retirement Communities, a Pennsylvania nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“Cost” or **“Costs”** shall, without intending to limit any proper definition thereof under sound accounting practice, and without intending to require the Corporation to treat any of the following items as capital expenditures for its accounting purposes, include, in respect of the 2016 Capital Additions Project under the Bond Indenture:

(a) obligations incurred and payments made or required to be made for labor and to contractors, builders, manufacturers, suppliers, materialmen, architects, engineers and construction managers;

(b) to the extent provided for in the Bond Indenture (i) interest on Bonds issued to finance construction for any specified period; and (ii) the reasonable expenses of the Authority (including compensation and expenses of the Bond Trustee and the Master Trustee) for the same period;

(c) the cost of acquiring by purchase or lease, and the amount of any award or final judgment in, or settlement or compromise of, any proceeding to acquire by condemnation, lands, property, rights, rights of way, franchises, easements and other interests in land as may be deemed necessary or convenient in connection with the Mortgaged Property, including any partial payments thereon, and the amount of any damages incident to or consequent upon construction or payments for the restoration of property damaged or destroyed in connection with construction;

(d) the cost of acquiring any property, real, personal or mixed, tangible or intangible, or any interest therein, necessary or desirable in connection with the Mortgaged Property, and all fees and expenses incidental thereto including, without limitation, the costs of abstracts of title, title insurance, title opinions and other legal fees and costs and of surveys and reports;

(e) the cost of contract bonds and insurance of all kinds during construction which are not paid by contractors or otherwise provided for, and taxes or other municipal or governmental charges (if any) lawfully levied or assessed during construction;

(f) fees and expenses for studies, surveys, reports, estimates of costs and revenues and other estimates and plans and specifications and preliminary investigations and for inspection and consultation during construction or acquisition or supervising construction or acquisition, as well as the performance of all other duties of engineers

or architects or construction managers in connection with any such construction or acquisition and the financing thereof;

(g) all compensation and expenses of bond counsel, the Master Trustee and the Bond Trustee, financing charges and compensation of the financial adviser (if any), expenses of audits, printing costs, legal fees, premiums for municipal bond insurance, (if any), and all other costs incurred by the Authority in connection with or incidental to financing the 2016 Capital Additions Project or any construction or acquisition and the administration of any construction fund created by the Bond Indenture and the issuance of Bonds to finance the 2016 Capital Additions Project or any construction or acquisition;

(h) reimbursement to the Corporation for advances, loans made by it for any of the above items or for any preliminary expenses and other costs incurred or for work done by the Corporation at the request or with the approval of the Authority in connection with the 2016 Capital Additions Project which are properly chargeable to the cost of the 2016 Capital Additions Project or any such construction or acquisition;

(i) any sums required to reimburse the Authority or the Corporation or to pay any indebtedness incurred by the Authority or the Corporation, including the payment of obligations of the Authority or the Corporation with interest thereon, for any of the above items or for any other costs which are properly chargeable to cost of construction or acquisition; and

(j) any and all other charges, costs and expenses incidental to the 2016 Capital Additions Project, any other financing, or any construction or acquisition which are properly chargeable to any such undertaking under sound accounting practice, including moving expenses.

“Counsel” means an attorney at law or law firm (which may include counsel to the Corporation or in-house counsel, or counsel to any other Member or the Master Trustee).

“County” shall mean the County of Lancaster, Pennsylvania, a political subdivision of the Commonwealth.

“Current Assets” means cash and cash equivalent deposits, marketable securities, accounts receivable, accrued **interest** receivable and any other assets of the a Person ordinarily considered current assets under generally accepted accounting principles. “Current Assets” shall include cash and except that, regardless of generally accepted accounting principles. “Current Assets” shall include cash and cash equivalent deposits and marketable securities (“Board Designated Assets”) that have been designated by the Board of Directors of the Corporation for specific uses, except for Board Designated Assets that have been committed by action of the Board of Directors of the Corporation to pay part of the cost of a particular capital project, the completion of which capital project has not been abandoned by action of the Board of Directors of the Corporation and with respect to which there is no current liability..

“Current Value” means the estimated fair market value of Property, which fair market value shall be evidenced by an Officer’s Certificate delivered to the Master Trustee.

“Days Cash on Hand” will be calculated by dividing the total of unrestricted cash and investments available by the Calculated Daily Operating Expense.

“Debt Obligation” means an Obligation issued to secure or evidence any Indebtedness, including but not limited to a Guaranty, authorized to be issued by a Member pursuant to the Master Indenture that has been authenticated by the Master Trustee pursuant to the Master Indenture.

“Debt Service Requirements” means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Long-Term Indebtedness of each Person or a group of Persons with respect to which calculated; provided that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Capitalized Interest is available to pay such interest; (b) principal of

Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal; (c) in the case of any Guaranty, the principal of (and premium, if any) and interest and other debt service charges on the debt that is Guaranteed for the period of time for which Debt Service Requirements are calculated shall not be included in the calculation of Debt Service Requirements to the extent required by Section 410(b)(9) of the Master Indenture with respect to any Permitted Guaranty, and otherwise shall not be included in such calculation unless the Person that gave such Guaranty was actually required to make, or transfer funds to enable the Primary Obligor to make, any payment with respect to such debt during such period, in which case the total amount paid by such Person with respect to such Guaranty in such period shall be included in the calculation of the Debt Service Requirements of such Person for such period; (d) to the extent that interest on any Indebtedness is the subject of or related to any Hedging Obligation or Ancillary Obligation, the Obligated Group at its option may determine from time to time whether or not to treat such payments due on Indebtedness as being equal to the net amounts paid and received by the Obligated Group pursuant to such Hedging Obligation or Ancillary Obligation; (e) to the extent that interest on any Indebtedness is the subject of or related to any rate maintenance agreement or other similar agreement, the Obligated Group at its option may determine from time to time whether or not to treat such interest payments due on Indebtedness as being equal to the net amount paid and received by the Obligated Group pursuant to such rate maintenance agreement or other similar agreement; and (f) the principal component of any 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, shall be excluded.

“Defeasance Obligations” shall have the following meaning for purposes of the Bond Indenture:

- (a) cash,
- (b) Government Obligations, and
- (c) other obligations provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent therefor of cash or Government Obligations that are not subject to optional redemption prior to stated maturity or, if subject to optional redemption prior to stated maturity, such other obligations that are also rated in the highest rating category by an Acceptable Rating Agency.

“Defeased Municipal Obligations” shall mean for purposes of the Master Indenture, obligations of state or local government municipal bond issuers 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) Government Obligations or (ii) evidences of ownership of a proportionate interest in specified Government Obligations that 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 as custodian, the maturing principal of and interest on which Government Obligations or evidences of ownership, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers.

“Depository” means any securities depository that is 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, operating and maintaining, with its participants or otherwise, a Book Entry System to record ownership of beneficial interests in corporate bonds, and to effect transfers of corporate bonds, in Book Entry Form.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Equipment” means those items constituting equipment, as that term is defined in the Uniform Commercial Code as enacted in the Commonwealth, used in connection with the Mortgaged Property, whether such equipment is now owned or hereafter acquired by any Member of the Obligated Group.

“Entrance Fees” means the initial fees paid to a Member in consideration for acceptance of specified individuals as occupants in a unit owned, operated or controlled by a Member.

“Escrow Securities” means, (i) with respect to any Obligation which secures a series of Related Bonds, the securities permitted to be used to refund or advance refund such series of Related Bonds under the Related Bond Indenture, or (ii) with respect to any other Obligation, those securities identified in the Supplemental Master Indenture pursuant to which such Obligations were issued.

“Event of Default” means with respect to the Master Indenture any event of default under the Master Indenture, as defined in the Master Indenture, with respect to the Indenture, any event defined in the Indenture, and with respect to the Loan Agreement, any event defined as such in the Loan Agreement.

“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 the Master Indenture.

“Facilities” means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures and equipment are located), including Existing Facilities, all Capital Additions, including the 2016 Capital Project, and any 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.

“Favorable Opinion” means an opinion of nationally recognized bond counsel addressed to the Authority, the Corporation and the Trustee and such other parties specifically required in the Indenture to the effect that (i) the action proposed to be taken is authorized or permitted by the Act and the Indenture and (ii) such action will not adversely affect the exclusion from gross income of interest on the 2016 Bonds for purposes of federal income taxation.

“Fiscal Year” means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of the same calendar year or such other consecutive twelve-month period selected by the Obligated Group Agent as the fiscal year for the System or the Obligated Group and designated from time to time in writing by the Obligated Group Agent to the Master Trustee; for purposes of making historical calculations or determinations set forth in the Master Indenture on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those entities whose actual fiscal year is different from that designated above, the actual fiscal year of such entities which ended within the Fiscal Year of the System or the Obligated Group shall be used; provided, however, that for purposes of making any calculations or determinations as set forth in the Master Indenture, the Obligated Group Agent may designate in writing to the Master Trustee as the “Fiscal Year” any twelve-month period. Whenever the Master Indenture refers to a Fiscal Year of a specific entity, such reference shall be to the actual fiscal year adopted by such entity.

“Future Test Period” means the two full Fiscal Years immediately following the computation then being made, or, if such computation is then being made in connection with the provision of funds for capital improvements, following completion of the capital improvements then being financed.

“Government Obligations” means direct obligations of, or obligations the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by, the United States of America (including stripped securities, if stripped by the issuing agency)

“Gross Revenues” means all revenues, rents, profits, receipts, benefits, royalties, and income of any Member arising from services provided by Members or arising in any manner with respect to, incident to or on account of the Members' operations, including, without limitation, (i) the Members' rights under

agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organizations, including health care insurance receivables and rights to Medicare and Medicaid loss recapture under applicable regulations to the extent not prohibited by applicable law, rules or regulations; (ii) gifts, grants, bequests, donations, contributions and pledges to any Member, (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings; (iv) all proceeds from the sale or other transfer of any goods, inventory and other tangible and intangible property, and all rights to receive the foregoing, whether now owned or hereafter acquired by any Member and regardless of whether generated in the form of accounts, accounts receivable, contract rights, chattel paper, documents, general intangibles, instruments, investment property, proceeds of insurance and all proceeds of the foregoing; and (v) Entrance Fees; excluding, however, gifts, grants, bequests, donations, contributions and pledges to any Member heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Master Indenture or on any Obligations or Indebtedness, including Entrance Fees, as such phrase is defined in the Resident's Agreement, to the extent required to be refunded on or behalf of a Resident upon termination of such Resident's Agreement or demise of a Resident as provided in the Resident's Agreement.

“Guaranty” means all obligations of a Person guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any Primary Obligor in any manner, whether directly or indirectly including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (i) to purchase such Indebtedness or obligation or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

“Hedging Obligation” means an Obligation, expressly identified as such in a Supplemental Master Indenture or in an Officer's Certificate delivered to the Master Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and which arrangement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

“Historic Test Period” means, at the option of the Obligated Group Agent, either (i) any twelve (12) consecutive calendar months out of the most recent period of eighteen (18) full calendar months, or (ii) the most recent period of twelve (12) full consecutive calendar months for which audited financial statements of the Obligated Group are available, or (iii) the most recent Fiscal Year of the Obligated Group.

“Income Available for Debt Service” means, for any period, the excess of Revenues over Adjusted Expenses of the Person or group of Persons involved; provided, that the term “Income Available for Debt Service” shall also include all income Available for Debt Service of any Person that has outstanding Indebtedness (such terms being applicable as if such Person were a Member of the Obligated Group) that is guaranteed by the Obligated Group or any Member of the Obligated Group pursuant to any Permitted Guaranty, but only to the extent, by percentage of such Person's Income Available for Debt Service, that such Permitted Guaranty is counted toward Debt Service Requirements pursuant to the Master Indenture (i.e., either twenty percent (20%) or one hundred percent (100%) of such Person's Income Available for Debt Service).

“Indebtedness” means, for any Person, (a) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition, construction or improvement of Property other than goods that are acquired in the ordinary course of business of such Person; (b) Capitalized Rentals or Capitalized Lease obligations of such Person; and (c) all Guaranties by such Person (weighted, with respect to Permitted Guarantees, as provided in the Master Indenture), and shall include Non-Recourse indebtedness; provided that

Indebtedness shall not include Indebtedness of one Member to another Member, any Guaranty by any Member of Indebtedness of any other Member, the joint and several liability of any Member on Indebtedness issued by another Member, any Hedging Obligation, any Ancillary Obligation, or any obligation to repay moneys deposited by patients or others with a Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

“Insurance Consultant” means a Person appointed by the Obligated Group Agent and not reasonably objected to by the Master Trustee, qualified to survey risks and to recommend insurance coverage for health care facilities and organizations engaged in like operations, who may be a broker or agent with whom a Member of the Obligated Group transacts business, but who shall have no ownership interest, direct or indirect, in any Member of the Obligated Group and shall not be a member, director or employee of any Member of the Obligated Group.

“Investment Securities” shall mean and include, for purposes of the Bond Indenture, shall mean any of the following:

(a) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA); including GNMA guaranteed mortgage backed securities
- U.S. Department of Housing & Urban Development (PHA’s)
- Federal Housing Administration
- Federal Financing Bank
- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Federal Home Loan Bank System
- Tennessee Valley Authority
- Washington Metropolitan Area Transit Authority
- Inter American Development Bank
- International Bank for Reconstruction and Development
- Banks for Cooperatives
- Federal Farm Credit Banks
- Federal Land Bank
- Federal Home-Loan Bank System;

(b) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System

- Senior debt obligations of other Government Sponsored Agencies;

(c) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

(d) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(e) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P or "Aaa-mf" by Moody's, including those funds administered by the Bond Trustee or its affiliates;

(f) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of 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; and

(1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by an Independent Public Accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; Pre-refunded Municipal Obligations meeting the requirements of subsection (B) hereof may not be used as Permitted Investments for annual appropriation lease transactions without the prior written approval of S&P.

(g) General obligations of States with a rating of at least "A2/A" or higher by both Moody's and S&P.

(h) Repurchase Agreements: Repurchase agreements with (1) 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 (2) 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 (3) any other entity rated at least "A" by S&P and "A2" by Moody's, provided that:

(i) the repurchase agreement is collateralized with the obligations described in paragraphs (a) or (b) above;

(ii) the Bond Trustee will value the collateral securities at least monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two (2) business days;

(iii) the market value of the collateral must be maintained at 102% of the total principal of the repurchase agreement for obligations described in paragraphs (a) and (b);

(iv) the Bond Trustee or a third party acting solely as agent for the Bond Trustee or for the Authority (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);

(v) 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

(vi) 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, provide written notice to the Authority and Bond Trustee, and within 10 days following receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or the Bond Trustee.

(i) Investment Agreements: Investment agreements with (1) a domestic or foreign bank or corporation or 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 or "Aa3" by Moody's; or (2) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least "AA-" by S&P or "Aa3" by Moody's; provided, that in all cases, by the terms of the investment agreement,

(i) interest payments are to be made to the Bond 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 Project Fund, draws on the Project Fund);

(ii) the invested funds are available for withdrawal without penalty or premium for Project related draws, 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);

(iii) 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;

(iv) a fixed or variable 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;

(v) the Authority or the Bond Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority) that

such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms;

(vi) if during the term of the investment agreement:

(I) the provider's (or, if applicable, the guarantor's) rating by either S&P or Moody's falls below "A" or "A2," respectively, the provider must, at the direction of the Authority or the Bond Trustee, within 10 days following receipt of such direction, either (A) 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 Authority, the Bond Trustee or a third party acting solely as agent for the Authority or the Bond Trustee (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 (B) repay the principal of and accrued but unpaid interest on the investment (the choice of (A) or (B) above shall be that of the Authority or the Bond Trustee, as appropriate), and

(II) 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 Authority or the Bond 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 Authority or the Bond Trustee;

(vii) The investment agreement states, and an Opinion of Counsel shall be rendered, that the Bond 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 Bond Trustee is in possession); and

(viii) if during the term of the investment agreement:

(I) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Bond Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Bond Trustee, as appropriate;

(II) 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 Authority or Bond Trustee, as appropriate;

(III) 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 Bond Trustee to the provider, it shall be an Event of Default; or

(IV) 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 102% 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 103% 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 marked to market at least monthly.
- (j) Government Obligations.

“Lien” means any mortgage, lease or pledge of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved which secures Indebtedness (other than from one Member to another Member).

“Loan” means the loan to the Corporation by the Authority, concurrently with the issuance of the 2016 Bonds, of the gross proceeds from the sale of the 2016 Bonds for the purpose of financing the Project.

“Loan Agreement” shall mean the Loan Agreement, dated as of February 1, 2016, between the Authority and the Corporation and assigned to the Bond Trustee, pursuant to which the Authority will lend the net proceeds of the Series of 2016 Bonds to the Corporation and under which the Corporation agrees to cause to be issued to the Authority and assigned to the Bond Trustee the Series 2016 Master Note.

“Long-Term Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing (i) Income Available for Debt Service of the Obligated Group, for that period by (ii) the Debt Service Requirements on Long-Term Indebtedness of the Obligated Group; provided that when such calculation is being made with respect to the Obligated Group, Income Available for Debt Service and Debt Service Requirements shall be determined only with respect to those Persons who are Members of the Obligated Group at the close of such period. Notwithstanding anything in the Master Indenture to the contrary requiring a Consultant's opinion, report or certificate, projections of the Long-Term Debt Service Coverage Ratio may be made by an Officer's Certificate if the Long-Term Debt Service Coverage Ratio for the Future Test Period, as shown by an Officer's Certificate, is projected to exceed 1.00.

“Long-Term Indebtedness” means, with respect to any Person, (a) all Indebtedness of such Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (c) the Person's Guaranties of Indebtedness which are not Short-Term; and (d) Capitalized Rentals under Capitalized Leases entered into by the Person; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture.

“Mandatory Tender Date” means any date on which a Bondholder is required to tender any 2016 Bond for purchase in accordance with the Indenture.

“Mandatorily Tendered Bonds” means the 2016 Bonds required to be tendered for purchase on a Mandatory Tender Date.

“Master Indenture” means the Master Trust Indenture dated as of July 15, 2009, among the Corporation, the other Members of the Obligated Group and the Master Trustee, as it may from time to time be further amended or supplemented in accordance with the terms of the Master Indenture.

“Master Trustee” means Fulton Bank, N.A., successor through merger to Fulton Financial Advisors, National Association., or any successor trustee under the Master Indenture.

“Maximum Annual Debt Service” means, at the time of computation, the greatest Debt Service Requirements on Long-Term Indebtedness for the then current or any future Fiscal Year.

“Member” or **“Member of the Obligated Group”** means the Corporation, the other initial Members of the Obligated Group listed on an exhibit to the Master Indenture, and any Person who is listed on said exhibit to the Master Indenture, after designation as a Member of the Obligated Group pursuant to the terms of the Master Indenture. The Obligated Group Agent may from time to time deliver a revised exhibit to the Master Indenture to the Master Trustee, indicating additions or deletions of Members of the Obligated Group.

“Moody's” means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities Acceptable Rating Agency, for the purpose of the definition of Qualified Investments only, “Moody's” shall be deemed to refer to any other nationally recognized securities Acceptable Rating Agency designated by the Obligated Group Representative with written notice to the Master Trustee.

“Mortgages” shall mean all open end mortgages and security agreements which are granted by the Corporation and, from time to time, by other Members to the Master Trustee to secure Master Notes and all Master Guaranties, each and every one of which shall be marked for the benefit of all Holders under the Master Indenture, in *pari passu*, as tenants in common, pro rata, in accordance with the balances then due under their Master Note or other evidence of indebtedness thereunder.

“Mortgaged Property” means the Property subjected to the lien of the Mortgage or any other mortgage or deed of trust securing obligations;

“Net Assets” means (i) for a Person that is a Tax-Exempt Organization, the aggregate net assets of such Person, and (ii) for a Person that is not a Tax-Exempt Organization, the excess of assets over liabilities of such Person.

“Net Proceeds” means, when used with respect to any insurance or condemnation award or sale consummated under threat of condemnation, the gross proceeds from the insurance or condemnation award or sale with respect to which that term is used less all expenses (including attorney's fees and expenses, adjuster's fees and any expenses of the Master Trustee) incurred in the collection of such gross proceeds.

“Net Rentals” means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called “percentage lease” shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

“Non-Recourse Indebtedness” means any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment and the income therefrom, the cost of which Property, Plant and Equipment shall have been financed solely with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of any Member or to the general credit of any Member.

“Obligated Group” means the Corporation, the other initial Members of the Obligated Group, and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the Master Indenture and which has not ceased such status pursuant to the Master Indenture.

“Obligated Group Agent” means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee, executed by an authorized officer of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

“Obligations” means any Debt Obligations, Hedging Obligations, or Ancillary Obligations authorized to be issued by a Member pursuant to the Master Indenture which has been authenticated by the Master Trustee pursuant to the Master Indenture.

“Obligation holder,” “holder” or “owner of the Obligation” means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

“Officer's Certificate” means a certificate signed, (i) in the case of a certificate delivered by or on behalf of the Obligated Group, by the President or any Vice President or Treasurer or Secretary or any other authorized officer of the Corporation or Obligated Group Agent; and (ii) in the case of a certificate delivered by or on behalf of the Authority, by the Chairman, or Vice Chairman;

“Operating Expenses” means the total operating expenses of the Obligated Group, as determined in accordance with generally accepted accounting principles consistently applied.

“Operating Revenues” means the total operating revenues of the Obligated Group, less applicable deductions from operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

“Outstanding” means, in the case of Indebtedness of a Person other than Related Bonds or Obligations, all such Indebtedness of such Person which has been issued except any such portion thereof canceled after purchase on the open market or surrendered for cancellation or because of payment at or redemption prior to maturity, any such Indebtedness in lieu of which other Indebtedness has been duly issued and any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness.

“Outstanding Obligations” or “Obligations Outstanding” means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Obligations canceled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) (i) Obligations for the payment or redemption of which cash or Escrow Securities shall have been theretofore deposited with the Master Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Obligations are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee and (ii) Obligations securing Related Bonds for the payment or redemption of which cash or Escrow Securities shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Obligations);

provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated under the Master Indenture; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by a Member of the Obligated Group or by a System Affiliate.

Notwithstanding the foregoing, any Obligation securing Related Bonds shall be deemed outstanding if such Related Bonds are Outstanding Related Bonds.

“Outstanding,” “outstanding” or “outstanding under the Bond Indenture” shall mean, with reference to Bonds, as of any particular time, all Bonds executed, authenticated, issued and delivered under the Bond Indenture; provided, however, that such terms shall not include, in any case:

(a) Bonds canceled or delivered to the Bond Trustee for cancellation at or prior to such time;

(b) Bonds in substitution for which other Bonds shall have been authenticated and delivered pursuant to provisions of the Bond Indenture; and

(c) Bonds for payment or redemption of which provision has been made in accordance with the Bond Indenture; provided, however, that if such Bonds are being redeemed, notice of any such redemption shall have been mailed or provision satisfactory to the Bond Trustee shall have been made for such notice or written waivers of such notice shall have been received as provided in the Bond Indenture.

The foregoing, however, is subject to the condition that, for purpose of reference in the Bond Indenture or in the Loan Agreement to Holders of a particular percentage of Bonds, there shall be excluded Bonds, if any, held by the Authority or the Corporation.

“Paying Agent” means the commercial bank or trust company, designated pursuant to the Indenture to receive and disburse the principal of and interest on the 2016 Bonds and which shall initially be the Bond Trustee.

“Permitted Dispositions” means dispositions of Property permitted by the Master Indenture.

“Permitted Encumbrances” means, as of any particular time:

(a) any Lien on Pledged Assets, Mortgaged Property or other Property created by the Master Indenture;

(b) Any Lien on Pledged Assets, Mortgaged Property or other Property, if such Lien equally and ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness or obligation of any Member of the Obligated Group;

(c) Any Lien created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts of capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the property subject to such lien or encumbrance.

(d) Any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the Indebtedness secured thereby (whether or not assumed by a Member of the Obligated Group) does not exceed the fair market value or (if such Property has been purchased by an Obligated Group Member) the lesser of the acquisition price or the fair market value of the Property subject to such Lien, as determined in good faith by the Obligated Group Agent;

(e) Any Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that such Liens secure Indebtedness which is not assumed by a Member of the Obligated Group and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(f) Any liens on proceeds of Indebtedness (or on income from the investment of such proceeds) pending application to the purposes for which such Indebtedness was incurred, or that secure payment of such Indebtedness and any security interest in any rebate fund established pursuant to the Code, any depreciation reserve, debt service reserve or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Indebtedness issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document or the provider of any liquidity or credit support for such Related Bond or Indebtedness;

(g) Any liens on Escrow Securities;

(h) Any lien on any Related Bond or any evidence of Indebtedness of any Member of the Obligated Group acquired by or on behalf of any Member of the Obligated Group by the provider of liquidity or credit support for such Related Bond or Indebtedness;

(i) Any liens on accounts receivable (i) arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member selling the same by more than twenty percent (20%); or (ii) to secure Indebtedness incurred pursuant to Section 410(b)(16) of the Master Indenture.

(j) Liens on any Property of a Member of the Obligated Group in effect on the effective date of the Master Indenture, including but not limited to those listed on Exhibit B to the Master Indenture, or existing at the time any Person becomes a Member of the Obligated Group; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of such Member of the Obligated Group not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(k) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a Member of the Obligated Group, or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to a Member of the Obligated Group which becomes part of a Property that secures Indebtedness that is assumed by a Member of the Obligated Group as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a Member of the Obligated Group not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(l) Liens which secure Non-Recourse Indebtedness incurred pursuant to Section 410(b)(6) hereof;

(m) Liens arising out of Capitalized Leases;

(n) Liens on Property of an Obligated Group Member securing Indebtedness, in addition to those Liens permitted elsewhere in this definition of Permitted Encumbrances, if the total aggregate Book Value (or at the option of the Obligated Group Agent, Current Value) of the Property subject to a Lien of the type described in this subsection (m) does not exceed twenty percent (20%) of the combined value of the Property of the Obligated Group (calculated on the same basis as the value of Property subject to such Lien);

(o) Liens on any Property of an Obligated Group Member given (by mortgage, security interest, conveyance in trust, deed, sale, or lease) in order to satisfy the legal or policy requirements of any Related Issuer with respect to their issuance of any Related Bonds;

(p) Any Lien that may be required from time to time to satisfy any collateralization requirements relating to any Hedging Obligation;

(q) Any Lien on Property or Gross Revenues required by, or resulting from, any lease agreement whereby a Member of the Obligated Group leases a health care facility or facilities from a governmental unit or units;

(r) Any Lien in the nature of a purchase money mortgage if, after giving effect to such Lien, such purchase money mortgage secures an amount not in excess of the cost of the particular asset to which such Lien relates and any related financing charges, where such purchase money mortgage constitutes a Lien on fixed assets acquired or constructed by a Member and granted contemporaneously with such acquisition or construction, and which Lien secures all or a portion of the related purchase price or construction cost of such assets;

(s) Any lien on property (other than real estate) in the nature of a purchase money security interest resulting from installment sale agreements or borrowings, financing leases, or similar agreements relating to the acquisition of property; or liens of a lessee or a vendee on the property being leased or sold under a lease, installment sale or similar agreement;

(t) Any Lien 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, in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges

(u) 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;

(v) 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;

(w) (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;

(x) 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; or any rights of residents of life care or similar facilities to endowment or similar funds deposited by or on behalf of such residents;

(y) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;

(z) Operating leases or ground lease of five years or less whereunder any obligor is the lessor; or any license or other use agreement made with respect to property where revenues generated inure to the benefit of the obligor;

(aa) Such minor defects and irregularities of title as normally exist with respect to property similar in character to the property involved, and which do not materially adversely affect the value or materially impair the property affected thereby;

(bb) Any Lien on pledges of grants or gifts which secure payment of Short-Term Indebtedness.

“Permitted Guarantees” means any Guaranty by any Member of the Obligated Group permitted under the Master Indenture.

“Permitted Indebtedness” means Indebtedness of any Members of the Obligated Group permitted under the Master Indenture.

“Permitted Investments” shall mean (i) with respect to any Obligation which secures a series of Related Bonds, the obligations in which the Related Bond Trustee may invest funds under the Related Bond Indenture, (ii) with respect to any Obligations for which a Supplemental Master Indenture specifies certain permitted investments, the investments so specified and (iii) in all other cases such legal and prudent investments as are designated in writing by the Obligated Group Agent.

“Permitted Reorganizations” means any consolidation, merger or reorganization of any of the Members of the Obligated Group permitted by the Master Indenture.

“Person” means any natural person, firm, joint venture, joint operating agreement, association, partnership, business, trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

“Pledged Assets” means Gross Revenues 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.

“Pledged Revenues” means the loan payments received or receivable by the Authority from the Corporation with respect to the 2016 Bonds pursuant to the Loan Agreement (except for the Unassigned Rights) and the 2016 Note, including all amounts payable to the Authority with respect to the 2016 Bonds under or on account of the Loan Agreement, including those received on account of the Premises as specified in the Indenture, all funds (other than the Rebate Fund) and all income and receipts on the funds (other than the Rebate Fund) held by the Trustee under the Indenture.

“Premises” means the Corporation’s Facilities.

“Primary Obligor” means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

“Project” means (1) financing the 2016 Capital Additions; (2) financing the 2016 Refunding Project; (3) providing for a debt service reserve fund or account; and (4) paying the costs and expenses of such refunding and redemption, and paying the costs of such financing.

“Property” means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired, including but not limited to Gross Revenues.

“Property, Plant and Equipment” means all Property of each Member of the Obligated Group, which is classified as property, plant and equipment under generally accepted accounting principles.

“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.

“Record Date” means the fifteenth (15th) day preceding each interest payment date.

“Regular Record Date” means, (a) with respect to the 2016 Bonds in the Term Rate Period or a the Fixed Rate Period, the close of business on the 15th day of the month preceding each Interest Payment Date and (b) with respect to 2016 Bonds bearing interest at the Daily Rate or the Weekly Rate, the Business Day next preceding each Interest Payment Date.

“Related Bonds” means (a) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to or upon the order of such governmental issuer and (b) any revenue or general obligation bonds issued by the Corporation, any other Member, any System Affiliate or any other Person in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to the holder of such bonds or the Related Bond Trustee.

“Related Bond Indenture” means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

“Related Issuer” means any issuer of a series of Related Bonds.

“Related Loan Document” means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are loaned to, advanced to or made available to or for the benefit of any Member (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member).

“Resident’s Agreement” shall mean the form of Agreement between the Corporation, as owner, and any Person approved for admission to the Facilities and as the same shall exist from time to time.

“Revenues” means, for any period, (a) in the case of any Person providing health care services, the sum of (i) net patient service revenues plus (ii) other operating revenues, plus (iii) non-operating revenues (other than income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute Capitalized Interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness); and (b) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with generally

accepted accounting principles; but excluding in any event in both clause (a) and clause (b): (i) any unrealized gain or loss resulting from changes in the value of investment securities, (ii) extraordinary or nonrecurring gains or losses (including without limitation any gains on the sale or other disposition of fixed or capital assets or facilities not in the ordinary course of business and gains on the extinguishment of debt), (iii) any gains or earnings resulting from any reappraisal, revaluation or write-up of fixed or capital asset, facility or good-will, (iv) any revenues constituting deferred revenues related to Entrance Fees, (v) any unrealized gains or losses on or related to any Hedging Obligations or other hedges or derivatives, or (vi) any revenue or income or other items that would be considered by the Obligated Group Agent to be non-cash items of the Person or group of Persons involved; provided, however, that if such calculation is being made with respect to the Obligated Group, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any Member of the Obligated Group and any other Member of the Obligated Group.

“**S&P**” means Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and its assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities Acceptable Rating Agency, for the purpose of the definition of Qualified Investments only, “S&P” shall be deemed to refer to any other nationally recognized securities Acceptable Rating Agency designated by the Corporation upon the written consent of the Bank and with written notice to the Trustee.

“**Short-Term,**” when used in connection with Indebtedness, means Indebtedness of a Person for money borrowed or credit extended having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

“**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 is due and payable and as the date on which (unless pursuant to redemption or declaration of acceleration) such installment of interest is due and payable.

“**Subordinated Indebtedness**” means all obligations incurred or assumed, the payment of which is by its terms specifically subordinated to payments on all Obligations, or the principal of and interest on which would not be paid (whether by the terms of such obligation or by agreement of the obligee) when the Obligations are in default or while bankruptcy, insolvency, receivership or other similar proceedings are instituted and implemented.

“**Supplemental Master Indenture**” means an indenture amending or supplementing the Master Indenture entered into pursuant to Master Indenture after the date of the Master Indenture.

“**Supplemental Master Indenture No. 6**” shall mean the Supplemental Master Indenture No. 6, dated as of February 1, 2016, executed and delivered by the Corporation to the Master Trustee authorizing issuance of the Series 2016 Master Note.

“**Tax Compliance Certificate**” means the Tax Compliance Certificate dated and delivered the date of delivery of the Bonds and executed by the Authority and the Corporation, which contains, *inter alia*, instructions regarding investments and rebate, as amended from time to time.

“**Tax-Exempt Organization**” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“**Tender Agent**” means any agent designated by the Trustee pursuant to the Indenture, and shall initially be the Trustee.

“**Transaction Test**” means the Master Trustee shall have received any one of the following:

- i) an Officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period, assuming that the proposed additional Long-Term Indebtedness had been incurred, or that the proposed transaction had occurred, at the beginning of the Historic Test Period, is not less than 1.10; or
- ii) an Officer's Certificate demonstrating (a) that the Long-Term Debt Service Coverage Ratio for the Historic Test Period was not less than 1.10, and (b) that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than 1.20 or, if less, is projected to be greater than such ratio would have been if the proposed transaction had not taken place; or
- iii) an Officer's Certificate demonstrating that immediately after the proposed transaction the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding any Guarantees) will not exceed sixty-five percent (65%) of the sum of (a) the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding Guarantees) plus (b) the aggregate Net Assets of the Members of the Obligated Group.

“Trust Estate” means all right, title and interest of the Authority in and to the Pledged Revenues, the Agreement (excluding Unassigned Rights) and the 2016 Note; any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture by the Authority, the Corporation, or by anyone on their behalf to the Trustee, including without limitation funds of the Corporation held by the Trustee in any of the funds established under the Indenture as security for the 2016 Bonds; but excluding amounts held by the Trustee in the Rebate Fund.

“Trustee” means Fulton Financial Advisors, National Association, a national banking association duly established, existing and authorized to accept and execute trusts under and by virtue of the laws of the United States of America.

“2016 Capital Additions Project” shall mean the acquisition and construction of a 53 unit apartment building comprising approximately 160,000 square feet inclusive of underground parking facilities at the Willow Valley Manor North continuing care retirement facility to which a portion of the net proceeds of the Series of 2016 Bonds shall be applied.

“2016 Refunding Project” shall mean financing the refunding and redemption on the first available redemption date of a portion of the outstanding Series of 2009 Bonds.

“Unassigned Rights” means the fees and expenses payable to the Authority pursuant to the Agreement, the Authority's right to indemnification under the Agreement, and the Authority's right to execute and deliver supplements and amendments to Agreement.

“Written Request” with reference to the Authority means a direction in writing signed by an authorized officer of the Authority, with reference to the Corporation means a direction in writing signed by an authorized officer of the Corporation, and with reference to the Trustee means a direction in writing signed by an authorized officer of the Trustee.

THE BOND INDENTURE

The following summarizes certain provisions of the Bond Indenture; however, it is not a comprehensive description, and reference is made to the full text of the Bond Indenture for a complete recital of its terms.

Pledge and Assignment

The Authority pledges to the Bond Trustee any and all rights of the Authority derived or to be derived from or in connection with the Mortgaged Property, and all of the right, title and interest of the Authority in and to the Loan Agreement and in and to the Series 2016 Master Note, together with all sums of money to become due and payable thereunder by the Corporation (excepting its rights to be paid administrative fees and expenses and its rights to indemnification and amounts required to be rebated to the federal government).

Funds Created by the Bond Indenture

1. Settlement Fund
2. Construction Fund
3. Revenue Fund
4. Debt Service Fund
5. Series of 2016 Sinking Fund Account
6. Bond Redemption and Improvement Fund.

Money, from time to time, in the various Funds created under the Bond Indenture shall be held by the Bond Trustee, in trust, for the benefit of holders of Bonds, and shall be secured, invested and applied as provided in the Bond Indenture; subject, however, to provisions of the Bond Indenture relating to transfer of certain investment income to or for the benefit of the Corporation.

Settlement Fund

All money representing proceeds of sale of the Bonds shall be deposited initially into the Settlement Fund and disbursed by the Bond Trustee for the payment of costs and expenses of issuance of the Bonds, for the payment of costs of the 2016 Refunding Project, and net proceeds of the Bonds shall be transferred paid to the Corporation as reimbursement for Costs advanced for and toward the 2016 Capital Additions Project or deposited to the Construction Fund, as applicable and appropriate.

Construction Fund

The Bond Trustee shall hold all money deposited in the construction fund, and shall disburse funds from the Construction Fund for the payment of the Costs of the 2016 Capital Additions Project upon receipt of a written order of an Authorized Representation of the Corporation.

Revenue Fund

All money payable by the Corporation to the Authority under the Loan Agreement and the Series 2016 Master Note shall be paid directly to the Bond Trustee by the Corporation and shall be deposited by the Bond Trustee into the Revenue Fund.

The Bond Trustee shall, within 30 days after receipt of a statement from the Authority, from time to time, transfer to the Authority out of money in the Revenue Fund the amount budgeted by the

Authority as its reasonable Administrative Expenses properly allocated to the 2016 Project and the Bonds, including the costs and expenses of the Bond Trustee, to the extent that such expenses have not been paid directly by the Corporation to the Authority or the Bond Trustee.

Debt Service Fund

The Bond Trustee shall, on or before each date on which principal or interest on Bonds comes due, withdraw from the Revenue Fund and deposit to the Debt Service Fund (subject to deposits from other funds made directly to the Debt Service Fund and other available funds on deposit therein) the amounts required to pay the principal or interest, or both, coming due with respect to the Bonds. Any interest or profit from investments or deposits of money in other funds created by the Bond Indenture which have been transferred to the Debt Service Fund shall first reduce the amount required to be transferred from the Revenue Fund, as more fully provided in the Bond Indenture, and the Corporation may receive a corresponding credit against payments due under the Loan Agreement and the Series 2016 Master Note. The Corporation may also receive credit against loan payments for appropriate Series 2016 Bonds that it may acquire and deliver to the Bond Trustee for cancellation.

Series of 2016 Sinking Fund Account

On or before each date when Series of 2016 Term Bonds are to be called for mandatory sinking fund redemption, after making the required deposits into the Revenue Fund and the Debt Service Fund, the Bond Trustee shall deposit into the Series of 2016 Sinking Fund Account the amount required to retire the Series of 2016 Term Bonds to be called for redemption. Credit against such transfer shall be taken for any interest or investment income earned in other funds created by the Bond Indenture that shall have been transferred to, and shall be available in, the Series of 2016 Sinking Fund Account on such date. Credit may also be taken for Series of 2016 Term Bonds of the appropriate maturity that the Corporation may have acquired and delivered to the Bond Trustee for cancellation.

The money at any time on deposit to the credit of the applicable account in Series of 2016 Sinking Fund may be applied by the Bond Trustee to the purchase of the Series of 2016 Term Bonds of the particular maturity then to be redeemed; provided, however, that the Bond Trustee shall not purchase the Series of 2016 Term Bonds or portions thereof at a price in excess of 100% of the principal amount being purchased plus accrued interest thereon to the date of purchase.

Bond Redemption and Improvement Fund

Any money remaining in the Revenue Fund, after the required transfers into the Revenue Fund, the Debt Service Fund, the Series of 2016 Sinking Fund Account and the Debt Service Reserve Fund have been made, shall be transferred to the Bond Redemption and Improvement Fund.

All money representing proceeds of insurance, condemnation awards or other compensation for damage, destruction, loss or taking required by the Master Indenture to be applied to retirement of Bonds when received by the Bond Trustee shall be deposited in the Bond Redemption and Improvement Fund.

All other money that the Corporation elects to provide, or is required by the Master Indenture to provide, for optional or extraordinary redemption of Bonds shall also be deposited in the Bond Redemption and Improvement Fund.

Money in the Bond Redemption and Improvement Fund that is not required by the Bond Indenture, the Master Indenture or the Loan Agreement to be applied to retirement of Bonds may be

withdrawn by the Corporation or may be used or applied at the direction of the Corporation, if there is no deficiency in other Funds under the Indenture.

Investment of Funds

Money in each of the Funds created under the Bond Indenture shall be invested by the Bond Trustee in Investment Securities which shall mature or which shall be subject to repurchase, withdrawal without penalty or redemption at the option of the holder thereof not later than the date when the money held for the credit of such Funds will be required for the purposes intended; provided, however, that Investment in the Debt Service Reserve Fund shall have maturities not longer than seven (7) years.

Obligations purchased as an investment of money in any such Fund and deposits of money of any such Fund shall be deemed to be a part of such Fund and any loss resulting from such investment or deposit shall be charged to such Fund.

Defaults and Remedies

Each of the following events is an “event of default”:

(1) payment shall not be made of any interest upon any Bond at any due date expressed therefor;

(2) payment of any part of the principal of, or premium, if any, on any of the Bonds at maturity as therein expressed or when the same shall become due upon call for redemption, or by declaration or otherwise;

(3) payment shall not be made of the amounts required pursuant to any sinking fund established for any series of Bonds;

(4) a declaration is made under the Master Indenture that the principal of all Master Notes and Master Guaranties issued thereunder is due and payable;

(5) so long as the Master Trustee shall agree, there shall be an “Event of Default” as defined in the Loan Agreement; or

(6) so long as the Master Trustee shall agree, the Authority shall make default in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Bonds or in the Bond Indenture and such default shall have continued for a period of 30 days after written notice specifying such default and requiring the same to be remedied has been given.

Upon the occurrence and during the continuance of any event of default, the Bond Trustee may declare, and either (i) upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding, or (ii) if payment of the principal of all Master Notes and Master Guaranties issued under the Master Indenture has been declared immediately due and payable, shall declare, the principal of all Bonds then outstanding and the interest accrued thereon to be due and payable immediately. Such declaration may be rescinded under circumstances specified in the Bond Indenture.

Upon the happening and during the continuation of any event of default, the Bond Trustee shall be entitled to exercise all rights and remedies provided in the Bond Indenture or by law and shall be obligated to exercise one or more of the rights and powers conferred upon it as it, being advised by counsel,

shall deem most expedient in the interest of Bondholders, if requested by the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding and if indemnified as provided in the Indenture.

If the Master Trustee has accelerated the Master Notes and Master Guaranties issued under the Master Indenture and is pursuing its available remedies, the Bond Trustee shall not pursue its available remedies under the Bond Indenture or the Loan Agreement in such manner as may hinder or frustrate the pursuit by the Master Trustee of its remedies.

During the continuance of any event of default, the Bond Trustee shall be entitled to request the appointment of a receiver as provided by the Act. Any money received by the Bond Trustee or by any receiver from, or in connection with, the Corporation or the Facilities, pursuant to the Bond Indenture shall be applied in accordance with the priorities set forth in the Bond Indenture.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or any remedy thereunder unless such holder previously shall have given to the Bond Trustee written notice of an event of default, and unless also the holders of not less than 25% of the Bonds then Outstanding shall have made written request of the Bond Trustee to act and have furnished indemnity to the Bond Trustee and the Bond Trustee shall have refused or neglected to comply with such request within a reasonable time.

The holder of any Bond shall have the right to institute suit for the enforcement of any payment of the principal and premium, if any, and interest due on such Bond.

Removal of Bond Trustee.

The Bond Trustee may be removed at any time upon at least thirty (30) days' notice by a written instrument, executed by (i) the Holders of at least a majority in aggregate principal amount of the Outstanding Bonds or by their attorneys in fact duly authorized and filed with the Bond Trustee, the Authority and the University or (ii) so long as no Event of Default shall have occurred and be continuing, the Corporation, with the consent of the Authority, or the Authority, with the consent of the Corporation, and filed with the Bond Trustee, the Authority and the University, as applicable.

Defeasance

When the principal, premium, if any, and interest due upon all of the Bonds is paid or money or Defeasance Obligations, as defined in the Bond Indenture, sufficient to pay the principal, premium and interest to accrue on the Bonds are held by the Bond Trustee for such purpose, then the right, title and interest of the Bond Trustee and the obligations of the Authority under the Bond Indenture will cease.

Immunities--Limitation of Liability

No covenant or agreement contained in the Bonds or in the Bond Indenture shall be deemed to be the covenant or agreement of any member, officer, agent or employee of the Authority in his individual capacity. No recourse shall be had for the payment of the principal of, the interest on, or the premium, if any, payable upon the redemption of, any Bonds or for any claim based thereon or on the Bond Indenture against any member, officer, agent or employee, past, present or future of the Authority, or of any successor corporation.

The Bond Indenture does not pledge the taxing power of the Township of East Hempfield, the County of Lancaster, or Commonwealth or any other political subdivision thereof.

Unclaimed Funds

The Bond Indenture provides that money deposited with the Bond Trustee for payment of principal, premium or interest on Bonds and that remains unclaimed four (4) years after the date such principal, premium or interest became or becomes due shall, at the request of the Authority, be paid to the Corporation and the holders of the Bonds for which such money was deposited shall be limited to a claim against the Corporation. The Bond Trustee shall first mail notice to the affected Bondholders at their addresses as shown on the registration books stating that such money will be paid to the Corporation after a date specified in the notice.

Amendments and Modifications

Modifications or amendments of the Bond Indenture may be made without the consent of the Bondholders, (a) to reflect changes in applicable law or regulations and to cure ambiguities, formal defects or omissions or to grant additional rights, powers and security for the benefit of the Bondholders, (b) to qualify the Bond Indenture under the Trust Indenture Act of 1939 or the "Blue Sky" laws of any state, if such be hereafter required in the Opinion of Counsel, and (c) to provide for an alternative or additional method for appointment of a successor bond trustee.

Other modifications and amendments of the Bond Indenture may be made only with the consent of the holders of not less than 51% in aggregate principal amount of the Bonds then outstanding or, in case one or more but less than all of the Bonds then outstanding are affected by any such modification or amendment, then with the consent of the holders of not less than 51% in aggregate principal amount of the Bonds so affected then outstanding; provided, however, that, without the consent of the holders of all of the Bonds affected then outstanding, no such modification or amendment shall be made so as to (a) alter the date fixed in any of the Bonds for the payment of the principal of, or interest on, such Bonds or otherwise modify the terms of payment of the principal at maturity of, or interest on, the Bonds or impose any conditions with respect to such payment or affect the right of any Bondholder to institute suit for the enforcement of any such payment on or after the respective due dates expressed in the Bonds, all of which shall always be unconditional, (b) reduce the amount of, or extend the time for making, sinking fund payments required for any Bonds, (c) alter the amount of principal of, or the rate of interest or premium (if any) payable on, any of the Bonds, (d) affect the rights of the holders of less than all the Bonds then Outstanding, (e) permit the creation by the Authority of any lien prior to or on a parity with the lien of the Bond Indenture upon the trust estate, or (f) reduce the percentages above stated in this paragraph.

THE LOAN AGREEMENT

The following summarizes certain provisions of the Loan Agreement; however, it is not a comprehensive description, and reference is made to the full text of the Loan Agreement for a complete recital of its terms.

Term

The initial term of the Loan Agreement shall extend from the effective date and shall end at midnight, prevailing time, on the day following the final maturity of the Bonds, unless sooner terminated in accordance with the terms of such Loan Agreement.

2016 Project; Application of Proceeds

The Loan Agreement provides that the Authority will make available the proceeds of the Series of 2016 Bonds for application to the costs of the 2016 Project. The Corporation agrees to pay the costs of the 2016 Project to the extent that the Series of 2016 Bond proceeds are not sufficient or the restrictions of the Code relating to tax-exempt bonds prevent their application to pay certain costs.

Sums Payable by Corporation

The Corporation is required to pay to the Authority, at the times and in the manner stipulated in the Loan Agreement, amounts sufficient: (a) to pay principal and interest and other sums due on the Series of 2016 Master Note; (b) the reasonable compensation and expenses of the Bond Trustee; (c) upon issuance of the Series of 2016 Bonds and within 30 days after receipt of a statement from the Authority, from time to time, to pay an amount equal to the actual Administrative Expenses of the Authority allocable to the 2016 Project; (d) within forty-five (45) days after receipt of a statement from the Authority, to pay amounts equal to costs and expenses of the Authority, in addition to those provided above, in connection with the 2016 Project, the Series of 2016 Bonds or the Facilities; (e) any rebate of arbitrage required to be paid to the United States in connection with the Series of 2016 Bonds.

The Corporation acknowledges that the sums payable under the Loan Agreement (except the administrative fees and rights to indemnification) will be transferred, assigned and set over unto the Bond Trustee under the Bond Indenture to secure the Series of 2016 Bonds.

Operation, Maintenance and Repair

The Corporation covenants to comply with the provisions of the Master Indenture governing operation, maintenance and repair of the Facilities and to comply with all final and legally enforceable acts, rules and regulations, orders and directives of any legislative, executive, administrative or judicial body applicable to and having jurisdiction with respect to the Facilities.

Records and Audits

The Corporation shall cause a complete annual, certified audit of its operations for each Fiscal Year to be completed, in accordance with generally accepted accounting principles for non-profit health care institutions, by an Independent Public Accountant in accordance with the Master Indenture. Such report shall be furnished to the Authority and the Bond Trustee.

Insurance

The Corporation shall provide or shall cause to be provided continuously from the effective date of the Loan Agreement, insurance covering such risks, in such amounts and with such deductibles as shall be in compliance with the Master Indenture

Destruction, Damage and Eminent Domain

In the event that the Facilities shall be wholly or partially destroyed or damaged by fire or other casualty covered by insurance, or shall be wholly or partially condemned, taken or injured by any Person, including any Person possessing the right to exercise the power of or a power in the nature of eminent domain or transferred to such a Person by way of a conveyance in lieu of the exercise of such power, the Corporation shall have the options provided to it under the Master Indenture.

Liquidity Covenant

The Corporation shall maintain Days Cash on Hand in an amount equal to or greater than 120, tested semiannually as of each June 30th and December 31st

If Days Cash on Hand is less than 120 on two successive testing dates, the Corporation shall at its expense retain a Consultant, in a timely manner but in no event later than ninety (90) days after the second successive date on which the Corporation determines that Days Cash on Hand is less than 120, to prepare a report and make recommendations with respect to the rates, fees and charges of the Corporation, and the Corporation's methods of operation and other factors affecting their financial condition in order to increase Days Cash on Hand to at least 120. The Corporation shall not be required to engage a Consultant more than once in any two year period.

A copy of the Consultant's report and recommendations, if any, shall be filed with the Corporation and the Bond Trustee. The Corporation shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Corporation) and permitted by law. This section shall not be construed to prohibit any Person from serving indigent patients to the extent required for such Person to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this section.

Default and Remedies

The following are events of default under the Loan Agreement:

(a) failure by the Corporation fails to make or fails to provide for any payment in respect of principal or interest on the Series of 2016 Bonds, when the same shall become due and payable and if such failure continues for five (5) calendar days thereafter or an event of default occurs under the Bond Indenture, whichever occurs first; or

(b) failure by the Corporation to make any payment under the Loan Agreement or in the performance of or compliance with any of the provisions, covenants, agreements, terms or conditions contained therein, other than those specified in (a) above, which continues for thirty (30) days following written notice thereof to the Corporation from the Authority or the Bond Trustee except in the case of a default which cannot be cured within such thirty (30) days, in which case the period shall be extended for such period as is reasonable to cure the same with due diligence, provided the Corporation commences such performance or compliance within thirty (30) days and proceeds diligently to cure the same; or

(c) the occurrence of an Act of Bankruptcy; or

(d) if any representation or warranty made by the Corporation in the Loan Agreement or in any statement or certificate furnished to the Authority, the Bond Trustee, or the purchaser of any Bonds in connection with the sale of the Bonds or furnished by the Corporation pursuant hereto proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Corporation by the Authority or the Bond Trustee; or

(e) the occurrence of an Event of Default under any of the Related Loan Documents.

(f) Unless and until the Authority or the Bond Trustee shall have exercised any remedies upon an Event of Default, the Corporation (or any other person on behalf of the Corporation) may at any time (1) pay all accrued unpaid payments then due and owing on the outstanding balance of the Loan and all other sums which the Corporation is obligated to pay hereunder; and (b) cure all other existing defaults hereunder, and in every such case, such payment and cure shall be deemed to constitute a waiver of the default and its consequences as though the default had not occurred.

Upon the occurrence of an Event of Default:

(a) The entire outstanding balance of the Loan and any other sums which the Corporation is obligated to pay to the Authority hereunder shall immediately be due and payable; provided, however, that the Trustee shall have declared the acceleration of the Bonds in accordance with the Indenture.

(b) The Trustee, after ten (10) days' notice to the Corporation, may perform for the account of the Corporation any covenant of the Corporation hereunder in the performance of which the Corporation is in default or make any payment for which the Corporation is in default. The Corporation shall pay to the Trustee upon demand any amount paid by it in the performance of such covenant and any amounts which the Trustee shall have paid by reason of failure of the Corporation to comply with any covenant or provision of this Agreement, including reasonable counsel fees incurred in connection with prosecution or defense of any proceedings instituted by reason of default of the Corporation, together with interest at a rate equal to the lesser of the highest rate permitted by applicable law and the cost of the money to the Trustee, from the date of payment until repayment by the Corporation.

(c) The Authority may pursue any other right/remedy available at law or in equity.

The remedies conferred or reserved in the Loan Agreement are not exclusive and the Bond Trustee, with the prior written consent of the Master Trustee, shall be free to pursue any and all remedies at law or in equity.

Financing Improvements and Additions to the Facilities

Should the Corporation deem it necessary or advisable to make repairs, renewals or replacements to the Facilities or to construct or acquire new and additional permanent improvements, additions, alterations, extensions, enlargements and betterment thereto, and if costs are not paid out of

available money, the Corporation may request the Authority to finance the same from available money in an appropriate fund under the Bond Indenture or through the issuance of other bonds, or the Corporation may determine to provide for the same by increasing rates and charges or as otherwise provided in the Master Indenture.

Maintenance of Corporate Existence by Corporation

The Corporation shall maintain and preserve its Articles of Incorporation, By-laws and its corporate existence as required by the Master Indenture, and shall maintain and preserve its authority to do business in the Commonwealth except as otherwise provided in the Master Indenture.

Indemnification

The Corporation agrees to protect and indemnify the Authority, its agents, attorneys and employees against and to hold them harmless and defend them from any loss, expense or liability of any nature whatsoever incurred by the Authority's participation in the 2016 Project, among other things, and releases the Authority from, agrees that the Authority shall not be liable for, and agrees to defend and to hold the Authority harmless against, any loss or damage to property or any injury to or death of a person that may be occasioned by any cause whatsoever pertaining to the Facilities or the use thereof.

MASTER TRUST INDENTURE

The Corporation will issue the 2016 Note under the terms of the Master Indenture, as amended and supplemented by Supplemental Master Indenture No. 6, to the Authority, which will assign the 2016 Note to the Trustee to provide additional security for the repayment of the 2016 Bonds. The following summarizes certain provisions of the Master Indenture but is not to be regarded as a full statement thereof, and reference should be made to the Master Indenture itself for all of the terms and provisions thereof. Copies of the Master Indenture in reasonable quantities may be obtained from the Master Trustee.

Interpretation

If any Debt Obligations are issued under the Master Indenture to secure Related Bonds, which Related Bonds are valued, in accordance with the provisions of a Related Bond Indenture, at other than their principal amount for purposes of the provisions of such Related Bond Indenture relating to redemption, acceleration, defeasance, computation of Related Bonds Outstanding, application of moneys in payment of the Related Bonds and actions by holders of such Related Bonds, then, for purposes of the Master Indenture, references in the Master Indenture to the principal amount of the Debt Obligations issued to evidence or secure such Related Bonds contained herein shall be deemed to refer to an amount equal, at any time of calculation, to the valuation of such Related Bonds, at such time of calculation, as set forth in such Related Bond Indenture.

All accounting terms not specifically defined in the Master Indenture shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein. If any change in accounting principles from those used in the preparation of the financial statements of the Obligated Group as of December 31, 2016, results from the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board, American Institute of Certified Public Accountants or other authoritative bodies that determine generally accepted accounting principles (or successors thereto or agencies with similar functions) and such change results in a change in the accounting terms used in the Master Indenture, the accounting terms used herein shall be modified to reflect such change in accounting principles so that the criteria for evaluating the Obligated Group's financial condition shall be the same after such change as if such change had not been made. Any such modification shall be described in an Officer's Certificate filed with the Master Trustee, which shall contain a certification to the effect that (i) such modifications are occasioned by such a change in accounting principles and (ii) such modifications will not have a materially adverse effect on the Obligation holders or result in materially different criteria for evaluating the Obligated Group's financial condition.

Notwithstanding anything else in the Master Indenture to the contrary, in computing or calculating Adjusted Expenses, Book Value, Current Assets, Debt Service Requirements, Income Available for Debt Service, Indebtedness, Long-Term Debt Service Coverage Ratio, Maximum Annual Debt Service, Operating Expenses, Operating Revenues, Property, Property Plant and Equipment, Revenues, and Transaction Test, the Obligated Group, at the option of the Obligated Group Agent, may, unless the context specifically requires otherwise, utilize financial and other information with respect to the Members of the Obligated Group.

Security for Obligations; Pledge of Pledged Assets.

Equal and Ratable Security. All Outstanding Obligations issued under the Master Indenture are and shall be equally and ratably secured by the Master Indenture. Any Obligation issued under the Master Indenture, so long as any Liens created in connection therewith or securing such Obligations satisfies one or more of the Permitted Encumbrances, may be Lines on Pledged Assets, Mortgaged property or Property and, in addition, may be secured by letters or lines of credit, insurance or security interests in a depreciation reserve, debt service reserve or interest reserve or similar funds); provided that 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 upon each of the properties of the Members of the Obligated Group that have been mortgaged to secure payment of Outstanding Obligations, in *pari passu*, as tenants in common, pro rata, in accordance with the balances then due under each of the Outstanding

Obligations, subject to no liens or security interests having priority over such mortgage other than Permitted Encumbrances on the date of execution and delivery of such mortgage.

Pledge of Pledged Assets. In order to secure the prompt payment of all amounts due on all Obligations issued under the Master Indenture and the performance by the Members of the Obligated Group of their obligations under the Master Indenture and the Obligations, the Members of the Obligated Group pledge and assign to the Master Trustee, and grant a security interest in, for the equal and ratable benefit of the holders from time to time of all of the Obligations, all of their Pledged Assets, but the existence of such pledge, assignment and security interest shall not prevent the expenditure, deposit or commingling of Gross Revenues by the Members of the Obligated Group for any purpose so long as no event of default under the Master Indenture has occurred and is continuing and all required payments with respect to the Obligations are made when due. Without limiting the generality of the foregoing, this security interest shall apply to all rights to receive Pledged Assets whether in the form of accounts, accounts receivable, contract rights or other rights, and to the proceeds of such rights. This security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the Members of the Obligated Group. The Members of the Obligated Group represent that as of the date of the delivery of the Master Indenture they have granted no security interest in Gross Revenues prior to the security interest granted by under the Master Indenture, except for the Liens on Gross Revenues described on an exhibit to the Master Indenture. The Members of the Obligated Group further covenant and agree that, except for Permitted Encumbrances, they will not pledge, suffer to exist, or grant a security interest in the Pledged Assets prior to the security interest granted by the Master Indenture, except for Liens described on an exhibit to the Master Indenture. The Master Indenture is intended to be a security agreement pursuant to the Uniform Commercial Code.

The Members of the Obligated Group agree to execute and deliver to the Master Trustee, if and to the extent required by law, such financing statements and continuation statements covering the Pledged Assets from time to time and in such form as may be required to perfect and continue a security interest in the Pledged Assets. The Members of the Obligated Group shall file all of such statements provided to it by any Member of the Obligated Group in a timely and appropriate manner as may be required to perfect and continue such security interest in Pledged Assets. The Members of the Obligated Group shall pay all costs of filing such financing statements and continuation statements and any renewals thereof and shall pay all reasonable costs and expenses of any record searches and preparation fees for financing statements and continuation statements that may be required.

Upon the breach of any covenant or agreement of the Members of the Obligated Group contained in the Master Indenture, the Master Trustee will have the remedies of a secured party under the Uniform Commercial Code and, at its option, may also pursue the remedies permitted in applicable law as to such Pledged Assets.

Substitute Obligations upon Withdrawal of a Member. In the event any Member ceases to be a Member of the Obligated Group in accordance with the Master Indenture, another Member issues an Obligation under the Master Indenture pursuant to a Supplemental Master Indenture evidencing or assuming the Obligated Group's obligation in respect of Related Bonds, if so provided for in such Obligation originally issued by such withdrawing Member, such Obligation shall be surrendered to the Master Trustee in exchange for a substitute Obligation without notice to or consent of any Related Bondholder, provided that such substitute Obligation provides for payments of principal, interest, premium and other amounts due under such Obligation identical to the surrendered Obligation and sufficient to provide all payments on any Related Bonds.

General Covenants

Payment of Principal, Premium, if any, and Interest and Other Amounts. Each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture), jointly and severally covenants that it will promptly pay the principal of; premium, if any, and interest on, and all other amounts due under,

every Obligation issued under the Master Indenture and any other payments, including the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document required by the terms of such Obligations, at the place, on the dates and in the manner provided herein and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth herein or in the Obligations, each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture), jointly and severally agrees to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premium, if any, and all other amounts due thereunder) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, if any, upon any Related Bonds from time to time outstanding and upon any other financial obligations evidenced or secured by an Obligation. If any Member does not tender payment of any installment of principal, premium or interest on, or any other amounts due under, any Obligation when due and payable, the Master Trustee shall provide prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

Performance of Covenants. Each Member covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Obligation executed, authenticated and delivered under the Master Indenture and will perform all covenants and requirements imposed on the Obligated Group Agent or any Member under the terms of any Related Bond Indenture.

Entrance into the Obligated Group

Any Person may become a Member of the Obligated Group if:

- (a) Such Person is a corporation or other legal entity;
- (b) Such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall be executed by the Master Trustee and the Obligated Group Agent on behalf of each then current Member of the Obligated Group, containing the agreement of such Person (i) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture) to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation;
- (c) The Obligated Group Agent shall have approved the admission of such Person into the Obligated Group;
- (d) The Master Trustee shall have received (1) an Officer's Certificate which demonstrates that, immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the Master Indenture, (2) an opinion of Counsel to the effect that (x) the instrument described in paragraph (b) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to such other exceptions as are not reasonably objected to by the Master Trustee and (y) the addition of such Person to the Obligated Group will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status, and (3) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the consummation of such transaction will not adversely affect the validity of any Related

Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Bond would otherwise be entitled;

(e) The Obligated Group shall have delivered an Officer's Certificate to the Master Trustee demonstrating that the Transaction Test will be met, assuming the incurrence of \$1.00 of additional Indebtedness, after giving effect to the proposed transaction; and

(f) The exhibit to the Master Indenture listing Members of the Obligated Group shall be amended or replaced to add such Person as a Member.

Each successor, assignee, surviving, resulting or transferee corporation or other legal entity of a Member must agree to become, and satisfy the above-described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status.

Cessation of Status as a Member of the Obligated Group

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be a Member of the Obligated Group unless:

(a) if the Member proposing to withdraw from the Obligated Group is a party to any Related Loan Documents with respect to Related Bonds which remain outstanding, another Member of the Obligated Group has issued an Obligation under the Master Indenture evidencing or assuming the obligation of the Obligated Group in respect of such Related Bonds;

(b) prior to cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Bond would otherwise be entitled;

(c) immediately after such cessation, no event of default exists under the Master Indenture and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default;

(d) prior to such cessation there is delivered to the Master Trustee an opinion of Counsel to the effect that the cessation by such Member of its status as a Member will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status;

(e) The Obligated Group shall have delivered an Officer's Certificate to the Master Trustee demonstrating that the Transaction Test will be met, assuming the incurrence of \$1.00 of additional Indebtedness, after giving effect to the proposed transaction;

(f) prior to the cessation of such status, the Obligated Group Agent consents in writing to the withdrawal of such Member; and

(g) Exhibit A to the Master Indenture shall be amended or replaced to delete such person as a Member.

General Covenants; Right of Contest

Each Member covenants to:

(a) Except as otherwise expressly provided herein (i) preserve its corporate or other separate legal existence, (ii) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted and (iii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; provided, however, that nothing contained in the Master Indenture shall be construed to

obligate such Member to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or useful in the conduct of its business.

(b) In the case of any Person which is a Tax-Exempt Organization at the time it becomes a Member, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax- Exempt Organization, which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

(c) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof, if the failure to so comply would have a materially adverse affect on the operations or financial affairs of the Obligated Group, taken as a whole.

The foregoing notwithstanding, any Member may (i) cease to be a not for profit corporation or (ii) take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that such actions would not adversely affect the validity of any Related Bond, the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Person.

No Member shall be required to remove any Lien required to be removed under the Master Indenture, pay or otherwise satisfy and discharge its obligations, Indebtedness (other than any Obligations), demands and claims against it or to comply with any Lien, law, ordinance, rule, order, decree, decision, regulation or requirement referred to in the Master Indenture, so long as such Member shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the obligation, Indebtedness, demand, claim or Lien so contested, and the sale, forfeiture, or loss of its Property or any part thereof, provided, that no such contest shall subject any Related Issuer, any Obligation holder or the Master Trustee to the risk of any liability. While any such matters are pending, such Member or System Affiliate shall not be required to pay, remove or cause to be discharged the obligation, Indebtedness, demand, claim or Lien being contested unless such Member agrees to settle such contest. Each such contest shall be promptly prosecuted to final conclusion (subject to the right of such Member engaging in such a contest to settle such contest), and in any event the Member will save all Obligation holders and the Master Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof, pay and discharge the amounts which shall be determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith.

Insurance

Each Member shall maintain or cause to be maintained at its sole cost and expense, insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of corporations engaged in the same or similar activities and similarly situated and as is adequate to protect its Property and operations.

Long-Term Debt Service Coverage Ratio

Each Member covenants and agrees to conduct its business on a revenue producing basis and to charge such fees and rates and to exercise such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Master Indenture.

The Obligated Group Agent shall calculate the Income Available for Debt Service of the Obligated Group, for each Fiscal Year and the Long-Term Debt Service Coverage Ratio of the Obligated Group for such Fiscal Year and deliver a copy of such calculations to the Persons to whom financial statements are required to be delivered under the Master Indenture.

The foregoing provisions notwithstanding, if in any Fiscal Year the Long-Term Debt Service Coverage Ratio of the Obligated Group is less than 1.10 to 1, the Obligated Group Agent shall not be required to retain a Consultant to make such recommendations if (a) there is filed with the Master Trustee a written report of a Consultant which contains an opinion of such Consultant to the effect that applicable laws or regulations have prevented the Obligated Group from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Long-Term Debt Service Coverage Ratio of the Obligated Group of 1.10 to 1 or higher; (b) the report of such Consultant indicates that the fees and rates charged by the Members of the Obligated Group are such that, in the opinion of the Consultant, the Members of the Obligated Group have generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Long-Term Debt Service Coverage Ratio of the Obligated Group was at least 1.00 to 1.00 for such Fiscal Year. The Obligated Group Agent shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group Agent provides to the Master Trustee an Officer's Certificate or an opinion of Counsel to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

Permitted Reorganizations

a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations that are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor corporation or other legal entity to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a corporation or other legal entity organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation or other legal entity to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on, and any other amounts due under, all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture as shown in on Officer's Certificate;

(iii) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the

validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds; and

(iv) The Obligated Group shall have delivered an Officer's Certificate to the Master Trustee demonstrating that the Transaction Test will be met, assuming the incurrence of \$1.00 of additional Indebtedness, after giving effect to the proposed Permitted Reorganization.

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 Member and the Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Master Indenture or upon the Obligations and such Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations, if such predecessor corporation shall have conveyed all or substantially all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Member 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 rely upon an opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with provisions of the Master Indenture and that it is proper for the Master Trustee to join in the execution of any instrument required to be executed and delivered by the foregoing section.

Financial Statements, Etc.

The Corporation and each Member covenant that they will keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Corporation in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the audited financial statements referred to in subparagraph (a) below, and the Obligated Group will furnish to the Master Trustee:

a) As soon as practicable after they are available, but in no event more than 180 days after the last day of each Fiscal Year, a financial report of the Obligated Group for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Agent prepared on a combined or consolidated, or combining or consolidating, basis in accordance with generally accepted accounting principles, covering the operations of the Obligated Group for such Fiscal Year and containing an audited consolidated statement of financial position of the Obligated Group as of the end of such Fiscal Year and an audited consolidated and an unaudited consolidating statement of changes in Net Assets and statement of cash flows of the Obligated Group, for such Fiscal Year and an audited consolidated and an unaudited consolidating statement of operations of the Obligated Group, for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year.

b) Not more than 180 days after the last day of each Fiscal Year of the Obligated Group Agent, the result of operations and statement of financial position including the Obligated Group prepared by or at the direction of the chief financial officer of the Obligated Group Agent based upon the audited financial statements described in subsection (a) above (such result of operations and statement of financial position being referred to herein as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Obligated Group Agent stating that the Obligated Group Financial Statements were prepared in

accordance with generally accepted accounting principles (except for required consolidations) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members of the Obligated Group and that all Members of the Obligated Group are included.

c) At the time of delivery of the financial report referred to in subsection (a) above, an Officer's Certificate, stating that the Obligated Group Agent has made a review of the activities of each Member during the preceding Fiscal Year for the purpose of determining whether or not the Members have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions of the Master Indenture, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof:

Permitted Indebtedness

a) The Members of the Obligated Group covenant that, except for Permitted Indebtedness described in the following paragraphs of this section, and the indebtedness evidenced by the Series 2016 Note and other Obligations Outstanding under the Master Indenture, the Members of the Obligated Group shall not incur additional Indebtedness, directly, indirectly or contingently.

b) Permitted Debt shall include only the following:

(1) Long-Term Indebtedness, if prior to the incurrence of such Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate demonstrating that the Transaction Test shall have been met for, and giving effect to, the incurrence of such Indebtedness;

(2) Long-Term Indebtedness, if prior to the incurrence of such Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that the total principal amount of Long Term Indebtedness to be incurred at such time, when added to the aggregate principal amount of all other Long-Term Indebtedness theretofore issued pursuant to this paragraph (b)(2) and then Outstanding, will not exceed fifty percent (50%) of the Operating Revenues of the Obligated Group for the Historic Test Period. Any Long-Term Indebtedness or portion thereof incurred under this paragraph (b)(2) which is Outstanding at any time shall be deemed to have been incurred under one of paragraph (i), (ii) or (iii) of the Transaction Test if at any time subsequent to the incurrence thereof there shall be filed with the Master Trustee an Officer's Certificate to the effect that such Outstanding Indebtedness or portion thereof would satisfy such other provision, specifying such other provision, and thereupon the amount deemed to have been incurred and to be Outstanding under this paragraph (b)(2) shall be deemed to have been reduced by such amount and to have been incurred under such other provision;

(3) Completion Indebtedness, if prior to the incurrence of such Completion Indebtedness there is delivered to the Master Trustee an Officer's Certificate (i) to the effect that the net proceeds of such proposed Completion Indebtedness is needed for the completion of the construction or equipping of the facilities in question; (ii) to the effect that the original Indebtedness for the facilities in question when incurred was assumed to be sufficient for the projected costs; (iii) describing the reasons why such Completion Indebtedness is necessary; (iv) certifying as to the amount needed for the completion of the facilities in question; and (v) certifying that the principal amount of such Completion Indebtedness will not exceed twenty percent (20%) of the initial principal amount of the Indebtedness originally incurred for the facilities in question;

(4) Long-Term Indebtedness incurred for the purpose of refunding, including advance refunding, any Outstanding Indebtedness;

(5) Short-Term Indebtedness, provided that immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all Short-Term Indebtedness does not

exceed twenty-five percent (25%) of the aggregate Operating Revenues of the Obligated Group for the Historic Test Period;

(6) Non-Recourse Indebtedness, in a principal amount Outstanding at any one time not in excess of fifteen percent (15%) of Operating Revenues for the Historic Test Period, which Non-Recourse Indebtedness is: (i) secured by a Lien on Property which is part of the Property, Plant and Equipment; or (ii) secured by a Lien on Property which is inventory or pledges of gifts or grants to be received in the future without limit; provided that such gifts or grants shall be excluded from the calculation of Income Available for Debt Service so long as such Non-Recourse Indebtedness is Outstanding;

(7) Subordinated Indebtedness, without limitation;

(8) Balloon Indebtedness, provided that, after giving effect to the provisions of the Master Indenture, such Balloon Indebtedness can be incurred under the provisions of (b)(1) or (2) above;

(9) Permitted Guarantees, (i) if such Guaranty could then be incurred by the Obligated Group as Long-Term indebtedness under (b)(1) or (2) above, as Short Term Indebtedness under (b)(5) above, or as Balloon Indebtedness under (b)(8) above, provided that in each case for purposes of any computations provided for in this paragraph (b)(9)(i), the aggregate annual principal and interest payments on, and the principal amount of any indebtedness of a Person which is the subject of a Guaranty under the Master Indenture and which would, if such obligation were incurred by the Obligated Group, constitute Long-Term Indebtedness, shall be deemed equivalent to twenty percent (20%) of the actual Debt Service Requirements on, and principal amount of, such indebtedness (assuming the definitions of the Master Indenture apply to such indebtedness), so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided, however, that the Debt Service Requirements on, and principal amount of, any Long-Term Indebtedness represented by a Guaranty shall be deemed equivalent to one hundred percent (100%) of the actual Debt Service Requirements on, and principal amount of, such indebtedness, if a payment has been made by the Obligated Group on such Guaranty within three (3) years of the date of any computation to be made under this paragraph (b)(9)(i) (assuming the definitions of the Master Indenture apply to such indebtedness); also for purposes of any covenants or computations provided for herein, the aggregate annual principal and interest payments on, and principal amount of, any Short-Term Indebtedness represented by a Guaranty of obligations of a Person shall be deemed equivalent to the actual principal and interest payments on the indebtedness which is the subject of the Guaranty (assuming the definitions of the Master Indenture apply to such indebtedness); (ii) if such Guaranty is of Indebtedness of another Member of the Obligated Group, which Indebtedness has been or could be incurred as Permitted Indebtedness under the Master Indenture

(10) Indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by any member of the Obligated Group and a financial institution providing either a liquidity or credit support with respect to any other Indebtedness incurred in accordance with any other provision of this paragraph (b);

(11) Indebtedness in the form of a borrowing from another Member of the Obligated Group;

(12) Indebtedness in the form of any other financial obligation to another Member of the Obligated Group;

(13) Indebtedness incurred on an interim basis with respect to any construction project for which money is available therefor in the construction fund for such project;

(14) Indebtedness incurred in the ordinary course of business;

(15) Indebtedness in the form of a guaranty or confirmation of liability of an Affiliate incurred directly or indirectly with respect to a self-insurance or captive insurance program benefiting any Member of the Obligated Group;

(16) Qualifying Intermediate-Term Indebtedness may be incurred without limitation; and

(17) Indebtedness incurred or deemed incurred by virtue of any recourse obligation associated with any sale or assignment of accounts receivable, but in no event in an amount in excess of (i) the monetary consideration received from any such sale or assignment; or (ii) twenty percent (20%) of the total amount of accounts receivable of the Obligated Group as of the end of the Historic Test Period.

Permitted Dispositions

a) The Members of the Obligated Group covenant that, except for Permitted Dispositions described immediately below, the Members of the Obligated Group shall not sell, lease, remove, transfer, assign, convey or otherwise dispose of any Property of the Members of the Obligated Group.

b) Permitted Dispositions shall include only the following:

(1) the disposition of Property if the Book Value of such Property disposed of in any one Fiscal Year is not in excess of ten percent (10%) of the Book Value of the Property of each member of the Obligated Group as of the end of the Historic Test Period;

(2) the disposition of Property if the Book Value of such Property disposed of in any one Fiscal Year exceeds ten percent (10%) of the Book Value of the Property of each Member of the Group; provided, however, that an Officer's Certificate is delivered to the Master Trustee demonstrating that the Transaction Test shall have been met for, and giving effect to, such proposed Permitted Disposition;

(3) the disposition of real property that is unused or surplus upon which none of the Facilities are situated;

(4) the disposition of Property in the case of any proposed or potential condemnation or taking for public or quasi-public use of the Property or any portion thereof;

(5) the disposition of Property to any Person if such Property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(6) the disposition of Property in the ordinary course of business;

(7) the disposition of Property (other than Current Assets) that does not constitute part of the health care Facilities of the Obligated Group;

(8) the disposition of Property if such Property is replaced promptly by other Property of comparable utility or worth;

(9) the disposition of Property if the Obligated Group, or any Member thereof, receives fair market value therefor;

(10) the disposition of Property if the Obligated Group, or any Member thereof, receives fair market value therefore, the disposition of Property constituting the sale, assignment or other disposition of accounts receivable, provided that the transaction is commercially reasonable and for consideration deemed fair and adequate in an Officer's Certificate delivered to the Master Trustee;

(11) the disposition of Property to another Member of the Obligated Group; and

(12) the disposition of Property in connection with a Permitted Reorganization.

(13) the sublease or license the use of a part or parts of any of its Property, from time to time, to any Person for use and occupancy pursuant to a Resident's Agreement or for use in performing professional or other services necessary or desirable for proper and economical operation and use of the Facilities for health care and related purposes in accordance with customary business practices in the industry.

(14) if no Event of Default under the Agreement shall have happened and be continuing, (i) grant easements, licenses, rights of way (including the dedication of public highways) and other rights or privileges in the nature of easements with respect to any property included in the Facilities, free from the Indenture, (ii) release existing easements, licenses, rights of way and other rights or privileges, or (iii) give a purchase money security interest with respect to personal property hereafter acquired; all with or without consideration and upon such terms and conditions as the Corporation shall determine, and the Authority agrees that it will execute and deliver and will cause and direct the Trustee to execute and deliver any instrument necessary or appropriate to confirm and grant or release any such easement, license, right of way, purchase money security interest or other right or privilege.

Remedies

Extension of Payment. In case the time for the payment of principal of or the interest on, or any other amounts due under, any Obligation shall be extended, whether or not such extension be by or with the consent of the Master Trustee, such principal or such interest or such other amounts so extended shall not be entitled in case of default under the Master Indenture to the benefit or security of the Master Indenture except subject to the prior payment in full of all Obligations then outstanding, the time for the payment of which shall not have been extended.

Events of Default. Each of the following events is declared an "event of default":

a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, or any other amount due, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise and the continuance of such failure for ten days (or any shorter grace period required in the Supplemental Master indenture pursuant to which such Obligation was issued); or

b) failure of any Member to comply with, observe or perform any other covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 60 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Debt Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-day period shall not constitute a default under the Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

c) any representation or warranty made by any Member herein or in any Supplemental Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation or Related Bond in connection with the delivery of any Obligation or sale of any Related Bond or furnished by any Member pursuant to the Master Indenture or any Supplemental Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 60 days after written notice e to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Debt Obligations; or

d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness for borrowed money (other than Non-Recourse Indebtedness) of any Member, including without limitation any

Indebtedness created by any Related Loan Document, as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or event of default entitles the holder thereof (or any credit enhancer exercising the rights of such holder) to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an “event of default” under the Master Indenture unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 10% of Current Assets of the Obligated Group as shown on or derived from the then latest available audited consolidated financial statements of the Obligated Group; or

e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 60 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Current Assets of the Obligated Group as shown on or derived from the then latest available audited consolidated financial statements of the Obligated Group; or

f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 60 days after such appointment; or

h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title II of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution.

Acceleration. If an event of default has occurred and is continuing, the Master Trustee may, and if requested in writing by either the holders of not less than 25% in aggregate principal amount of Outstanding Debt Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of or other amounts evidenced under all Outstanding Obligations and the interest accrued thereon immediately due and payable, and the entire principal or other amounts and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of the Master Indenture with respect to waivers of events of default. The foregoing notwithstanding, if the Supplemental Master Indenture creating an Obligation or Obligations includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation or Obligations, the Master Trustee may not accelerate such Obligation or Obligations without the consent of such Person.

Remedies; Rights of Obligation Holders. Upon the occurrence of any event of default under the Master Indenture, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Obligations and

any other sums due under the Obligations or under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an event of default shall have occurred, and if it shall have been requested so to do by either the holders of 25% or more in aggregate principal amount of Debt Obligations outstanding or the holder of an Accelerable Instrument upon whose request pursuant to the Master Indenture the Master Trustee has accelerated the Obligations (and upon the provision of indemnity satisfactory to the Master Trustee in its sole discretion), the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Master Trustee as the Master Trustee shall deem most expedient in the interests of the holders of Debt Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel (who may be its own Counsel) that the action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee (or to the holders of Debt Obligations) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Master Trustee or to the holders of Debt Obligations under the Master Indenture now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default under the Master Indenture, whether by the Master Trustee or by the holders of Debt Obligations, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Holders. The holders of a majority in aggregate principal amount of the Debt Obligations then outstanding which have become due and payable in accordance with their terms or have been declared due and payable pursuant to the Master Indenture and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority in aggregate principal amount of the Debt Obligations then outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that indemnity satisfactory to the Master Trustee has been provided to it and that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture and that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel (who may be its own Counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority in aggregate principal amount of the Debt Obligations outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request pursuant to the Master Indenture the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Debt Obligations then outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that

indemnity satisfactory to the Master Trustee has been provided to it and that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture.

Application of Moneys All moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture in connection with remedies following an event of default (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, expenses, liabilities and advances incurred or made by the Master Trustee, any Related Issuers and any Related Bond Trustees, be applied as follows:

a) Unless all Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Obligations and regularly scheduled payments on any Hedging Obligation, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

Second: To the payment to the Persons entitled thereto of the unpaid principal and premium, if any, on the Obligations which shall have become due and termination payments on any Hedging Obligations (other than Obligations called for redemption or payment for payment of which moneys are held pursuant to the provisions of the Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the Persons entitled thereto without any discrimination or privilege; and

Third: To the payment to the Persons entitled thereto of any other amounts which have become due under any and all Obligations; and

Fourth: To the payment to the Persons entitled thereto of all unpaid amounts under any Obligations, payment of which was extended by such Persons.

b) If all Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest and all other amounts then due and unpaid upon the Obligations without preference or priority of principal, premium, interest or other amounts over the others, 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, premium, if any, interest and all other amounts to the Persons entitled thereto without any discrimination or privilege; provided that no amount shall be paid to any Obligation holder who has extended the time for payment of either principal or interest or other amounts until all other principal, premium, if any, interest and all other amounts owing on Obligations have been paid; and

c) If all Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provision of the Master Indenture, then, subject to the provisions of paragraph (b) of this Section in the event that all 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.

Termination of Proceedings. In case the Master Trustee shall have proceeded to enforce any right under the Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Master Trustee, then and in every case the Members and the Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Master Indenture with respect to the

Property pledged and assigned under the Master Indenture, and all rights, remedies and powers of the Master Trustee shall continue as if no such proceedings had been taken.

Waiver of Events of Default. If, at any time after all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided and before the acceleration of any Related Bond, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of, and any other amounts due under, all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the fees and expenses of the Master Trustee, and any and all events of default under the Master Indenture, other than the nonpayment of any amounts due under such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Debt Obligations then outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon.

Members' Rights of Possession and Use of Property. So long as each Member is in full compliance with the terms and provisions of the Master indenture, each Member shall be suffered and permitted to possess, use and enjoy its Property and appurtenances thereto free of claims of the Master Trustee.

Related Bond Trustee or Bondholders Deemed To Be Obligation Holders. For the purposes of the Master Indenture, unless a Related Bond Trustee elects to the contrary or contrary provision is made in a Related Bond Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as trustee. If such a Related Bond Trustee so elects or the Related Bond Indenture so provides, the holders of each series of Related Bonds (or, in lieu thereof, the credit enhancer for such Related Bonds) shall be deemed the holders of the Obligations to the extent of the principal amount of the Obligations to which such Related Bonds relate.

Rights, Powers and Duties Subject to Intercreditor Agreement. Notwithstanding any provision of the Master Indenture to the contrary, the rights, power and duties of the Master Trustee and the holders of the Obligations created under the Master Indenture shall be subject in all respects to the terms of the Intercreditor Agreement so long as it is in effect.

The Master Trustee

Acceptance of the Trusts. The Master Trustee accepts and agrees to execute the trusts imposed upon it by the Master Indenture, but only upon the terms and conditions set forth in the Master Indenture. The Master Trustee, prior to the occurrence of an event of default and after the curing of all events of default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture and to perform such duties as an ordinarily prudent trustee under a corporate indenture, and no implied covenants or obligations should be read into the Master Indenture against the Master Trustee. If an event of default under the Master Indenture shall have occurred and be continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture and shall use the same degree of care as a prudent man would exercise or use in the circumstances in the conduct of his own affairs. The Master Trustee agrees to perform such trusts only upon and subject to the following express terms and conditions:

a) The Master Trustee may execute any of the trusts or powers of the Master Indenture and perform any of its duties by or through attorneys, agents, receivers, or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to advice of counsel concerning all matters of trusts of the Master Indenture and duties under the Master Indenture, and may in all

cases pay such reasonable compensation to any attorney, agent, receiver or employee retained or employed by it in connection herewith. The Master Trustee may act upon the opinion or advice of an attorney, surveyor, engineer or accountant selected by it in the exercise of reasonable care or, if selected or retained by any Member, approved by the Master Trustee in the exercise of such care. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

b) The Master Trustee shall not be responsible for any recital herein, or in the Obligations (except with respect to the certificate of the Master Trustee endorsed on the Obligations), or for the investment of moneys as herein provided (provided that no investment shall be made by the Master Trustee except in compliance with the provisions of the Master Trustee applicable to such investment), or for the recording or re-recording, filing or re-filing of the Master Indenture, or any supplement or amendment thereto, or the filing of financing or continuation statements, or for the validity of the execution by the Corporation of the Master Indenture, or by any Member of any Supplemental Indentures or instruments of further assurance, or for the sufficiency of the security for the Obligations issued under the Master Indenture or intended to be secured by the Master Indenture, or for the value or title of the Property herein conveyed or otherwise as to the maintenance of the security of the Master Indenture. The Master Trustee may (but shall be under no duty to) require of any Member full information and advice as to the performance of the covenants, conditions and agreements in the Master Indenture and shall use its best efforts, but without any obligation, to advise the Members of any impending default known to the Master Trustee. The Master Trustee shall have no obligation to perform any of the duties of the Obligated Group under the Master Indenture.

c) The Master Trustee shall not be accountable for the use or application by the Obligated Group of any of the Obligations or the proceeds thereof or for the use or application of any money paid over by the Master Trustee in accordance with the provisions of the Master Indenture. The Master Trustee may become the owner of Obligations secured by the Master Indenture with the same rights it would have if it and any of its affiliates were not Master Trustee, and may enter into other business and financial transactions with any Member. The Master Trustee may be a Related Bond Trustee

d) The Master Trustee shall be protected in acting upon any notice, order, requisition, request, consent, certificate, order, opinion (including an opinion of Counsel), affidavit, letter, telegram or other paper or document in good faith reasonably deemed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Master Trustee pursuant to the Master Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the owner of any Obligation shall be conclusive and binding upon all future owners of the same Obligation and upon Obligations issued in exchange therefor or in place thereof.

e) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Master Trustee shall be entitled to rely upon an Officer's Certificate as sufficient evidence of the facts therein contained and, prior to the occurrence of a default of which the Master Trustee has been notified as provided in subsection (g) of this section, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Master Trustee may accept an Officer's Certificate to the effect that a resolution in the form therein set forth has been adopted by such Member as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

f) The permissive right of the Master Trustee to do things enumerated in the Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its gross negligence or willful default.

g) The Master Trustee shall not be required to take notice or be deemed to have notice of any default under the Master Indenture except failure by the Obligated Group to cause to be made any of the payments to the Master Trustee required to be made by Section 202 or Section 401 of the Master Indenture

unless the Master Trustee shall be specifically notified in writing of such default by a Member, by any Related Issuer, by any Related Bond Trustee, by the owner of an Accelerable Instrument or by the holders of at least 25% in aggregate principal amount of all Debt Obligations then outstanding and all notices or other instruments required by the Master Indenture to be delivered to the Master Trustee must, in order to be effective, be delivered at the corporate trust office of the Master Trustee, and in the absence of such notice so delivered, the Master Trustee may conclusively assume there is no default except as aforesaid.

h) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

i) Notwithstanding anything contained elsewhere in the Master Indenture, the Master Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Obligation, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Master Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms of the Master Indenture required as a condition of such action by the Master Trustee deemed desirable for the purpose of establishing the right of any Member to the authentication of any Obligations, the withdrawal of any cash, the release of any property or the taking of any other action by the Master Trustee.

j) All moneys received by the Master Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law or by the Master Indenture. The Master Trustee shall not be under any liability for interest on any moneys received under the Master Indenture except such as may be agreed upon.

k) No provision of the Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Indenture 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.

l) Whether or not therein expressly so provided, every provision of the Master Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of Section 601 of the Master Indenture.

Intervention by Master Trustee. in any judicial proceeding to which any Member is a party and which in the opinion of the Master Trustee and its counsel has a substantial bearing on the interests of owners of the Obligations, the Master Trustee may intervene on behalf of Obligation holders and shall do so if requested in writing by the owner of an Accelerable Instrument or the owners of at least 25% in aggregate principal amount of all Debt Obligations then outstanding if indemnification satisfactory to the Master Trustee in its sole discretion is provided to the Master Trustee. The rights and obligations of the Master Trustee under this section are subject to the approval of a court of competent jurisdiction.

Corporate Master Trustee Required; Eligibility Resignation by the Master Trustee. There shall at all times be a Master Trustee under the Master Indenture which shall be a bank or trust company organized under the laws of the United State of America or any state thereof, authorized to exercise corporate trust powers, subject to supervision or examination by federal or state authorities, and (except for the Master Trustee initially appointed under the Master Indenture and its successor) having a reported combined capital and surplus of at least \$50,000,000. If at any time the Master Trustee shall cease to be eligible, it shall resign immediately. The Master Trustee and any successor Master Trustee may at any time resign from the trusts created by giving thirty days' written notice to the Obligated Group Agent and by registered or certified mail or overnight delivery service to each registered owner of Obligations then outstanding and to each holder of Obligations as shown by the list of Obligation holders required by the Master Indenture to be kept at the office of the Master Trustee or its agent. Such resignation shall take effect at the end of such thirty days or when a successor Master Trustee has been appointed and has assumed the trusts created, whichever is later, or upon the earlier appointment of a successor Master Trustee

by the Obligation holders or by the Obligated Group. Such notice to the Obligated Group Agent may be served personally or sent by registered or certified mail or overnight delivery service.

Removal of the Master Trustee. The Master Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Master Trustee and to the Obligated Group Agent, and signed by the owners of a majority in aggregate principal amount of Debt Obligations then outstanding. So long as no event of default or event which with the passage of time or giving of notice or both would become such an event of default has occurred and is continuing under the Master Indenture, the Master Trustee may be removed with or without cause at any time by an instrument or concurrent instruments in writing signed by the Obligated Group Agent, delivered to the Master Trustee.

Appointment of Successor Master Trustee by the Obligation Holders; Temporary Master Trustee. In case the Master Trustee under the Master Indenture shall resign or be removed, or be dissolved, or shall be in the process of dissolution or liquidation, or otherwise becomes incapable of acting under the Master Indenture, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the owners of 51% in aggregate principal amount of Debt Obligations then outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys in fact, duly authorized. The foregoing notwithstanding, so long as the Obligated Group is not in default under the Master Indenture, the Obligated Group shall have the right to approve any such successor trustee and to appoint any such successor trustee in lieu of the owners of 51% of the aggregate principal amount of the Debt Obligations then Outstanding. Every such successor Master Trustee appointed pursuant to the provisions of this section shall be a trust company or bank in good standing under the law of the jurisdiction in which it was created and by which it exists, having corporate trust powers and subject to examination by federal or state authorities, and having a reported capital and surplus of not less than \$50,000,000.

Supplemental Master Indentures

Supplemental Master Indentures Not Requiring Consent of Obligation Holders. Subject to the limitations set forth below, the Members (or the Obligated Group Agent on their behalf) and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes:

- a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;
- b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member;
- c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;
- d) To evidence the succession of another entity to the agreements of a Member or the Master Trustee, or the successor thereof under the Master Indenture;
- e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States;
- f) To provide for the refunding or advance refunding of any Obligation;
- g) To provide for the issuance of Obligations;

h) To reflect the addition to or withdrawal of a Member from the Obligated Group, including the necessary changes to Exhibit A of the Master Indenture;

i) To provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations;

j) To permit an Obligation to be secured by security which is not extended to all Obligation holders;

k) To permit the issuance of Obligations which are not in the form of a promissory note;

l) To modify or eliminate any of the terms of the Master Indenture; provided, however, that such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation outstanding of any series created prior to the execution of such Supplemental Master Indenture;

m) To modify, eliminate or add to the provisions of the Master Indenture if the Master Trustee shall have received (i) written confirmation from each Acceptable Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Obligations or Related Bonds, as the case may be, or a report, opinion or certification of a Consultant to the effect that such change is consistent with then current industry standards, and (ii) an Officer's Certificate to the effect that, in the judgment of the Obligated Group Agent, such change is necessary to permit any Member of the Obligated Group to affiliate or merge with, on acceptable terms, one or more corporations that provide health care services and such modification is in the best interests of the holders of the Outstanding Obligations; and

n) To make any other change which does not materially adversely affect the holders of any of the Obligations and does not materially adversely affect the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental to the Master Indenture in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

Supplemental Master Indentures Requiring Consent of Obligation Holders. In addition to Supplemental Master Indentures covered by the preceding provisions, and not otherwise, the holders of not less than 51% in aggregate principal amount of the Debt Obligations which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Debt Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Debt Obligations of each series affected thereby which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing contained in the Master Indenture shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal or other amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal or other amount of Debt Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Debt Obligations at the time outstanding which would be affected by the action to be taken, (c) the creation of any lien ranking prior to or on a parity with the lien of the Master Indenture with respect to the trust estate, if any, subject to the Master Indenture or terminate the lien of the Master Indenture on any Property at any time subject to this provision or deprive the holder of any Obligation of the security afforded by the lien of the

Master Indenture except as otherwise provided herein, or (d) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any such Supplemental Master Indenture for any of the purposes listed above, the Master Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Master Indenture to be mailed by first class mail postage prepaid to each holder of a Debt Obligation or, in case less than all of the series of Debt Obligations are affected thereby, of a Debt Obligation of the series affected thereby. Such notice shall briefly set forth the nature of the proposed Supplemental Master Indenture and shall state that copies thereof are on file at the corporate trust office of the Master Trustee identified in such notice for inspection by all Obligation holders. The Master Trustee shall not, however, be subject to any liability to any Obligation holder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such Supplemental Master Indenture when consented to and approved as provided in the Master Indenture. If the holders of not less than 51% in aggregate principal amount of the Debt Obligations or the Debt Obligations of each series affected thereby, as the case may be, which are outstanding under the Master Indenture at the time of the execution of any such Supplemental Master Indenture shall have consented to and approved the execution thereof as herein provided, no holder of any Obligation shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Members from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Master Indenture as so permitted and provided, the Master Indenture shall be and be deemed to be modified and amended in accordance therewith.

Note and Document Substitution.

In addition to the amendments to the Master Indenture detailed above, the Obligated Group and the Master Trustee, may, without the consent of any of the Holders of any Obligations or any Related Bonds, but only with the prior written consent of the credit enhancers of the Related Bonds of the affected series of Related Bonds, enter into one or more supplements, amendments, restatements, replacements or substitutions to the Master Indenture, to modify, amend, restate, supplement, replace, substitute, change or remove any covenant, agreement, term or provision of the Master Indenture, in whole or in part, including, but not limited to, an amendment, restatement or substitution of the Master Indenture, in whole to relate to all Related Bonds, or in part to relate to a portion of the Related Bonds, including but not limited to a series or subseries of the Related Bonds secured by payment obligations of the health care facilities on whose behalf the allocable portion of the proceeds of the Related Bonds were utilized, or an affiliate of such health care facilities, in order to effect (i) the affiliation of the Corporation, the Obligated Group, or any Members of the Obligated Group with any of the foregoing or with another entity or entities in order to create a new or modified credit group or structure or in order to provide for the inclusion of the Corporation, the Obligated Group, any Members of the Obligated Group in another obligated group, combined group or other unified credit group or structure, (ii) the release or discharge of any collateral securing the Related Bonds, including, but not limited to, the release or discharge of (A) any or all Obligations, in whole or in part, issued pursuant to the Master Indenture to secure the Related Bonds and (B) the Corporation, the Obligated Group, or any Members of the Obligated Group from any or all liability (whether direct or indirect) with respect to the Related Bonds or a portion thereof, any Related Loan Document, any Related Band Indenture, the Obligations, or the Master Indenture or any portion of any thereof, in consideration for the issuance of a note or notes to secure the Related Bonds or portion of the Related Bonds that are to become an obligation of the new affiliated entities or the new obligated group, combined group or other unified credit group, which note or notes would constitute obligations of the new affiliated entities or the members of the new obligated group, combined group or other unified credit group, and (iii) the replacement of all or a portion of the financial and operating covenants and related definitions set forth in the Master Indenture with those of the new affiliated entities or the new obligated group, combined group or other unified credit group, set forth in the new agreement or master indenture (such transaction is referred to collectively herein as the "Substitution Transaction").

If all amounts due or to become due on the Related Bonds have not been fully paid to the Holder thereof, at or prior to the implementation of the Substitution Transaction there shall also be delivered to the Master Trustee: (i) an opinion of bond counsel to the effect that under then existing law the implementation of the Substitution Transaction and the execution of the amendments, supplements, restatements, replacements or substitutions contemplated in this section, in and of themselves, would not adversely affect the validity of the Related Bonds or the exclusion from federal income taxation of interest payable on the Related Bonds, and (ii) an opinion of counsel to the new affiliated entities or the new obligated group, combined group or other unified credit group to the effect that (1) the note or notes of the new affiliated entities or the new obligated group, combined group or other unified credit group to be delivered to secure the Related Bonds with respect to the Substitution Transaction constitute legal, valid and binding obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group enforceable in accordance with their terms, except to the extent that the enforceability of such note or notes may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors' rights, and (2) the issuance of the note or notes will not cause the Related Bonds or such note or notes to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended.

Satisfaction Of The Master Indenture

Defeasance. If the Members shall pay or provide for the payment of the entire indebtedness on all Obligations (including, for the purposes of this section, any Obligations owned by a Member) outstanding in any one or more of the following ways:

a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on, and any other amounts due under, all Obligations outstanding, as and when the same become due and payable;

b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations outstanding (including the payment of premium, if any, and interest payable on, and any other amounts due under, such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Securities, in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Securities may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

c) by delivering to the Master Trustee, for cancellation by it, all Obligations outstanding; or

d) by depositing with the Master Trustee, in trust, before maturity, Escrow Securities in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the amounts due on all Obligations outstanding at or before their respective maturity or due dates;

and if the Obligated Group shall also pay, or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case the Master Indenture and the estate and rights granted under the Master Indenture shall cease, determine, and become null and void, and thereupon the Master Trustee shall, upon written request of the Obligated Group Agent, and upon receipt by the Master Trustee of an Officer's Certificate and an opinion of Counsel acceptable to the Master Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Master Indenture and the lien of the Master Indenture. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection

herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

Any moneys, funds, securities, or other property remaining on deposit under the Master Indenture (other than said Escrow Securities or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Master Indenture, forthwith be transferred, paid over and distributed to the Obligated Group Agent.

The Obligated Group may at any time surrender to the Master Trustee for cancellation by it any Obligations previously authenticated and delivered which the Obligated Group may have acquired in any manner whatsoever, and such Obligations, upon such surrender and cancellation, shall be deemed to be paid and retired.

Provision for Payment of a Particular Series of Obligations or Portion Thereof. if the Obligated Group shall pay or provide for the payment of the entire indebtedness on all Obligations of a particular series or a portion of such a series (including, for the purpose of this section, any such Obligations owned by a Member) in one of the following ways:

a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on, and any other amounts due under, all Obligations of such series or portion thereof outstanding, as and when the same shall become due and payable;

b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations of such series or portion thereof outstanding (including the payment of premium, if any, and interest payable on, and any other amounts due under, such Obligations to the maturity or redemption date), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Securities in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Securities may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

c) by delivering to the Master Trustee, for cancellation by it, all Obligations of such series or portion thereof outstanding; or

d) by depositing with the Master Trustee, in trust, Escrow Securities in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group with respect to such series of Obligations or portion thereof, and, if any such Obligations of such series or portion thereof are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then in that case such Obligations shall cease to be entitled to any lien, benefit or security under the Master Indenture.

Satisfaction of Related Bonds. The provisions of the Master Indenture notwithstanding, any Obligation which secures a Related Bond (i) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Master Indenture in the circumstances described in subsection (b)(ii) of the definition of "Outstanding Obligations" contained in the Master Indenture; and (ii) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof.

SERIES 2016 NOTE

The Series 2016 Note, issued pursuant to the Master Indenture, secures the obligations of the Corporation under the Loan Agreement. The principal amount and redemption provisions of the Series 2016 Note shall coincide with the aggregate principal amount and redemption provisions of the Series of 2016 Bonds. The Bond Trustee shall identify payments of principal of and interest on the Series 2016 Note as retiring the principal of and interest on the Series of 2016 Bonds, and when the principal of the Series of 2016 Bonds is fully retired or provision for payment thereof has been made by a deposit of Defeasance Obligations as defined in the Bond Indenture in accordance with the Master Indenture, the Series 2016 Note may be canceled and returned to the Corporation.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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**Re: East Hempfield Industrial Development Authority
\$38,225,000 Aggregate Principal Amount of
Revenue and Revenue Refunding Bonds, Series of 2016
(Willow Valley Communities Project)**

OPINION

February 1, 2016

We have acted as bond counsel in connection with the authorization, issuance and sale by the East Hempfield Industrial Development Authority (the “Authority”) of its Revenue and Revenue Refunding Bonds, Series of 2016 (Willow Valley Communities Project), dated as of the date of issuance, in the aggregate principal amount of \$38,225,000 (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 pursuant to appropriate action of the Township of East Hempfield, Lancaster County, Pennsylvania (the “Township”). The Bonds are secured by a Trust Indenture, dated as of February 1, 2016 (the “Bond Indenture”), between the Authority and Fulton Bank, N.A. (the “Bond Trustee”), Lancaster, Pennsylvania, as trustee.

The Authority and Willow Valley Communities, a non-profit corporation duly incorporated under the laws of the Commonwealth (the “Corporation”), have entered into a Loan Agreement, dated as of February 1, 2016 (the “Loan Agreement”), under which the Authority has agreed to lend the proceeds of sale of the Bonds to the Corporation and the Corporation 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 Corporation has executed and delivered to the Authority its Willow Valley Communities Series 2016 Master Note (“Series 2016 Master Note”), which has been issued under a Master Trust Indenture, dated as of July 15, 2009, between the Corporation and Fulton Financial Advisors, National Association, now through merger succeeded by Fulton Bank, N.A. (the “Master Trustee”), as trustee, as supplemented by a Supplemental Master Trust Indenture No. 6, dated as of February 1, 2016 (together, the “Master Indenture”). The Series 2016 Master Note is secured by an Open-End Mortgage and Security Agreement (the “Mortgage”), with respect to the Mortgaged Property, as such term is defined in

the Master Indenture, executed and delivered by the Corporation to the Master Trustee, and by a pledge under the Master Indenture of Gross Revenues, as such phrase is defined in the Master Indenture, of the Corporation. The Master Indenture permits issuance of additional indebtedness of such obligated group, including the Corporation, secured on a parity with the Series 2016 Master Note under certain terms and conditions, as provided in the Master Indenture.

Under the Bond Indenture, the Authority has assigned and pledged to the Bond Trustee, as trustee, all right, title and interest of the Authority in and to the Series 2016 Master Note and all its rights under the Master Indenture and the Mortgage; all right, title and interest of the Authority in and to the Loan Agreement (except for rights to receive certain notices and documents; to grant approvals and consents and make certain determinations; to make requests for information and inspection; to receive payment of certain costs, fees and expenses; to have its members, officers and employees exculpated from liability; and to be indemnified against claims and losses); and all right, title and interest of the Authority in and to all Funds (other than the Rebate Fund) established under the Bond Indenture, to the extent provided in the Bond Indenture.

The Bond Indenture provides that the proceeds of the Bonds shall be applied (a) to the 2016 Project, as such phrase is defined in the Bond Indenture; (b) to pay a portion of the cost of expenses of issuance of the Bonds; and (c) to establish certain funds.

The Bond Indenture and the Loan Agreement contain covenants of the Authority and the Corporation, respectively, to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations promulgated thereunder, *inter alia*, 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 Corporation contained in the Bond Indenture, the Loan Agreement, and 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 Corporation, without undertaking to verify the same by independent investigation.

We also have relied upon (a) a written legal opinion of 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; (b) written legal opinion of counsel to the Corporation with respect to various matters, including the due and proper authorization, execution, and delivery of the Loan Agreement, the Master Indenture, the Series 2016 Master Note and the Mortgage by the Corporation; (c) the accuracy of the representations, warranties, and covenants of the Corporation and the Authority, as set forth in the Tax Compliance Certificate and Agreement of the Corporation and the Non-Arbitrage and Rebate Compliance Certificate of the Authority executed and delivered on this date in connection with the issuance of the Bonds; and (d) the performance by the Authority and the Corporation of covenants set forth in the Bond Indenture and the Loan Agreement to comply with the Code in order to ensure that interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes.

Based 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 existing validly under laws of the Commonwealth and has the power to issue the Bonds for the purposes contemplated by the Indenture and to obligate itself for its obligations under the Indenture, the Bonds and the Loan Agreement, in the manner provided therein.

2. The Loan Agreement and the Indenture have been duly authorized, executed, and delivered by the Authority and, assuming due authorization, execution, and delivery by the other parties thereto, constitute legal, valid, and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The issuance and sale of the Bonds have been duly authorized by the Authority and the Bonds have been duly executed and delivered by the Authority and are legal, valid and binding limited obligations of the Authority entitled to the benefit and security of the Indenture.

4. The Bonds do not pledge the credit or taxing power of the Commonwealth, the Township or any political subdivision of the Commonwealth. The Authority has no taxing power.

5. The Bonds are valid and binding obligations of the Authority, payable as to principal and interest only from sums payable under the Loan Agreement, from funds available under the Indenture and the Master Indenture, including amounts payable pursuant to the Series 2016 Master Note, and are enforceable in accordance with terms of the Master Indenture and of the Indenture.

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 existing statutes, regulations and judicial decisions interest on the Bonds (a) is excluded from gross income for purposes of federal income taxation; and (b) is not an item of tax preference 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. The opinions expressed in this paragraph are subject to the condition that the Authority and the Corporation 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, as they have covenanted to do in the aforementioned documents. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income retroactive to the date of issuance of the Bonds.

February 1, 2016
Page 4

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 Mortgage, the Series 2016 Master Note, the Master Indenture, the Indenture, and the Loan Agreement 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.

Very truly yours,

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered as of February 1, 2016, between Willow Valley Communities (“Willow Valley”) and Fulton Bank, N.A., as trustee under the hereinafter mentioned Indenture (in such capacity, the “Trustee”).

WITNESSETH:

WHEREAS, pursuant to a Bond Purchase Agreement (the “Purchase Contract”) dated January 21, 2016 by and among the East Hempfield Township Industrial Development Authority (the “Issuer”), Willow Valley and B.C. Zeigler & Company (the “Underwriter”), the Underwriter has agreed to purchase from the Issuer \$38,225,000 aggregate principal amount of the Issuer’s Revenue and Revenue Refunding Bonds, Series of 2016 (Willow Valley Communities Project) (the “Bonds”); and

WHEREAS, the Bonds are payable from amounts paid by Willow Valley under a Loan Agreement dated as of February 1, 2016, by and between the Issuer and Willow Valley (the “Loan Agreement”); and

WHEREAS, the obligations of Willow Valley under the Loan Agreement are evidenced by a promissory note (the “2016 Master Note”), issued pursuant to the provisions of the Master Trust Indenture dated as of July 15, 2009, as amended and supplemented (the “Master Indenture”), between Fulton Bank, N.A., as master trustee under the Master Indenture (in such capacity, the “Master Trustee”) and Willow Valley, as the sole Member of the Obligated Group (as defined in the Master Indenture); and

WHEREAS, pursuant to the Trust Indenture dated as of February 1, 2016 (the “Indenture”), between the Issuer and the Trustee, the Issuer has, among other things, assigned substantially all of its rights under the Loan Agreement to the Trustee for the benefit of the owners of the Bonds; and

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), provides that a Participating Underwriter (as defined in the Rule) shall not

purchase or sell municipal securities in connection with an Offering (as defined in the Rule) unless the Participating Underwriter has reasonably determined that an issuer of municipal securities, or an obligated person for whom financial or operating data is presented in the final official statement has undertaken, either individually or in combination with other issuers of such municipal securities or obligated persons, in a written agreement or contract for the benefit of holders of such securities, to provide, either directly or indirectly through an indenture trustee or a designated agent, certain specified financial information and operating data and notices of certain events; and

WHEREAS, Willow Valley is currently the only obligated person with respect to the Bonds for purposes of the Rule; and

WHEREAS, in order to enable the Underwriter to comply with the requirements of the Rule, Willow Valley, as an obligated person, agrees to undertake to provide the information and notices required by the Rule; and

WHEREAS, Willow Valley will initially be acting as the Dissemination Agent hereunder (in such capacity, and together with any successor Dissemination Agent hereunder which may hereafter be appointed by Willow Valley, the “Dissemination Agent”).

NOW, THEREFORE, in consideration of the premises, Willow Valley intending to be legally bound hereby, agree as follows:

Section 1. Covenants of Willow Valley. Willow Valley covenants to comply with all requirements of the Rule in furtherance of the foregoing, and without limiting the generality thereof:

(a) So long as any of the Bonds are outstanding, Willow Valley shall deliver to the Dissemination Agent in such format as is required by the Rule and the Municipal Securities Rulemaking Board (the “MSRB”), and in sufficient time to allow the Dissemination Agent to file within 180 days after the end of each fiscal year of Willow Valley (the “Annual Filing Date”), commencing with the fiscal year ending December 31, 2015, the financial information and operating data specified in Schedule 1 at section (a) hereto (the “Annual Report”).

(b) So long as any of the Bonds are outstanding, Willow Valley shall deliver to the Dissemination Agent in such format as is required by the Rule and the MSRB, and in sufficient time to allow the Dissemination Agent to file within 45 days after the end of each fiscal quarter of Willow Valley (the “Quarterly Filing Date”), commencing with the fiscal quarter ending March 31, 2016, the financial information and operating data specified in Schedule 1 at section (b) hereto (the “Quarterly Report”).

(c) The Dissemination Agent shall promptly upon receipt thereof, file the Quarterly Report or the Annual Report with the MSRB, through the MSRB’s Electronic Municipal Market Access System (www.emma.theMSRB.org) (“EMMA”) or through alternate means as so provided by the MSRB.

(d) If the Dissemination Agent has not received the Quarterly Report or the Annual Report, as applicable, by 5:00 p.m. ET on the Quarterly Filing Date or Annual Filing Date, respectively, for such reports, Willow Valley irrevocably directs the Dissemination Agent to immediately file a notice with the MSRB, through EMMA or through alternate means as so provided by the MSRB, of such failure.

(e) Willow Valley shall, in a timely manner (but in no event later than the date necessary to enable the Dissemination Agent to file with the MSRB, as hereinafter provided, within ten (10) business days after the occurrence of the event), deliver to the Dissemination Agent notice, in such format as is required by the Rule and the MSRB, of any of the following events with respect to the Bonds (each a “Reportable Event”), and the Dissemination Agent shall, immediately upon receipt of Willow Valley’s notice, file with the MSRB through EMMA (or through alternate means as so provided by the MSRB) notice of the occurrence of any of such events:

- (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 bond holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;

(xiii) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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 for the Bonds or the change of name of a trustee, if material.

(f) Willow Valley agrees to provide information required in subsection (a) or (d) above for all persons who are determined by it to be “Obligated Persons” under the Rule.

(g) Willow Valley agrees that the provisions of this Section 1 shall be for the benefit of the holders and beneficial owners of the Bonds, and shall be enforceable by any holders or beneficial owners of the Bonds, or by the Trustee on their behalf, in accordance with the provisions of the Loan Agreement and this Disclosure Agreement.

Section 2. Duties of Dissemination Agent.

(a) The Dissemination Agent shall retain copies, which may be in electronic or digital format, of all Quarterly Reports, Annual Reports, annual audits (if filed separately and not as part of the Annual Report) and notices of Reportable Events provided by Willow Valley hereunder until all of the Bonds have been fully paid.

(b) The Trustee and the Dissemination Agent (except in the case of Willow Valley acting in the capacity of Dissemination Agent hereunder) shall have no responsibility or liability in connection with Willow Valley's filing obligations under this Disclosure Agreement. The Trustee and the Dissemination Agent shall have only those duties specifically set forth in this Disclosure Agreement and no other duties shall be implied. Willow Valley agrees to indemnify and save the Trustee, the Dissemination Agent (except in the case of Willow Valley acting in the capacity of Dissemination Agent hereunder), its officers, directors, employees and agents (collectively, the "Indemnitees"), from and against any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out of pocket expenses, incidental expenses, legal fees and expenses, the allocated costs and expenses of in house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim ("Losses") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Dissemination Agent and the Trustee is authorized to rely pursuant to the terms of this Disclosure Agreement. In addition to and not in limitation of the immediately preceding sentence, Willow Valley also covenants and agrees to indemnify and save the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's or the Dissemination Agent's performance under this Disclosure Agreement provided that neither the Trustee nor the Dissemination Agent has acted with gross negligence or engaged in willful misconduct. The provisions of this Section

2(b) shall survive the termination of this Disclosure Agreement and the resignation or removal of the Dissemination Agent or the Trustee for any reason. Anything in this Disclosure Agreement to the contrary notwithstanding, in no event shall the Trustee or the Dissemination Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost revenues), even if the Trustee or the Dissemination Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

Section 3. Termination of Reporting Obligations. Willow Valley's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If Willow Valley's obligations with respect to the payment of the Bonds are assumed in full by some other entity, such other entity shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were Willow Valley, Willow Valley shall have no further responsibility hereunder, except as provided in Section 7 hereof. In addition, Willow Valley's obligation to provide information and notices as specified herein shall terminate (i) at such other times as such information and notices (or any portion thereof) are no longer required to be provided by the Rule as it applies to the Bonds, (ii) in the event of a repeal or rescission of the Rule or (iii) upon a determination by a court of competent jurisdiction that the Rule is invalid or unenforceable.

Section 4. Dissemination Agent. Willow Valley may from time to time replace, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. Willow Valley hereby agrees to act as the initial Dissemination Agent hereunder. If at any time there is no Dissemination Agent, Willow Valley shall nonetheless be obligated to carry out its obligations under Section 1 hereof.

Section 5. Amendment. Willow Valley, the Trustee and the Dissemination Agent may amend this Disclosure Agreement and waive any of the provisions hereof, but no such amendment or waiver shall be executed and effective unless (i) the amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature or status of Willow Valley or the operations conducted by Willow Valley or a change in the identity, nature or status of the Trustee, (ii) this Disclosure Agreement, as modified by the

amendment or waiver complies with the requirements of the Rule, and (iii) the amendment or waiver does not materially impair the interests of the registered Owners of the Bonds. Prior to executing any requested amendment, Willow Valley shall provide an opinion of counsel knowledgeable in federal securities laws to the effect that the proposed amendment satisfies the requirements described above. Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by Willow Valley to the Trustee and the Dissemination Agent upon execution of the amendment or waiver, and the Dissemination Agent shall promptly file such notice with the MSRB. Such notification may be done through EMMA.

Section 6. Remedies for Default. In the event of a breach or default by Willow Valley of its covenants to provide annual or quarterly financial information and notices as provided in Section 1 hereof, the Trustee, the Dissemination Agent, the Underwriter, or any holder or beneficial owner of Bonds shall have the right to bring an action in a court of competent jurisdiction to compel specific performance by Willow Valley. A breach or default under this Disclosure Agreement shall not constitute an event of default under the Bonds or any other instrument or agreement. The Trustee and the Dissemination Agent shall be under no obligation to enforce this Disclosure Agreement, but may do so, and may require that it be furnished with indemnity and security for expenses satisfactory to it.

Section 7. Electronic Filing Authorized. All filings with the MSRB pursuant to this agreement; (a) shall be made in an electronic format as prescribed by the MSRB; and (b) shall be accompanied by identifying information as prescribed by the MSRB. Reference is made to Commission Release No. 34-59062, dated December 8, 2008 (the “Release”), relating to EMMA. To the extent applicable to its obligations pursuant to this Agreement, Willow Valley shall comply with the Release and with EMMA. 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 8. Indemnification of the Issuer. The Issuer shall have no responsibility or liability for Willow Valley’s compliance with this Disclosure Agreement, or in connection with Willow Valley’s obligations under this Disclosure Agreement or for the compliance of this Disclosure Agreement or the contents of the annual or quarterly financial information or

operating data or other information filed or notices provided in accordance with Section 1 hereof with the requirements of the Rule. Willow Valley agrees to indemnify and save the Issuer, its members, officers, employees and agents, harmless against any claim, loss, expense (including reasonable attorneys' fees and expenses) or liability arising from or based upon (i) any breach by Willow Valley of this Disclosure Agreement or (ii) any information or notices provided under this Disclosure Agreement or any omission therefrom.

Section 9. Miscellaneous.

(a) Binding Nature of Undertaking. This Disclosure Agreement shall be binding upon and inure to the benefit of the Underwriter, and its respective successors and assigns. In addition, registered owners of the Bonds, which for the purposes of this Section 9 includes the holders of a book entry credit evidencing an interest in the Bonds, from time to time shall be third party beneficiaries hereof and shall be entitled to enforce the provisions hereof as if they were parties hereto; but no consent of beneficial owners of the Bonds shall be required in connection with any amendment of this Disclosure Agreement, except as required by the Rule. Holders of book entry credits evidencing an interest in the Bonds may file their names and addresses with the Trustee for the purposes of receiving notices or giving direction under this Disclosure Agreement.

(b) Notices. Except with respect to the electronic submission of information to the MSRB through EMMA, as permitted by this Disclosure Agreement, all notices and other communications required or permitted under this Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mail, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

If to the Dissemination Agent:

Willow Valley Communities
100 Willow Valley Lakes Drive
Willow Street, PA 17584
Attention: Chief Financial Officer

If to the Trustee:

Fulton Bank, N.A.
One Penn Square
Lancaster, PA 17604
Attention: Corporate Trust Department

Any party may alter the address to which communications are to be sent by giving notice of such change of address in conformity with the provisions of this Section.

(c) Controlling Law. This Disclosure Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania and the Rule.

(d) Successor and Assigns. Notwithstanding anything herein to the contrary, any successor trustee under the Indenture shall automatically succeed to the rights of the Trustee under this Disclosure Agreement. Any successor Dissemination Agent shall automatically succeed to the rights of the Dissemination Agent under this Disclosure Agreement.

(e) Execution in Counterparts. This Disclosure Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Disclosure Agreement shall become binding when one or more counterparts hereof individually or taken together shall bear the signatures of all of the parties reflected hereon as the signatories.

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IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement of the date first above written.

WILLOW VALLEY COMMUNITIES

By: _____
President

FULTON BANK, N.A., not in its individual capacity but as Trustee

By: _____
Authorized Signatory

WILLOW VALLEY COMMUNITIES, as
Dissemination Agent

By: _____
President

Schedule 1

Information to be Posted to EMMA

a. Annual Report. Willow Valley will provide an annual report consisting of: (a) a copy of the annual financial statements of Willow Valley, prepared in accordance with generally accepted accounting principles and audited by a certified public accountant; provided that if audited annual financial statements are not available within 180 days after the end of Willow Valley's fiscal year, unaudited financial information will be provided, and audited annual financial statements will be submitted to the MSRB when and if available; and (b) an update of the financial information and operating data relating to Willow Valley in Appendix A of the Official Statement dated January 21, 2015 under the sections entitled "UTILIZATION AND FINANCIAL INFORMATION – Occupancy", "UTILIZATION AND FINANCIAL INFORMATION – Balance Sheets", "UTILIZATION AND FINANCIAL INFORMATION – Statement of Operations and Changes in Net Assets", "UTILIZATION AND FINANCIAL INFORMATION – Historical Debt Service Coverage", "UTILIZATION AND FINANCIAL INFORMATION – Historical Days Cash on Hand" and "UTILIZATION AND FINANCIAL INFORMATION – Management's Discussion of Utilization and Financial Performance".

b. Quarterly Report. Willow Valley will provide a Quarterly Report consisting of: (a) a copy of the quarterly unaudited financial statements of Willow Valley; (b) for such fiscal quarter, an update of the financial information and operating data relating to Willow Valley in Appendix A of the Official Statement dated January 21, 2015 under the sections entitled "UTILIZATION AND FINANCIAL INFORMATION – Occupancy", and, on a rolling twelve (12) month basis for such quarter, "UTILIZATION AND FINANCIAL INFORMATION – Historical Debt Service Coverage"; (c) the incurrence by Willow Valley of any additional indebtedness during such fiscal quarter; and (d) for the fiscal quarters ended June 30th and December 31st, the calculation of Days Cash on Hand (as defined in the Loan Agreement) for Willow Valley as of such June 30th and December 31st.

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WILLOW
VALLEY
COMMUNITIES



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