

CONTINUING Care Provider Registration Annual Submission

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State Corporation Commission
Bureau of Insurance

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Commissioner of Insurance

BY: Nataliya I. Kaplan

Kendal at Lexington

Submitted by

Lexington Retirement Community, Inc.

160 Kendal Drive

Lexington, VA 24450

April 30, 2017

Kendal at Lexington

CONTINUING CARE PROVIDER REGISTRATION STATEMENT

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Disclosure Statement

For

Lexington Retirement Community, Inc.

d/b/a Kendal at Lexington

April 30, 2017

The filing of the disclosure statement with the State Corporation Commission does not constitute approval, recommendation or endorsement of the facility by the State Corporation Commission.

Indented italicized paragraphs in this document are quotations of questions required by the State Corporation Commission.

Required Information

Continuing Care Provider

Give the name and business address of the provider and a statement of whether the provider is a partnership, foundation, association, corporation or other type of business or legal entity. Such statement shall also set forth the jurisdiction in which the provider is organized if applicable.

If the provider is composed of multiple legal entities, give the required information for all such entities and provide a specific description of their relationship to each other.

Provider: Lexington Retirement Community, Inc., d/b/a Kendal at Lexington
160 Kendal Drive
Lexington, VA 24450

Lexington Retirement Community, Inc. (hereafter LRC) (d/b/a Kendal at Lexington) is a 501(c)(3) not-for-profit corporation organized in the Commonwealth of Virginia.

LRC is a single legal entity. LRC is an affiliate of The Kendal Corporation, a Pennsylvania non-profit corporation that develops and supports services and accommodations for older people. The Kendal Corporation has no ownership of LRC, but The Kendal Corporation has eight specific reserve powers regarding LRC. Specifically, LRC shall seek and must obtain the approval of The Kendal Corporation with respect to the following:

- X Changes in corporate purpose;
- X Incurring of indebtedness of specified value;
- X The use of the name "Kendal";
- X The substance of resident contracts;
- X The purchase, sale, lease or other disposition of any real estate or improvements thereon of a specific value;
- X Dissolution, merger with another entity, division, or acquiring control of another entity;
- X The election of members of the Board of Directors of the LRC; and
- X Amendments to the Articles of Incorporation or specific sections of the Bylaws of Kendal at Lexington.

The Kendal Corporation shall have the right to review Kendal at Lexington's operations, strategic and other plans, and financial projections and performance. If, in the judgment of The Kendal Corporation, Kendal at Lexington is not in accord with the Values and Practices and affiliation agreement of Kendal affiliates as established from time to time by The Kendal Corporation, to the extent not prohibited by the laws of Virginia, The Kendal Corporation may request, and require if necessary, the affiliate to take appropriate action to address the situation.

A member of the Kendal at Lexington Board of Directors serves on The Kendal Corporation board.

Officers, Directors, Trustees, Managing and General Partners, and Certain Persons Who Hold Equity or Beneficial Interests

Give the names and business addresses of the officers, directors, trustees, managing or general partners, and any person having a ten percent or greater equity or beneficial interest in the provider, and a description of such person's interest in or occupation with the provider. In the case of a non-stock corporation also provide the information for members of the non-stock corporation.

No individual has any equity interest in the provider. There are no members of the corporation. Therefore, all the following information applies to the officers and directors of LRC. The names and addresses of the officers and directors of Lexington Retirement Community, Inc., are:

Chair: Robert B. Glidden, Retired
University President
140 Gibraltar Forge Road
Rockbridge Baths, Virginia 24473

Vice-Chair: Linda Wilder, Retired
Human Resources Consultant
725 Possum Hollow
Lexington, VA 24450

Secretary: Pamela Luecke, Professor
Washington & Lee University
16 Sixty West
Lexington, VA 24450

Treasurer: Beatrix Rumford, Retired
88 Sycamore Lane
Lexington, VA 24450

William Russell, Retired Investment
Advisor
99 Sycamore Lane
Lexington, VA 24450

Charles F. Brower, IV, Retired
Professor
919 Ross Road
Lexington, VA 24450

Carol Wheeler, Retired
Accountant
20 Sellers Drive
Lexington, VA 24450

John Page, Retired Professor
911 Shenandoah Road
Lexington, VA 24450

J. Hardin Marion, Retired
Attorney
43 Sycamore Lane
Lexington, VA 24450

Marylin Alexander
Property Manager
212 Lewis Street
Lexington, VA 24450

Sarah K. Wiant, Professor
Washington & Lee University
P.O. Box 735
Lexington, VA 24450

Christopher Russell, Attorney
2474 Laurel Avenue
Buena Vista, VA 24416

Harlan R. Beckley, Retired
Professor
Washington & Lee University
503 Jackson Avenue
Lexington, VA 24450

Joan Robins, Retired
Director of Hillel House
Washington & Lee University
215 East Ridge Drive
Lexington, VA 24450

James Adams, Retired
Executive Director, VMI Foundation
206 Overhill Drive
Lexington, VA 24450

David Ellington, Retired Physician
108 White Street
Lexington, VA 24450

Lexington Retirement Community, Inc. has entered into an agreement with The Kendal Corporation which includes mutual expectations, system services and financial understandings. The agreement calls for Kendal at Lexington to pay The Kendal Corporation a system fee. The fee has three components. The first component, known as the Base Fee, is calculated based on Kendal at Lexington's budgeted operating expenses for the current fiscal year (not including the Kendal System Fee) with a minimum fee payment for expenses less than \$5 million, and percentages for expenses between \$5 and \$15 million (3%), \$15-\$25 million (2.8%), and over \$25 million (2.5%). The second and third components of the fee structure, the Contingency Reserve and the System Growth Fund, each pays The Kendal Corporation a fee equal to .25% of Kendal at Lexington's budgeted operating expenses for the current fiscal year (not including the Kendal System Fee). Each of the reserves has a specific target for the total Kendal at Lexington will pay. When the target is met, the system fee will be decreased accordingly.

1. All forms of direct or indirect ownership of a provider, including ownership through another legal entity;

Lexington Retirement Community, Inc. is not owned in whole or in part, directly or indirectly by any other entity.

2. Ownership or control of any voting class of securities issued by the provider; and

Lexington Retirement Community, Inc. has not issued any voting class securities.

3. *Any contract, including a lease or management contract, with a provider where the amount of consideration under the contract is tied to the financial performance of the provider.*

None.

Business Experience of; Acquisition of Goods and Services from; and Criminal, Civil and Regulatory Proceedings Against the Provider; its Officers, Directors, Trustees, Managing and General Partners; Certain Persons Who Hold Equity or Beneficial Interests; and the Management.

For (i) the provider, (ii) any person named in the previous section or (iii) the proposed management, if the facility will be managed on a day-to-day basis by a person other than an individual directly employed by the provider:

a. Give a description of any specific business experience in the operation or management of similar facilities.

The Provider (i)

LRC as the provider is affiliated with The Kendal Corporation that has been developing and supporting not-for-profit retirement communities and other services for older people since 1971.

Prior to the work of developing Kendal at Lexington, LRC did not have any specific experience in the management or operation of retirement communities. Kendal at Lexington has been in operation since July 2000. Most members of the Board of Directors have served for several years and during that time have gained considerable experience with the issues attendant to operating a CCRC.

All the staff members at Kendal at Lexington are employed by LRC. The Executive Director serves at the mutual satisfaction of the LRC and the President of The Kendal Corporation. The LRC is the provider at Kendal at Lexington.

Named Persons (ii)

The Kendal Corporation, per se, does not own or operate any of the Kendal affiliates. At present, Kendal affiliates are operating services in Pennsylvania, Ohio, New Hampshire, Illinois, Maryland, Virginia, Massachusetts and New York. The Kendal Corporation has extensive experience in all aspects of the development process, including providing the essential systems and guidance to begin successful operations of a new retirement community. These systems include human resources, finance, health services, information services, marketing, and governance.

Kendal Affiliates

Affiliate	Facility/Community	Location
Kendal-Crosslands Communities	Kendal at Longwood: continuing care retirement community, 1973	Kennett Square, PA
	Crosslands: continuing care retirement community, 1977	Kennett Square, PA
	Coniston: senior housing, 1981	Kennett Square, PA
	Cartmel: senior housing, 1988	Kennett Square, PA
Kendal at Hanover	Kendal at Hanover: continuing care retirement community, 1991	Hanover, NH
Kendal Northern Ohio	Kendal at Oberlin: continuing care retirement community, 1993	Oberlin, OH
	Community Outreach Northern Ohio: community services, 2009	Oberlin, OH
	Kendal at Home: life care services at home, 2003	Westlake, OH
Kendal at Ithaca	Kendal at Ithaca: continuing care retirement community, 1995	Ithaca, NY
Barclay Friends Corporation	Barclay Friends: continuing care retirement community, 1994	West Chester, PA

Affiliate	Facility/Community	Location
Lexington Retirement Community, Inc.	Kendal at Lexington: continuing care retirement community, 2000	Lexington, VA
Kendal on Hudson	Kendal on Hudson: life care community, 2005	Sleepy Hollow, NY
Kendal at Granville	Kendal at Granville; life care retirement community, 2005	Granville, OH
The Lathrop Communities	The Lathrop Communities: continuing care retirement communities, 2004	Easthampton and Northampton, MA
Collington Episcopal Life Care Community	Collington: continuing care retirement community, 2011	Mitchellville, MD
The Admiral on the Lake	The Admiral on the Lake: continuing care retirement community, 2012	Chicago, IL
Chandler Hall Health Services	Chandler Hall: continuing care retirement community, 2013	Newtown, PA

Management (iii)

Kendal at Lexington is managed on a day-to-day basis by Lexington Retirement Community, Inc.

b. Give the name and address of any professional service, firm, association, foundation, trust, partnership or corporation or any other business or legal entity in which such person has, or which has in such person, a ten percent or greater direct or indirect interest and which it is presently intended will or may provide goods, leases or services to the provider of a value of \$500 or more, within any year, including:

(1) A description of the goods, leases or services and the probable or anticipated cost thereof to the provider;

(2) The process by which the contract was awarded;

(3) Any additional offers that were received; and

(4) Any additional information requested by the Commission detailing how and why a contract was awarded.

The Provider (i)

No service, firm, association, foundation, trust, partnership or corporation or any other business has a ten percent or greater direct or indirect interest in LRC or Kendal at Lexington. LRC does not have any such direct or indirect interest in any service, firm, association, foundation, trust, partnership or corporation or any other business. All contracts awarded are based on the best combination of price and quality provided to LRC. LRC will provide any additional information requested by the Commission detailing how and why a contract was awarded.

Named Persons (ii)

No director or officer of LRC and no service, firm, association, foundation, trust, partnership or corporation has a ten percent or greater direct or indirect interest in LRC or Kendal at Lexington. No officer or director of LRC has a ten percent or greater direct or indirect interest in any entity that will provide goods, leases or services valued at \$500 or more per year.

Management (iii)

The provider will manage Kendal at Lexington.

c. Give a description of any matter in which such person:

(1) Has been convicted of a felony or pleaded nolo contendere to a criminal charge, or been held liable or enjoined in a civil action by final judgment, if the crime or civil action involved fraud, embezzlement, fraudulent conversion, or misappropriation of property or moral turpitude; or

(2) Is subject to an injunctive or restrictive order of a court of record, or within the past five years had any state or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, arising out of or relating to business activity or health care, including without limitation actions affecting a license to operate a

foster care facility, nursing home, retirement home, home for the aged or facility registered under this chapter or similar laws in another state; or

(3) Is currently the subject of any state or federal prosecution, or administrative investigation involving allegations of fraud, embezzlement, fraudulent conversion, or misappropriation of property.

The Provider (i)

- 1) Neither LRC nor any member of the Board of Directors has been convicted of a felony or pleaded nolo contendere to a criminal charge or been held liable or enjoined in a civil action by final judgment, if the crime or civil action involved fraud, embezzlement, fraudulent conversion, or misappropriation of property or moral turpitude.
- 2) Neither LRC nor any member of the Board of Directors is subject to an injunctive or restrictive order of a court of record, or within the past five years had any state or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, arising out of or relating to business activity or health care, including without limitation actions affecting a license to operate a foster care facility, nursing home, retirement home, home for the aged or facility registered under this chapter or similar laws in another state.
- 3) Neither LRC nor any member of the Board of Directors is currently the subject of any state or federal prosecution, or administrative investigation involving allegations of fraud, embezzlement, fraudulent conversion, or misappropriation of property.

Named Persons (ii)

N/A

Management (iii)

The provider will manage Kendal at Lexington on a day-to-day basis. (See above.)

Ownership of Real Property

Give full and detailed information regarding direct and indirect ownership of the property on which the facility is or will be operated and of the buildings in which it is or will be operated.

The real property, including all the land on which the community is operated and the existing and planned buildings, is wholly and directly owned by the LRC. The property was donated to LRC in 1997. The land and existing buildings are pledged as collateral as security for tax-exempt bonds issued by the City of Lexington Industrial Development Authority.

Location and Description of Real Property

Give the location and description of the real property of the facility, existing or proposed, and to the extent proposed, the estimated completion date or dates of improvements, whether or not construction has begun and the contingencies under which construction may be deferred.

The location of the property is between Ross and Enfield Roads in Lexington, Virginia. Part of the land is in the City of Lexington, and part is in Rockbridge County. The parcel consists of approximately 83 acres, of which approximately 27 acres are within the city limits. The Rockbridge County parcel is fully described at Tax Map #74-A-35, 36, 36. The City of Lexington parcel is fully described at Tax Map #21-1-1. The street address is 160 Kendal Drive.

In 2015 Kendal at Lexington purchased an adjacent property with improvements located at 101 Rebel Ridge Road. The City of Lexington parcel is described in Plat Book 2, Page 133, and is designated as Lot #14 of the Rebel Ridge subdivision.

Kendal at Lexington consists of 120 independent living residences, 20 Assisted Living apartments, a licensed nursing facility and a community center. The 120 independent living residences are provided in two apartment buildings (55 apartments), nine cottage clusters (29 cottages), three duplexes (6 cottages) and 30 single cottages. Nursing care consists of 20 companion suites and 20 private rooms.

Size	Apartment	Cottage
Studio	4	0
1 bedroom	5	3
1 bedroom with den	14	11
2 bedroom	17	17
2 bedroom with den	11	18
Large 2 bedroom with den	4	16
Assisted Living	20	0

In addition, a large historic farmhouse has been renovated to supplement the community spaces.

The community center includes offices, social areas, library, fitness center, beauty/barber shop, kitchen, dining rooms, storage and a health office. The buildings and residences have been designed to promote accessibility and ease-of-use for residents. Aesthetically, the buildings have been designed to be consistent with the architectural style of Lexington, keying off the existing house on the property.

Occupancy of the community center, assisted living and residential accommodations began in July 2000. All of the initial construction was completed by December 2004. Construction of the nursing facility was completed in September of 2002. The renovation of the farmhouse was completed in 2006. In June 2007 Kendal at Lexington began construction of the Phase II expansion consisting of 35 cottages, a 14 apartment addition to the south apartment building, a fitness center and an expansion and renovation to the dining room and commons building. Construction was completed in Spring 2009.

Affiliation with Religious, Charitable or Other Nonprofit organizations; Tax Status of Provider

Give a statement as to:

- a. Whether the provider is or ever has been affiliated with a religious, charitable or other nonprofit organization, the nature of any such affiliation,*

and the extent to which the affiliate organization is or will be responsible for the financial and contractual obligation of the provider.

LRC is not affiliated with any religious organization. It is affiliated with The Kendal Corporation, a Pennsylvania not-for-profit IRS 501(c)(3) tax-exempt organization. As described previously, and more fully in the bylaws of LRC, The Kendal Corporation provides development, marketing and operational guidance to LRC and has a defined set of eight reserve powers. LRC has one member who is a member of the board of directors of The Kendal Corporation. The Kendal Corporation is not responsible for the financial and contractual obligations of the provider.

The Kendal Corporation is a Pennsylvania not-for-profit tax-exempt organization.

b. Any provision of the Federal Internal Revenue Code under which the provider is exempt from the payment of income tax.

LRC has been found to be a tax-exempt organization under the provisions of section 501(c)(3) of the IRS code. The Kendal Corporation is also tax-exempt under the provisions of section 501(c)(3) of the IRS code.

Services Provided Under Continuing Care Contracts

Describe the services provided or proposed to be provided under continuing care contracts, including the extent to which medical care is furnished or is available pursuant to any arrangement. The disclosure statement shall clearly state which services are included in basic continuing care contracts and which services are made available by the provider at extra charge.

Kendal at Lexington offers two types of continuing care contracts, one for extensive coverage of continuing care and one for modified coverage of continuing care. Residents who choose the Residence and Care Agreement for modified coverage will choose a Nursing Care Benefit Period of either sixty (60) days or one (1) year.

Under the Residence and Care Agreement for Modified Continuing Care Coverage the following services are included:

- 1) Occupancy of a specific residential unit, with standard floor coverings, window treatments and appliances (stove, refrigerator, disposal, washer and dryer).
- 2) Dining points meal program.

- 3) Unlimited lifetime use of Assisted Living, consistent with Virginia regulations and Kendal at Lexington's ability to meet the care needs of residents. Assisted living residents will pay an additional charge for the two additional meals per day,
- 4) Sixty (60) days or one (1) year per resident, of nursing care in the licensed nursing facility, depending on the Nursing Care Benefit Period chosen. Nursing facility residents will pay an additional charge for the two additional meals per day.
- 5) Participation in resident wellness, health education and assessment programs as provided by Kendal at Lexington's geriatric nurse practitioner (or professional equivalent).
- 6) Routine housekeeping once every two weeks and heavy house cleaning twice a year.
- 7) Scheduled local transportation.
- 8) Electricity, water, sewer, natural gas.
- 9) Real estate taxes.
- 10) Open parking.
- 11) Use of all community spaces and grounds.
- 12) Repair, maintenance and replacement of Kendal-owned property.

Under the Residence and Care Agreement for Extensive Continuing Care the following services are included:

- 1) All of the above.
- 2) Unlimited lifetime use of the licensed nursing facility. Nursing facility residents will pay an additional charge for the two additional meals per day.

The following services are provided under both of the Residence and Care Agreements at an additional charge(s) according to a periodically published fee schedule.

- 1) Additional meals.
- 2) Weekly housekeeping.
- 3) Provision of weekly flat linens, including changing beds.
- 4) Unscheduled transportation.
- 5) Telephone, premium cable television, Internet service.
- 6) Covered reserved parking.
- 7) Primary care provided by the facility's geriatric nurse practitioner (or professional equivalent).
- 8) Upgrade options to residence features or appliances.

Fees Required of Residents

Give a description of all fees required of residents, including any entrance fee and periodic charges. The description shall include (i) a description of all proposed uses of any funds or property required to be transferred to the provider or any other person prior to resident's occupancy of the facility and of any entrance fee, (ii) a description of provisions for the escrowing and return of any such funds, assets or entrance fee, the manner and conditions of return and to whom earnings on escrowed funds are payable as discussed in Code Section 38.2-4904.1 and (iii) a description of the manner by which the provider may adjust periodic charges or other recurring fees and any limitations on such adjustments. If the facility is already in operation, or if the provider operates one or more similar facilities within this Commonwealth, there shall be included tables showing the frequency and average dollar amount of each increase in periodic rates at each facility for the previous five years or such shorter period that the facility has been operated by the provider.

The Residence and Care Agreement sets out in detail the fees required of residents both upon admission to Kendal at Lexington and adjustments that might be occasioned by changes in a resident's situation, and the reader should refer to those sections for complete information. Specifically, provisions regarding refunds are found in paragraphs 14.7 through 14.9. Provisions regarding fees charged in the case of transfer to another unit are found in section 13. Provisions regarding fees in the event of admission of a second occupant are found in paragraph 11.4. Provisions regarding medical and surgical insurances are found in section 10.

Kendal at Lexington residents will pay an entry fee and a monthly fee. The entry fee is determined by the number of days of nursing care coverage, the size of residence, and the refund option chosen by the resident. Kendal at Lexington offers three refund options: a 2% declining balance, a 50% refund and a 90% refund.

Within three days of signing a reservation agreement, residents will pay a 10% deposit. The remainder of the entry fee is due and payable prior to occupying the residence. Residents will pay a monthly fee that covers the occupancy of the residence and the basic services provided under the Residence and Care Agreement.

During the annual budgeting process, the volume and cost of providing the services enumerated in the Residence and Care Agreement is forecast. Rates (and increases or

decreases) are calculated to provide sufficient revenue to meet those obligations. The budget and all fee schedules require approval by the LRC board of directors. Residents will receive thirty (30) days written notices of any fee increases.

Independent Living and Assisted Living Fee Schedule
Contract for Extensive Coverage of Continuing Care with Unlimited Nursing Care
Benefit Period
Table 1

Extensive Health Care

	Entrance Fee		Monthly Fee	
	Single	Double	Single	Double
Apartments:				
Studio (A)	149,000	-	3,071	-
One Bedroom (B)	224,000	302,000	3,359	4,876
One Bedroom/Den (C)	278,500	356,500	3,664	5,181
Two Bedroom (D&E)	346,500	424,500	3,939	5,456
Two Bedroom/Den (F)	392,500	470,500	4,156	5,673
One Bedroom/Den (G)	312,000	390,000	3,848	5,365
One Bedroom/Den (H)	351,000	429,000	3,918	5,435
Two Bedroom (I)	392,500	470,500	4,139	5,656
Two Bedroom/Den (J)	454,000	532,000	4,428	5,945
Two Bedroom/Den Deluxe(K)	517,500	595,500	4,646	6,163
Cottages:				
One Bedroom (L)	233,000	311,000	3,359	4,876
One Bedroom/Den (M)	295,500	373,500	3,664	5,181
Two Bedroom (N)	364,000	442,000	3,939	5,456
Two Bedroom/Den (O)	411,500	489,500	4,156	5,673
Two Bedroom/Den (P&Q)	442,000	520,000	4,301	5,818
Two Bedroom/Den (R)	479,500	557,500	4,445	5,962
One Bedroom/Den (S)	393,500	471,500	4,139	5,656
Two Bedroom (T)	466,500	544,500	4,428	5,945
Two Bedroom/Den (U)	556,000	634,000	4,646	6,163

Reduced Fees for 365-Day and 60-Day Modified Options

	Entrance Fee	Monthly Fee
365-Day Nursing Care	(\$5,000) per person	(\$173) per person
60-Day Nursing Care	(\$25,500) per person	(\$173) per person

The entrance fees above include a declining balance refund. The refund declines at 2% per month for each month that the resident resides at Kendal. After 50 months, there would be no refund.

Independent Living and Assisted Living Fee Schedule Additional Refund Options

Table 2

Extensive Option

Kendal offers two guaranteed refund options: 50% and 90%.

	50% Refund		90% Refund	
	Single	Double	Single	Double
Apartments:				
Studio (A)	195,000	-	268,500	-
One Bedroom (B)	293,500	386,500	403,000	542,000
One Bedroom/Den (C)	365,000	458,000	501,500	640,500
Two Bedroom (D&E)	453,000	546,000	622,500	761,500
Two Bedroom/Den (F)	514,000	607,000	706,500	845,500
One Bedroom/Den (G)	405,500	498,500	561,000	700,500
One Bedroom/Den (H)	456,000	549,000	632,000	771,000
Two Bedroom (I)	510,000	603,000	706,000	845,000
Two Bedroom/Den (J)	590,000	683,000	816,500	955,500
Two Bedroom/Den Deluxe (K)	673,000	766,000	932,000	1,071,000
Cottages:				
One Bedroom (L)	304,500	397,500	418,500	557,500
One Bedroom/Den (M)	387,000	480,000	532,000	671,000
Two Bedroom (N)	476,500	569,500	654,500	793,500
Two Bedroom/Den (O)	539,000	632,000	741,000	880,000
Two Bedroom/Den (P&Q)	578,000	671,000	795,000	934,000
Two Bedroom/Den (R)	628,000	721,000	862,500	1,001,500
One Bedroom/Den (S)	510,000	603,000	704,500	843,500
Two Bedroom (T)	604,000	697,000	835,000	974,000
Two Bedroom/Den (U)	720,500	813,500	993,500	1,132,500

Reduced Fees for 365-Day and 60-Day Options

	50% Refund	90% Refund
365-Day Health Care	(\$5,300) per person	(\$6,700) per person
60-Day Health Care	(\$27,000) per person	(\$39,000) per person

*Persons over 85 are ineligible for these refund options.

*There is no additional monthly fee when choosing the 50% or the 90% guaranteed refund.

Per Diem Rates

For Non-Contract Residents

Table 3

Assisted Living-basic level	\$171/day
Skilled Nursing Care-companion suite	\$247/day

- i) No entry fee funds will be used by the community prior to occupancy. As described in the Residence and Care Agreement, all deposits are fully refundable prior to occupancy less 2% of the total entry fee for the reserved residence unless due to health or finances. All entry fees must be paid in funds; no property will be accepted in lieu of funds.

- ii) LRC has an established escrow account with Sun Trust Bank. All escrowed deposits remain the property of the depositor and are not the property of LRC until the resident enters the community. A copy of the escrow agreement is provided to every depositor and is on file with the State Corporation Commission.

- iii) The entry fees for Kendal at Lexington are subject to periodic adjustment as necessary. When a resident signs a Residence and Care Agreement, the entry fee for that resident is fixed by contract. Subsequent increases only apply to future residents. Entry fees are always stated in current year dollars. Priority waitlist members are notified of fee increases. Fees are also available on the Kendal at Lexington website and by request.

The monthly fees for Kendal at Lexington are subject to periodic adjustment to assure sufficient funds to provide the services guaranteed by the Residence and Care Agreement. Increases in the monthly fee will usually occur annually. Current and prospective residents are given thirty (30) days written advance notice of fee increases.

The table shows the frequency of fee increases at Kendal at Lexington from January 1, 2011. The last fee increase went into effect January 1, 2017. Neither LRC nor The Kendal Corporation operates any other facilities in the Commonwealth of Virginia.

History of Fee Increases

	2012	2013	2014	2015	2016	2017
Frequency in fee increases	Jan. 1	Jan. 1	Jan. 1	Jan. 1	Jan. 1	Jan. 1
Monthly Fees	4% 1 st person 6% 2 nd person	3.75%	3.5%	3.25%	2.75%	2.5%
Assisted Living Per Diem	5.0%	5.0%	4.0%	4.0%	3.0%/6.0%	3.0%

Frequency in fee increases	July 1	July 1	July 1	July 1	April 1	Jan.1
Entry Fees	4.0%	4.0%	4.0%	4.0%*	0.0%**	0.0%

Reserve Funding

Describe any provisions that have been made or will be made to provide reserve funding or security to enable the provider to fully perform its obligations under continuing care contracts, including the establishment of escrow accounts, trusts or reserve funds, together with the manner in which such funds will be invested and the names and experience of persons who will make the investment decisions. The disclosure statement shall clearly state whether or not reserve funds are maintained.

This description shall include a specific explanation of how the value of any such reserve funding was established and, if available, it shall include the opinion of a qualified actuary.

**Select floor plans decreased or remained the constant.*

***Select floor plans increased between \$5,000 and \$10,000.*

In October, 2016, Lexington Retirement Community, Inc., with the Industrial Development Authority of the City of Lexington, Virginia, issued \$28,210,000 of Tax-Exempt Residential Care Facility Refund Revenue Bonds. The proceeds of the Series 2016 Bonds were used to refund the Authority's Residential Care Facilities Mortgage Revenue Bonds Series 2007A, to fund a debt service reserve fund for the Series 2016 Bonds, and to finance cost of issuing the Series 2016 Bonds. The bonds were issued at a premium of \$1,765,790.

The debt service reserve fund is held by the bond trustee (US Bank Corporate Trust Services) and is equal to the maximum annual debt service of \$2,038,825. It is currently invested in a mutual fund that invests exclusively in short-term US Treasury obligations.

Entry fee deposits for cottages and apartments are held in an interest-bearing savings account.

Under the Master Trust Indenture, LRC is required to maintain a long-term debt service coverage ratio, calculated at the end of each fiscal year, of at least 1.20 and no less than 120 days' cash on hand. If the long-term debt service coverage ratio is less than 1.20 but greater than 1.00, and LRC has at least 300 days' cash on hand as of the last day of the fiscal year, then no action is required and the covenants are deemed to have been met. However, if the long-term debt coverage ratio is less than 1.20 and greater than 1.00 for two consecutive years, LRC shall retain a management consultant, within 30 days following the calculation at the end of the second consecutive year, to make recommendations to increase the long-term debt service coverage ratio for the following year.

In the event the long-term debt service coverage ratio, calculated at the end of any fiscal year, is less than 1.20 but greater than 1.00 and LRC has less than 300 days' cash on hand, or the long-term debt service coverage ratio calculated at the end of the fiscal year is less than 1.00, LRC shall retain a management consultant, within 30 days following the calculation at the end of the year, to make recommendations to increase the long-term debt service coverage ratio to at least 1.20 for the following year.

Certified Financial Statements

Give certified financial statements of the provider, including (i) a balance sheet as of the end of the two most recent fiscal years and (ii) income statements of the provider for the two most recent fiscal years or such shorter period that the provider has been in existence. Such statements shall conform to generally accepted accounting principles and shall be certified by an independent, certified public accountant. The opinion of the independent, certified public accountant shall be included in this section.

Certified financial statements are included as Attachment 2

Pro Forma Income Statement

Give a pro forma income statement for the current fiscal year. This statement shall conform to generally accepted accounting principles and shall include a specific description of the major assumptions used in developing the pro forma statement.

Forecasted Statement of Revenues and Expenses	Budget FY 2017
Operating Revenues	
Entrance fee amortization	2,438,037
Monthly service fees	6,220,079
Other Income	282,670
Investment Income	305,656
Health Center fees	5,835,575
Total Operating Revenues	15,082,017
Operating Expenses	
General & administrative	1,913,468
Housekeeping & laundry	316,250
Plant operations	794,915
Food service	1,717,595
Health services	4,158,203
Depreciation & amortization	2,065,336
Staff Benefits	1,533,100
Utilities	551,660
Real Estate Taxes	246,000
Interest	922,233
Management fee	477,110
Total Operating Expenses	14,695,870
Excess or (Deficiency) of Operating Revenues over Operating Expenses	386,147

Major Assumptions:

Monthly service fees and Health Center fees are based on a projected occupancy of 93.3%, 85.0%, and 90.8% for residential living, assisted living, and skilled nursing, respectively.

Salary and related costs represent the wages and related payroll taxes for the planned staffing level with budgeted increases of 2.5%.

Admission of New Residents

Give a description of the provider's criteria for admission of new residents.

To be eligible for admission to independent living residences at Kendal at Lexington, prospective residents must be capable of living safely in a residential setting and must be able to demonstrate the availability of financial assets and income sufficient to support their residency at Kendal at Lexington. To be covered by the full Residence and Care Agreement, individual residents must be age 65 or older. In the case of a couple, at least one of the residents must be age 65 or older; Kendal at Lexington reserves unilateral discretion as to whether to extend the full coverage of the Residence and Care Agreement to an applicant who is younger than age 65.

Each prospective resident submits a two-part health assessment form that includes a health history and a physician assessment of the prospective resident's ability to live safely in a residential setting. If the resident's physician's assessment is more than ninety days old, it will be necessary to have the assessment updated prior to occupancy.

Each prospective resident submits a financial statement that quantifies the resident's assets and income. Kendal staff assesses the resident's resources and compares them with the projected expenses of occupancy. During the admissions process, Kendal staff review the adequacy of resources with the prospective resident.

Access to Facility by Nonresidents

Give a description of the provider's policies regarding access to the facility and its services for nonresidents.

Kendal at Lexington is designed primarily for the use of residents who enter into a Residence and Care Agreement with the provider. Because the residents of retirement communities have generally been actively involved in community life, it is common for community areas to be available on a scheduled basis for use by community groups. Non-residents who need care that can be provided in the health centers may be eligible for admission on a per diem basis.

Kendal at Lexington has a Residents Association that is empowered to set and modify many of the policies that govern life in the retirement community. The Residents Association has established that residents are welcome to reserve and use common space for events related to their involvement in outside organizations.

Overnight lodging accommodations are available for resident and staff guests at Sunnyside, the historic renovated farmhouse, for a fee. In addition, civic and professional organizations may rent rooms for meetings or events. Guests of Kendal residents and staff may purchase guest meals in the dining room.

Procedure for Resident to File a Complaint or Disclose Concern

Give a description of the procedure by which a resident may file a complaint or disclose any concern.

Residents and staff, working together in good spirit, generally will be able to resolve issues successfully and easily. Should there be an instance in which a problem is not resolved satisfactorily, residents are invited to ask assistance from the appropriate supervisor, department head, or area administrator, in that order. Residents may invite the participation of the Area Agency on Aging ombudsman, the name and address of which are on file in the office of the Executive Director. The Residents Association can also serve as an avenue for the discussion and resolution of issues. Should satisfactory resolution still not be achieved, the matter may be referred to the Kendal at Lexington's Executive Director. In deciding the issue, the Executive Director will review our policies and procedures with the resident and any representative the resident chooses to include. Residents may present any information concerning the issue. The Executive Director will consult with appropriate staff or seek other input as necessary and after considering all the information presented shall make a decision.

Residents may request the Board of Directors to review the matter after the Executive Director's decision. The Board, or its designees, will review all relevant information, including any presented by the resident and decide whether to direct the Executive Director to reconsider the issue. The Board's recommendation will be final.

List of Attachments

- 1 - Residence and Care Agreements
- 2 - Certified Financial Statements
- 3 - Priority List Agreement
- 4 - Residence Reservation Agreement
- 5 – Narrative of material differences and comparison of prior year actual and prior year pro forma statement of revenue and expenses
- 6 – Resident’s Financial Statement
- 7 – Summary of Financial Information
- 8 – Ancillary fees sheets
 - Independent Living
 - Assisted Living
 - Skilled Nursing

Attachment 1 - Residence and Care Agreements

A. For Modified Coverage of Continuing Care

B. For Extensive Coverage of Continuing Care

C. Addendum To Residence Care Agreement – Upgrades to Apartments/Cottage

RESIDENCE AND CARE AGREEMENT

For Modified Coverage of Continuing Care

Kendal at Lexington
160 Kendal Drive
Lexington, VA 24450
(540) 463-1910

This Residence and Care Agreement was accepted by the Virginia State Corporation Commission which has registered Kendal at Lexington as a continuing care retirement community, effective June 29, 1998. Interested parties should also refer to the Disclosure Statement and the Priority Reservation Agreement.

KENDAL AT LEXINGTON

RESIDENCE AND CARE AGREEMENT

Notice of Right to Rescind

Date Rescission Period Begins

You may rescind and terminate your Residence and Care Agreement, without penalty or forfeiture, within seven (7) days of the above date. You are not required to move into Kendal at Lexington before the expiration of this seven (7) day period. No other agreement or statement you sign shall constitute a waiver of your right to rescind your Agreement within the seven (7) day period.

To rescind your Residence and Care Agreement, mail or deliver a signed and dated copy of this notice, or any other dated written notice, letter or telegram, stating your desire to rescind to Kendal at Lexington, 160 Kendal Drive, Lexington, VA 24450 not later than midnight of _____.

Pursuant to this notice, I hereby cancel my Residence and Care Agreement.

Your Signature _____ Date _____

Co-Occupant _____ Date _____

KENDAL AT LEXINGTON
RESIDENCE AND CARE AGREEMENT

THIS AGREEMENT is made between _____, hereafter called the "Resident" and referred to by the words "you" and "your" (if husband and wife, or two other persons, are parties hereto the words "Resident," "you" and "your" shall apply to them jointly and severally, where the context permits) and Lexington Retirement Community, Inc., doing business as Kendal at Lexington, hereafter called the "Community," and referred to by the words "we," "us," and "our," which owns and operates Kendal at Lexington, in the city of Lexington and Rockbridge County, Virginia. The word "us" in "one of us", "both of us", "either of us", and similar phrases shall apply to you and to Kendal at Lexington jointly. The word "Co-occupants" shall refer to two individuals who enter into this Agreement.

Lexington Retirement Community, Inc. (LRC) is a not-for-profit Virginia corporation governed by a Board of Directors. No other organization has any financial responsibility for the Community.

Lexington Retirement Community, Inc. is affiliated with The Kendal Corporation, a Pennsylvania not-for-profit corporation, through provisions in the Bylaws. Refer to the Kendal at Lexington Disclosure Statement for a full description of the relationship. Lexington Retirement Community, Inc., and The Kendal Corporation reserve the right to modify the relationship at any time, subject to necessary approvals by the Virginia State Corporation Commission.

Lexington Retirement Community, Inc. and you agree as follows:

You must select a Refund Plan and a Nursing Care Benefit Period in Section [5](#).

1. Admission

With the execution of this Agreement by both of us, you are guaranteed admission to Kendal at Lexington in accordance with the provisions of this Agreement, regardless of any change in your state of health between the date of this Agreement and the Occupancy Date.

To be eligible for admission to independent living residences at Kendal at Lexington, prospective residents must be capable of living safely in a residential setting and must be able to demonstrate the availability of financial assets and income sufficient to support their residency at Kendal at Lexington. To be covered by the full Residence and Care Agreement, individual residents must be age 65 or older. In the case of a couple, at least one of the residents must be age 65 or older; Kendal at Lexington reserves unilateral discretion as to whether to extend the full coverage of the Residence and Care Agreement to a spouse who is younger than age 65.

1.1 Prospective Residents Under Age 65

If you would be younger than the age of 65 on the Occupancy Date for your residence, we may at our sole discretion admit you on one of the following two bases. If we accept you for admission, you and we will agree mutually on which basis applies.

1.1.1 Full Residency

We will admit you as a full resident of the community if you meet all criteria for admissions except for age. You will pay the full Entry and Monthly Fee for your residence. You shall enroll or maintain medical and surgical insurance that is at least equivalent to that referred to in Section [10.8](#).

1.1.2 Limited Residency Without Pre-Paid Health Care

If you would be under the age of sixty-five (65) on your Occupancy Date and are one of two people signing this Agreement and the other person is over the age of sixty-five (65) and if you meet all the criteria for admissions except age, we will grant you the right to occupy the living accommodation and a right to the services specified in this Agreement except for all the services described in Section [10](#). If we grant you the rights described in this paragraph, you and the other person will pay a Monthly Fee equal to the double occupancy Monthly Fee for your residence. The person over age sixty-five (65) will pay the single occupancy Entry Fee.

1.1.2.1 Conversion to Full Residency

In addition to the Limited Residency provisions above, under separate Agreement upon your reaching the age of sixty-five (65), we will grant you the right to convert to full resident status, contingent on your paying the difference between the single occupancy Entry Fee and the double occupancy Entry Fee in effect upon your sixty-fifth (65th) birthday for the accommodation you then occupy.

2. Occupancy Date

The Occupancy Date for all purposes under this Agreement shall be _____ or the date on which you first personally occupy your living accommodation, whichever first occurs. Monthly fees will begin on the occupancy date.

3. Services Provided

From and after the Occupancy Date, we will furnish you the living accommodation identified in Section [4](#), and the facilities, services, and health care to the extent specified in this agreement, and you will become liable for payment of the Monthly Fee. These services will be provided for your life, unless this Agreement is terminated at some earlier date. We will provide you with at least sixty (60) days notice in advance of changes in the scope of care or services except for changes required by State or Federal assistance programs. We reserve the right to modify the scope of services provided.

4. Accommodation

The living accommodation you will occupy, subject to the provisions of this Agreement, is unit number _____ which is a _____, including the options listed in the Options Addendum.

5. Entry Fee

On or before the Occupancy Date, you will pay us an Entry Fee less a credit for the total of the Deposits you have already made. You have selected a (check one) _____2% Declining Entry Fee/ _____50% Refundable Entry Fee/ _____ 90% Refundable Entry Fee. You have also selected a (check one) _____ 60 day Nursing Care Benefit Period/ _____ 1 year Nursing Care Benefit Period.

The Entry Fee for the plans and residence you have selected is \$_____ for the First Occupant and \$_____ for the Second Occupant, \$_____ for the enclosed patio/balcony, \$_____ for the unfinished/walkout basement, totaling \$_____ (“Total Entry Fee”). The Entry Fee Deposits plus other deposits (including priority list deposit) you have paid total \$_____. The balance of the Entry Fee is \$_____. The Total Entry Fee is due to us prior to or on the Occupancy Date.

The computations of the above amounts are:

Total entry fee	_____
Less sum of all deposits	_____
Amount due on signing Agreement	_____
Amount of entry fee due on or before occupancy date	_____

6. Monthly Fee

From and after the Occupancy Date, you will pay us a Monthly Fee each month. The Monthly Fee for your accommodation will be \$_____ as of your Occupancy Date.

We will adjust the Monthly Fee from time to time on the basis of our experience or to reflect changes in the cost of achieving our purposes. We will give you at least thirty (30) days notice of monthly fee adjustments. We agree that, in the exercise of our discretion, which shall be binding on you, we will endeavor to maintain the Monthly Fee at the lowest feasible figure which in the judgment of the Board of Directors of Lexington Retirement Community, Inc., is consistent with sound financial operation and the maintenance of the quality of service we have undertaken to provide.

7. Termination or Death Prior to the Occupancy Date

You may terminate this agreement at any time prior to the Occupancy Date by written notice of termination to us. This agreement will also be terminated by written notice of your death. In the event of death of one or both of you, your entry fee deposit will be fully refunded in accordance with Section 14.8 of this Agreement. Should you withdraw due to a change in health status through injury, illness, incapacity or inability to live independently, your entry fee deposit will be fully refunded in accordance with Section 14.8 of this Agreement. Should you withdraw for any other reason, your entry fee deposit will be refunded, less 2% of the lifecare entry fee for the residence you have reserved, in accordance with Section 14.8 of this Agreement. If this agreement is with two persons and terminated by the death of one, the applicable refund will be paid to the survivor.

8. Facilities Provided by Us

8.1 Living Accommodation

You have the right to occupy and use the living accommodation assigned subject to provisions for changes in accommodations as provided below. We will furnish wall-to-wall carpeting, basic window treatments, a washer and dryer and a stove, garbage disposal, microwave, dishwasher and refrigerator in the living accommodation. You shall provide all other furnishings.

Modifications to any living accommodation, other than those we undertake, will require the approval of the Executive Director and, if so approved, will be at your expense and will thereafter become our property. Approval of such modifications may be conditioned upon your payment to us of a sum sufficient to later restore the living accommodation to its condition before the modifications. The firm or individual retained to make such changes, and the plans for the changes, are subject to the approval of the Executive Director. All modifications will be performed in a workman-like manner, with all necessary approvals. We have the right to stop any work if it interferes with the normal operation of the community.

8.2 Community Facilities

You may use the dining rooms, lobbies, living room, library, social and recreational facilities (indoor and outdoor), and other common facilities provided by us.

8.3 Health Center

We will provide the facilities necessary for the medical care and services (other than hospital care) specified in this Agreement. In this Agreement, the term "Health Center" includes the Assisted Living Facility and our Nursing Facility.

8.4 Laundry Facilities

Washers and dryers for personal laundry are provided in most residences. A community laundry room available to all residents will be provided in the Assisted Living Facility.

8.5 Parking

We will provide and maintain open parking areas. A limited number of covered parking areas will be available to Residents for an additional charge.

9. General Services We Will Provide

9.1 Food and Meals

9.1.1 Meals Offered

Dining Service is available for three meals a day in our dining areas. You will be able to select your meals from nutritionally well-balanced menus. At any time you move from an apartment or cottage to the Health Center, your monthly fee will cover one meal per day. The additional two meals per day will be billed to you at the then current published rates.

9.1.2 Dining Points Meal Program

A monthly allocation of dining points will be provided for your use in our dining venues and store. The allocation will be provided at the beginning of each new month and you will be allowed to carry over only one month's allocation. Dining points are neither refundable nor transferable.

During temporary stays in the Health Center, if you are receiving care covered by Medicare you will retain your current dining points. The allocation of dining points will cease with your permanent move/transfer to the Health Center.

9.1.3 Tray Service

When ordered by our geriatric nurse practitioner, tray service at the then current published fee will be provided while in the Assisted Living Facility and in your residence during minor short-term illness. Tray service if needed by a resident in the Nursing Facility will be provided at no extra charge.

9.1.4 Other Service

Meals comprising substitute or alternative diets will be provided when ordered by our geriatric nurse practitioner.

9.1.5 Meal Charges

A statement of dining charges will be provided with the monthly bill. Charges exceeding the monthly allocation (minus any carryover) will be added to your bill, according to the then current established rates. We reserve the right to change these rates from time to time. We will notify you in writing of changes in rates no less than thirty (30) days in advance of their effective date.

9.1.6 Carry Over of Dining Points

Unused dining points, not to exceed one month's allocation amount, may be carried over from month to month.

9.2 Housekeeping Services

You will maintain your living accommodation in a clean, sanitary, and orderly condition. We will furnish routine housecleaning service every other week. Twice a year we will provide seasonal heavy housecleaning. At your option and expense according to a published fee schedule, we will provide more frequent housecleaning. You may arrange for more frequent heavy housecleaning at your expense. At your option and expense according to a published fee schedule, we will provide and launder standard sized linens and towels. If you do not maintain your accommodation in a proper manner, we have the right, after notice to you, to maintain the accommodation and to charge the cost of such maintenance to you.

9.3 Maintenance and Repair Service

We will perform and provide repairs, maintenance, and replacement of property and equipment we own. Repairs, maintenance, and replacement of your personal property will be your responsibility. Redecoration of any living accommodation, in addition to or other than that scheduled by us, will require the approval of the Executive Director and will be at your expense. Any change or replacement by you of the property or equipment we provide in the living accommodation gives title thereto to us unless we agree otherwise in writing.

9.4 Groundskeeping

We will furnish basic groundskeeping care, including lawn service and snow removal. With our approval, you may elect to plant and then maintain a specific area adjacent to your living accommodation per established community guidelines.

9.5 Utilities

We will furnish water, electricity, heat and air conditioning, connections to a common television signal distribution point, sewage disposal and garbage and trash removal from collection points. Installation and maintenance of private telephone service is your responsibility.

9.6 Local Transportation

We will provide limited, scheduled local transportation for residents wherever the resident resides in the community. Out of town transportation may be provided at an additional fee if Kendal vehicles and staff are available. Staff members are not permitted to transport residents in their personal vehicles or in a resident's vehicle.

9.7 Taxes

We will pay all real estate taxes assessed to Kendal at Lexington. You will be responsible for your own personal property taxes.

10. Health Services

10.1 General

When recommended by our Resident Care Committee, we will furnish, or cause to be furnished, temporary or permanent assisted living services in our Assisted Living Facility or nursing care in our Nursing Facility, or if space is not available in our Health Center, in another facility until such space is available. Such services include assistance with activities of daily living or general nursing care, special diets and health services which regulations allow us to provide. The cost of such services, subject to the limitations set forth in Sections 10.2 to 10.9 will be paid by us. Your monthly fee will be adjusted in accordance with Section 12 of this agreement.

10.2 Skilled Nursing Care

When prescribed by your physician and approved by us, and when appropriate care cannot be provided in our Assisted Living Facility, over your lifetime we will provide care in Our Nursing Facility for a period chosen by you of up to (select one) sixty ___(60) days or one ___(1) year, hereafter referred to as your "Nursing Care Benefit Period". Such days of nursing care are non-transferable, non-renewable and non-refundable. Your Nursing Care Benefit Period is in addition to any days of care paid for by Medicare or other government programs. During your Nursing Care Benefit Period you will continue to be responsible for your regular Monthly Fee as well as co-pays for Medicare and other insurance you may have. Thereafter, you will pay the then current per diem amount for the nursing unit you occupy.

10.3 Use of Medical Practitioner and Other Facilities

At your own expense, you may engage the services of medical practitioners or utilize medical facilities other than those designated by us and suggested by our staff. You shall be liable for any expense resulting from such care including, but not limited to, the cost of any physician services, surgical, nursing or hospital care provided other than the care provided in our Health Center, except as noted in Section [10.1](#).

10.4 Hospitalization

When your physician determines that it has become necessary to hospitalize you, your physician shall have the authority to arrange for such hospitalization. If hospital space is not immediately available, we will continue to provide medical care to the extent of our capability. All costs, if any, associated with hospitalization and surgical services are your responsibility.

10.5 Physicians

We will make space available and establish routine hours for physicians to be available within the Community. You may visit the physicians on site or utilize any other physician you wish. You will be responsible for all costs resulting from physicians and any other medical practitioner. You will notify us of Your Physician choice and of any future changes.

10.6 Exclusions

In addition to the other costs to be paid by you under this section, you will be solely responsible for payment for all drugs, refractions, eye-glasses, contact lenses, hearing aids, dentistry, dentures, dental inlays, incontinence supplies, orthopedic appliances, podiatry, chiropractic services; nursing care services generally defined as subacute, or specialty care, such as (but not limited to) ventilator care or care for some types of communicable diseases that are beyond the scope of our care, home health care, hospitalization; inpatient and outpatient surgical services, renal dialysis, treatment for alcohol or drug abuse, and diagnosis and therapy for psychiatric disorders. However, you may have coverage for many of these costs through your Medicare and secondary insurance plans.

10.7 Illness or Accident While Away from Kendal at Lexington

If you have an accident or are ill while you are away from Kendal at Lexington, we shall have no responsibility to pay for costs resulting from such accident or illness until you return to Kendal at Lexington. At that time, we shall assume our responsibility for health care services thereafter rendered as provided in this Agreement.

10.8 Medical and Surgical Insurance

10.8.1 Your Obligation to Carry Insurance

You agree to enroll in, and maintain and pay all applicable premiums, deductibles, co-pays or other costs associated with the following types of health insurances:

(1) that provided by the Federal Social Security Amendments of 1965 (commonly referred to as "Medicare A and B") or any successor plan, or equivalent plans, whether now or in the future ; and (2) a Medigap plan that complements Medicare Parts A and B in the following ways: pays the in-patient hospital deductible and hospital co-pays in full, and includes 365 additional days after Medicare benefits; and pays the co-insurance for skilled nursing facility; and pays the co-insurance for all Medicare Part B approved amounts.

or

(2) an approved Medicare Health Maintenance Organization (referred to as HMO) or other insurance as approved by the Community. If you choose to enroll in this type of insurance, this will replace Federal Medicare and the need to maintain a Medigap plan. You agree to pay for all services and related expenses not covered by your HMO plan, including prescription drugs, as well as all co-pays, deductibles and premiums. You agree to be financially responsible for any

services rendered to you without the proper referral from the Community Physician or required prior authorization.

A list of HMO plans that have been approved by the Community will be maintained and available in Kendal's finance office. If the HMO plans in which you are enrolled is no longer approved by the Community, you must enroll in an alternate plan which meets the requirements of this section and such additional requirements as the Community may from time to time impose.

and

(3) at least standard coverage meeting the requirements of a Medicare Part D prescription drug plan or any successor thereto or actuarially equivalent standard coverage.

For 1, 2, and 3 of this section, you agree to enroll in, maintain and pay all applicable premiums, deductibles, co-pays and other costs associated with any successor insurance programs or program equivalents, whether private or government-sponsored, in the event that any programs described above in which you are an enrollee ceases, changes or fails to provide coverage at least substantially equivalent to coverage provided with the programs herein described.

If we permit you, in our sole discretion, to maintain insurance coverage that does not meet the above requirements (including an employer provided plan), or to forego obtaining any such required insurances, then, in addition to paying the above enumerated costs, you agree to pay the difference between the required benefit and benefit actually paid by your insurance, if any, or, if you have no insurance to cover a particular health care service (including prescription drugs), to pay all costs associated with your receipt of such health care. You are also financially responsible for any future changes in coverages which result in a difference between required benefit coverages and benefit coverages actually paid by your insurance.

Furthermore, should you fail to arrange for and maintain any of the required insurances, we may, in our sole discretion: make application on your behalf for any insurance coverage(s) required by this contract and to pay on your behalf premiums in connection with such insurance coverage(s) and to charge such cost to you; if you are unable or unwilling to obtain such insurance coverages, require you to pay a higher Monthly Fee than that charged residents who maintain such insurance; or charge you the full costs of all health care services you receive for which you do not have coverage, including but not limited to, medical, surgical, nursing and pharmacy services.

Any exception granted to you by us under this section is done solely at our discretion and is specific to you and your circumstances at the time the exception is granted. We retain the right to revoke any exception at any time upon notice to you. Where two persons sign this Agreement as Resident, we may, in our sole discretion, grant or revoke an exception to only one person.

10.8.2 Our Option to Insure for Health Care Costs

We may, at our option, obtain insurance to cover our obligation to pay for the costs of your health care under this Agreement.

10.8.3 Our Right to Insurance Benefits

You hereby authorize us to make any and all claims for insurance benefits to which we are entitled under this Agreement and agree to execute any and all documents necessary to enable us to collect or enforce such claims. If for any reason we cannot directly apply for benefits payable under insurance required by this Agreement, you agree to make such application and to pay us the proceeds received.

10.9 Our Rights in Case of Injury Caused by Third Party

At the time you first occupy your residential unit, you hereby agree to grant a limited power of attorney to us, which power shall not be affected by your disability, at our election to make any claims or initiate legal action, if necessary, against any person who has caused injury to you for compensation for the injury or expenses thereby caused. You agree to execute such further authorizations as shall be desirable to prosecute such claims or causes of action. In such event and at our election, we may sue on and enforce any cause of action for you, in your name or in our own name, for injury or damages so resulting.

After we have been reimbursed for all costs, expenses, and damages incurred by us (including reasonable costs of care we furnish to you because of such accident or injury), the balance of any amount recovered will be paid to you or credited to your account, or, in the event of your death, will be paid to your estate, or the persons entitled thereto. We may limit our election as provided above to claims for recovery of the costs and expenses incurred by us, and in such event, we shall not be obligated to assert any claim of yours arising out of such accident or injury beyond the expenses incurred by us.

11. Entry Fee

11.1 Amount

You pay the Entry Fee as a condition of entrance according to the Refund Plan and Nursing Care Benefit Period selected, the type of living accommodation selected, and whether it is single or joint occupancy. If the Entry Fee has been paid on behalf of two persons, the Second Occupant Fee, listed in Section [5](#), shall be deemed to be paid on behalf of the individual who first withdraws or dies. The balance of the Entry Fee is then attributed to the remaining party and refunds will be calculated accordingly.

11.2 Use

The Entry Fee will be held in escrow, as required by law, prior to the Occupancy Date. After the Occupancy Date, we may use the Entry Fee and apply it to any proper corporate purpose, whether or not directly or indirectly related to this Agreement.

11.3 Increases in the Entry Fee

The Entry Fee paid by you will not be increased during the life of this Agreement except on transfer to a larger accommodation or on the entry of a spouse or other person not already a resident to share the accommodation with you pursuant to Section [11.4](#) below.

11.4 Admission of a Second Occupant who is not a Resident

If you wish to live with a person who is not a resident, this person may apply for admission as a Resident. If accepted for residency by us, your co-occupant will pay one half of the then current double occupancy Entry Fee for the accommodation you occupy, or the lowest single occupancy Entry Fee charged by us, whichever is less. On and after your co-occupant's Occupancy Date, you and your co-occupant will pay the double occupancy Monthly Fee for the accommodation you occupy.

If your co-occupant is not accepted as a Resident or does not apply for admission, we may grant your co-occupant the right to occupy your accommodation with you only for your lifetime and a right to the services specified in this agreement except for the services described in Section [10](#). You and your co-occupant will pay the double occupancy Monthly Fee for the accommodation you occupy, but no additional Entry Fee.

12. Monthly Fee

12.1 General

We bill the Monthly Fee in advance and it is payable in advance by you. The Monthly Fee is based on the size of the living accommodation and the number of persons occupying the accommodation. If you transfer to a smaller residential living accommodation, except in the Health Center, the Monthly Fee is reduced to that for the smaller living accommodation.

If you are permanently transferred to the Health Center your Monthly Fee is the same as it would be if you had remained in your most recently occupied living accommodation, plus the charge for the two additional meals a day. If one of two persons signing this Agreement remains in the residential living accommodation while the other permanently moves to the Health Center, then you continue to pay the double occupancy Monthly Fee for the independent living accommodation plus the charge for the two additional meals a day. If two persons sign this Agreement, the Monthly Fee will be reduced to the single occupancy rate if one of the two dies or withdraws from the Community.

If you live permanently in Our Nursing Facility and your care is qualified for and paid by Medicare, you will not be responsible to pay your usual monthly fee during any such periods. When you no longer qualify for Medicare benefits, you will resume paying your usual monthly fee.

12.2 Monthly Statement

We shall present you a detailed monthly statement including: (a) the Monthly Fee for the following month; (b) charges exceeding the monthly allocations of dining points; (c) additional services rendered during the preceding month or not previously paid; and (d) any other amounts due us.

12.3 Payment of Monthly Charges

The Monthly Fee is due in advance, and it and all other charges appearing on the monthly statement shall be paid to us on or before the first day of the calendar month following the date of the statement. If you fail to make the payment within thirty (30) days after receiving the statement, we may give you written notice that you must make such payment within fifteen (15) days after receiving such notice, and if you fail to comply with such notice, we may terminate this Agreement.

12.4 Inability to Pay

12.4.1 Our Policy

Without in any way qualifying our right to terminate this Agreement, if the sole reason for non-payment of your financial obligations to us is insufficient funds, for reasons beyond your control, we will review the matter with you. If you present us with facts which, in our opinion, justify special financial consideration, at our sole discretion we may partly or wholly subsidize your Monthly Fee provided that such subsidy can be granted or continued without impairing our ability to attain our objectives while operating on a sound financial basis. All determinations we make concerning the granting or continuing of special financial consideration shall be final and binding on you, and any such determination shall be regarded as a confidential transaction between us, except for reports required to be made to financial institutions lending monies to us or to regulatory or other governmental bodies.

12.4.2 Your Responsibility

It shall be a condition of receiving a subsidy that you shall represent that you have not made any gift or other transfer of money or personal property in contemplation of the execution of this Agreement, or subsequently, which would impair your ability or your estate's ability to satisfy the financial obligations under this Agreement. If your income is found to be inadequate to meet your responsibilities to us and to pay personal and incidental expenses, you will make every effort to obtain assistance from available resources and, if you can qualify, to take the necessary steps to obtain County, State or Federal aid or assistance. If your Entry Fee or Monthly Fee is subsidized wholly or partly by us you may not make a gift of your property without our written consent. If your Monthly Fee or Entry Fee is subsidized wholly or partly by us, from time to time at our request, you will supply us with financial statements and copies of your tax returns.

12.4.3 Recovery of Community Subsidy

When you die or withdraw, if your Entry Fee or Monthly Fee has been subsidized wholly or partly by us, your estate, if any, shall be liable to us for the full amount of the subsidy for the entire time of residency. This subsection shall apply whether or not you are in residence at Kendal at Lexington at the time of death.

13. Changes in Living Accommodations

13.1 Policy on Changes

It is our policy to approve accommodation changes initiated by you for the following reasons only: health, financial, death of a spouse or other co-resident, and marriage. If you move from one accommodation to another you shall pay the applicable Monthly Fee for the new accommodation.

13.2 Change in Living Accommodation by Our Action

We may relocate you in another living accommodation of the same size at the same level of care if we determine that such a move should be made for your benefit, or for the proper operation of the Community.

13.3 Permanent Transfer to the Health Center

You may be transferred to the Health Center for health conditions which require permanent or prolonged occupancy of such quarters. The decision regarding such a transfer shall be made jointly by our Resident Care Committee in consultation with you and your physician. If you are a single occupant resident or the remaining survivor of two Co-occupants, you shall make arrangements to remove your personal belongings from the original living accommodation within thirty (30) days after it has been determined that the transfer will be of a permanent or prolonged nature. No Entry Fee refund or adjustment is due on such a transfer.

13.4 Transfer made by One of Two Residents Sharing a Living Accommodation

If one of two residents sharing a living accommodation is transferred to the Health Center we will not require the remaining resident to move to smaller residence.

13.5 Transfer from Single to Joint Occupancy

13.5.1 Transfer into a Current Accommodation

If two residents occupying separate living accommodations request a transfer into one of the two accommodations, and if such transfer is approved by the Executive Director, then no additional Entry Fee payment or refund is due upon such transfer. Any subsequent refunds due to termination of this agreement will be based on the individual resident's original Entry Fee and Occupancy Date.

13.5.2 Transfer into a Larger Accommodation

If two residents occupying separate living accommodations request a transfer into a larger accommodation, and if such transfer is approved by the Executive Director, the residents will pay the Monthly Fee for double occupancy associated with the residence they move into. The amount of the Entry Fee owed shall be the difference between (a) the sum of the original Entry Fees paid by each resident less 2% per month since the original occupancy dates and (b) the double occupancy Entry Fee for the new residence, less 2% per month using the average length of occupancy of the two residents moving to the new unit. A change from single to joint occupancy does not change the original Occupancy Date of either resident, nor does it initiate a new probationary period.

13.6 Temporary Transfer to a Nursing Facility, Hospital or Other Facility

You may be transferred on a temporary basis to a specialized nursing facility, hospital or other facility. If, in the estimation of you and your physician, you will return to Kendal at Lexington, we will reserve your room or apartment until you return. You will be responsible for the normal monthly charges as described under this Agreement during your absence as well as the costs of the specialized care facility you are transferred to.

13.7 Permanent Transfer to Another Facility

You may be transferred to another facility for health conditions which are beyond the care that we can legally and competently provide in our Health Center and which require permanent occupancy in a health facility that can provide the care you need. The decision regarding such a transfer shall be made by our Resident Care Committee in consultation with you and your physician. If you are a single occupant resident or the remaining survivor of two Co-occupants, you shall make arrangements to remove your personal belongings from the original living accommodation within thirty (30) days after it has been determined that the transfer will be of a permanent or prolonged nature.

14. Termination of Agreement

14.1 By Death or Permanent Transfer to Another Facility

Unless sooner terminated by either of us, this Agreement shall terminate at your death, or upon a permanent transfer to another facility not provided for under this Agreement.

14.2 By You

At any time prior to the Occupancy Date, you may terminate this Agreement effective upon delivery of written notice to us. If you withdraw for any reason, except in the event of death, change in health status where one or both of you is no longer capable of independent living, or an inability to qualify for independent living admission, two percent (2%) of the total entry fee will be retained by us.

At any time within ninety (90) days after the Occupancy Date, you may terminate this Agreement by delivery of written notice to us and surrender of the living accommodations, such termination to be effective upon such surrender. An entry fee refund will be made in accordance to Section 14.7.

At any time after the 90 day period, you may terminate this Agreement by delivery of written notice to us stating when the termination shall be effective, which shall not be more than one hundred and twenty (120) days or less than thirty (30) days after notice has been given. An entry fee refund will be made in accordance to Section 14.7.

14.3 By Us

We reserve the right to terminate this Agreement for just cause after consultation with you for any one or more of the following: proof that you are a danger to yourself or others; nonpayment of a monthly fee; repeated conduct that interferes with other residents' quiet enjoyment of the facility; persistent refusal to comply with reasonable written rules and regulations of the facility; a material misrepresentation made intentionally or recklessly in your application for residency, or related materials, regarding information which, if accurately provided, would have resulted in either your failure to qualify for residency or a material increase in the cost of providing to the resident the care and services provided under the contract; or material breach by the resident of the terms and conditions of the continuing care contract. In such case, we shall serve upon you written notice of termination specified to be effective on a date not less than thirty (30) days, nor later than one hundred twenty (120) days after the date of notice.

However, should the notice recite that it is based upon a written medical finding by two doctors, one of whom is not an employee of or associated with us, that you are a danger to yourself or others, then the date for termination shall be fixed at a date which is reasonable in light of the circumstances. On or before the termination date in any such notice, you shall move from and release your living accommodation.

14.4 Monthly Fee

On or before the effective date of termination, you shall surrender your living accommodation. Your Monthly Fee shall cease upon the effective termination date determined in accordance with this section, provided the living accommodations have been surrendered; if not, the Monthly Fee shall continue until such surrender.

14.5 Release Upon Termination

Upon termination of this Agreement, we are released from any further obligations to you or your estate except for the delivery of personal property and the payment of any refund which may be due under Section [14.7](#). Upon termination of this Agreement, you or your estate are released from any further obligations to us except for our right to have any subsidies reimbursed pursuant to Section [12.4.3](#) and any other amounts due.

14.6 Effect of Termination Upon Survivor

If this Agreement is made with two persons, a termination of this Agreement as to one of those persons shall not affect the continuation of this Agreement as to the other. The surviving Resident shall have the option of: (a) retaining the same living accommodation with the Monthly Fee changed to the rate for single occupancy; or (b) moving to a smaller living accommodation on notice given within one year of the death or termination of the co-occupant and when available, and paying the Monthly Fee for single occupancy of the new living accommodation. Any adjustment to the Entry Fee is subject to the provisions of Section [14.7](#) of this Agreement.

14.7 Refunds of All or Part of the Entry Fee

On termination of this Agreement, we will make full or partial refund of the Entry Fee to you or to your estate only in accordance with the following provisions.

14.7.1 Termination by Death or Withdrawal from the Community

14.7.1.1 Prior to the Occupancy Date

You may terminate this agreement at any time prior to the Occupancy Date by written notice of termination to us. This agreement will also be terminated by written notice of your death. In the event of death of one or both of you, your entry fee deposit will be fully refunded in accordance with Section [14.8](#) of this Agreement. Should you withdraw due to a change in health status through injury, illness, incapacity or inability to live independently, your entry fee deposit will be fully refunded in accordance with Section [14.8](#) of this Agreement. Should you withdraw for any other reason, your entry fee deposit will be refunded, less 2% of the lifecare entry fee for the residence you have reserved, in accordance with Section [14.8](#) of this Agreement. If this agreement is with two persons and terminated by the death of one, the applicable refund will be paid to the survivor.

14.7.1.2 Termination by a Single Occupant or Both Co-occupants After the Occupancy Date. (One of the following two sections shall apply in accordance with your selection in Section [5](#).)

2% Declining Refund Plan

In the event of the death, withdrawal or permanent transfer to a facility not provided for under this agreement of a single-occupant Resident or both Co-occupants, a refund shall be made to you or your estate equal to the original Total Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Total Entry Fee for each month or fraction thereof since the Occupancy Date of, up to and including the month in which you have vacated the accommodation and turned it over for our use, pursuant to Section [14.8](#) below. Before calculating this refund, any refund already paid under [14.7.1.3](#) or [14.7.1.4](#) below will be deducted from this refund. After fifty (50) months, there is no refund.

50% or 90% Refund Plan

In the event of the death, withdrawal or permanent transfer to a facility not provided for under this agreement of a single-occupant Resident or both Co-occupants, a refund shall be made to you or your estate equal to the original Total Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Total Entry Fee for each month or fraction thereof since the Occupancy Date of, up to and including the month in which you have vacated the accommodation and turned it over for our use, pursuant to Section [14.8](#) below. Before calculating this refund, any refund already paid under [14.7.1.3](#) or [14.7.1.4](#) below will be deducted from this refund. The refund will not be less than either 50% or 90% of the Total Entry Fee, according to the plan you selected in Section [5](#) of this agreement.

14.7.1.3 Termination by One of Two Co-Occupants (one of the following two sections apply in accordance with your selection in Section [5](#).)

2% Declining Refund Plan

In the event of the death, withdrawal or permanent transfer to a nursing facility not provided for under this agreement of one of you, a refund equal to the Second Occupant's Entry Fee, less a sum equal to two percent (2%) for each month or fraction thereof this Agreement has been in force, up to and including the month in which such death or withdrawal occurs, shall be paid to the remaining individual. After fifty (50) months, there is no refund.

50% or 90% Refund Plan

In the event of the death, withdrawal or permanent transfer to a nursing facility not provided for under this agreement of one of you, a refund equal to the Second Occupant's Entry Fee, less a sum equal to two percent (2%) for each month or fraction thereof this Agreement has been in force, up to and including the month in which such death or withdrawal occurs, shall be paid to the remaining individual. The refund will not be less than either 50% or 90% of the Second Person Entry Fee you paid according to the plan you selected in Section [5](#) of this agreement.

14.7.1.4 Termination by Either of Us

9

If either of us terminates this Agreement prior to the Occupancy Date or during the first three months following the Occupancy Date (the Probationary Period), we shall make a full refund of the Entry Fee, or your share thereof, to you, payable at such time as is provided in Section [14.8](#) below.

14.7.1.5 Entry Fee Reduction Resulting from a Transfer to a Smaller Residential Accommodation

A surviving or remaining Resident who moves to a smaller living accommodation shall not be obligated to pay any additional Entry Fee, however one of the following three sections will apply in accordance with your selection in Section [5](#).

2% Declining Refund Plan

Should you move from a larger living accommodation to a smaller accommodation during the first fifty (50) months of occupancy, the amount due you is the excess, if any, of (a) over (b). Payment shall be made pursuant to Section [14.8](#) below. Should you move from a larger living accommodation to a smaller accommodation after fifty (50) months of occupancy, there is no refund of the Entry Fee.

- (a) The original Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.
- (b) The Entry Fee required for the smaller accommodation at the time of transfer less a sum equal to two percent (2%) per month of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.

50% Refund Plan

Should you move from a larger living accommodation to a smaller accommodation during the first twenty five (25) months of occupancy, the amount due you is the excess, if any, of (a) over (b). Payment shall be made pursuant to Section [14.8](#) below. Should you move from a larger living accommodation to a smaller accommodation after twenty five (25) months of occupancy there is no refund of the Entry Fee.

- (a) The original Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.
- (b) The Entry Fee required for the smaller accommodation at the time of transfer less a sum equal to two percent (2%) per month of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.

90% Refund Plan

Should you move from a larger living accommodation to a smaller accommodation during the first five (5) months of occupancy, the amount due you is the excess, if any, of (a) over (b). Payment shall be made pursuant to Section [14.8](#) below. Should you move from a larger living accommodation to a smaller accommodation after five (5) months of occupancy there is no refund of the Entry Fee.

- (a) The original Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.
- (b) The Entry Fee required for the smaller accommodation at the time of transfer less a sum equal to two percent (2%) per month of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.

14.8 Time for Payment of Refunds before Occupancy or after the Living Accommodation has been Vacated

If you terminate this Agreement prior to the Occupancy Date, no refund of the Entry Fee shall be paid until we have received one or more Entry Fee payments from another prospective resident, for the same accommodation for which you had contracted, in a total amount which is at least equal to the refund to which you or your estate are entitled. When you terminate this Agreement after occupancy, no refund of the Entry Fee shall be paid until we have accepted and entered into a Residence and Care Agreement with a new Resident who has accepted the living accommodation you formerly occupied and who has paid the Total Entry Fee for that living accommodation.

When we terminate this Agreement, any refund of the Entry Fee shall be paid to you within thirty (30) days of the termination date, provided that all outstanding charges have been paid and your living accommodation has been vacated and you have removed your belongings from it.

14.9 Our Option to Insure for Entry Fee Refunds

We may, at our option, obtain insurance to cover our obligation to pay refunds of the Entrance Fee under this Agreement.

15. Rights and Obligations Concerning Property

15.1 Rights to Property

The rights and privileges granted to you by this Agreement do not include any right, title or interest in any part of the personal property, land, buildings, and improvements owned, leased, or administered by us. Nothing contained in this Agreement shall be construed to create the relationship of landlord and tenant between us. Your rights are primarily for services, with a right of occupancy subject to all the terms and conditions of this Agreement. Any rights, privileges, or benefits under this Agreement shall be subordinate to any mortgage on any of the premises or interest in our real property and to such reasonable rules and regulations on the use of all Community property as shall from time to time be adopted by us.

15.2 Right of Entry

You recognize and accept our right and responsibility to enter your living accommodation in order to carry out the purpose and intent of this Agreement. The purposes for which such entry may be made include but are not limited to (a) performance of scheduled housekeeping duties, (b) response to the medical alert system, (c) response to the fire alarm system, (d) if you are reported missing or as having not responded to a call, and (e) maintenance. We recognize your right to privacy and our responsibility to limit entry to your living accommodation to emergencies and to maintenance and housekeeping work as set forth in this paragraph.

15.3 Responsibility for Damages

Any loss or damage to our property caused by your negligence shall be charged to and paid for by you. Similarly, if any negligence of another Resident results in injury, illness, or damage to you, we assume no responsibility therefore, and you hereby release and discharge us from all liability or responsibility for injury or damage to you or to your property caused by the fault or negligence of other Residents. You shall have the responsibility of providing at your own expense any liability insurance you desire to protect against any such loss.

15.4 Responsibility of Protection of Your Property

We shall not be responsible for the loss of any property belonging to you due to theft, fire, or any other cause. You shall have the responsibility, at your own expense, of providing any insurance you desire to protect against any such loss.

In the event of your death or if you are no longer able to occupy the living accommodation or fail to vacate after having been given notice to do so, we shall have the right, at your cost, to remove promptly all your property from the living accommodation and store the same. We shall be required to exercise only ordinary care to protect such property against theft or other loss while stored.

If the property is stored in a commercial warehouse, we shall have no responsibility for such property after storage has been accomplished (including costs of storage). In the case of your death, it shall be the obligation of your executor, representative, or next of kin to vacate the accommodation theretofore occupied by you, and remove any of your property previously stored by us, within thirty (30) days after your death, unless you reside in the Health Center. The accommodation shall be vacated within fourteen (14) days after your death if you reside in Assisted Living. Your monthly fee will continue to be assessed until all furniture and personal possessions are removed and the residence is surrendered to Kendal at Lexington.

We will hold such personal property for a period not to exceed thirty (30) days at the risk of your estate or of the persons entitled thereto, subject to ordinary care by us in safeguarding the same until delivery can be made. You shall, at the time you move to Kendal at Lexington, designate the individual responsible for retrieving your property. After sixty (60) days, we have the right to dispose of all such property.

16. Arrangements in Case of Incapacity

You agree to make arrangements for the handling of your affairs in case of your incapacity and to notify us of the arrangements prior to the Occupancy Date. You agree to revise these arrangements as necessary to keep them current and to notify us of any changes as they occur.

If you become unable to care properly for your property and if you have made no other designation of a person or legal entity to serve as guardian, or trustee, or under power of attorney, then you hereby authorize us to nominate a person or entity to serve as legal guardian when approved by a court as provided by law.

17. Your Obligation to Us for Arrangements at Death

You agree to provide us with the following information prior to the Occupancy Date: name and address of the funeral director with whom you have made arrangements, the location of your will, the name and address of your lawyer and executor, the names and addresses of any banks, trust officers, etc., and information necessary to complete a death certificate, and whom to notify in case of death, including the person to whom your personal property is to be released.

18. Delegation by the Executive Director

It is understood that any authority or responsibility given by this Agreement to Kendal at Lexington's Executive Director may be delegated by him or her to any one or more members of our staff.

19. No Discrimination

Kendal at Lexington considers and admits residents without regard to race, color, sex, sexual orientation, religion, or national origin.

20. Possession of Firearms

In order to maintain a safe environment for Residents, visitors and employees, firearms will not be permitted on the premises of Kendal at Lexington.

21. Rules, Values and Practices Adopted by Us

Kendal at Lexington will operate in accordance with the *Statement of Values and Practices* published and adopted by The Kendal Corporation as it is currently written and as it may be revised in the future. By signing this Agreement, you acknowledge receipt of a copy of the Statement of Values and Practices. We reserve the right to adopt policies, procedures and rules regarding residency not inconsistent with the provisions of this Agreement, and you agree to abide by such policies, procedures and rules.

22. Procedure for Resolving Issues

It is our experience and our expectation that Residents and staff, working together in good spirit, generally will be able to resolve issues successfully and easily. Should there be an instance in which a problem is not resolved satisfactorily, residents are invited to ask assistance from the appropriate supervisor, department head, or area administrator, in that order. Residents may invite the participation of the Area Agency on Aging ombudsman, the name and address of which are on file in the office of the Executive Director. The Residents Association can also serve as an avenue for the discussion and resolution of issues. Should satisfactory resolution still not be achieved, the matter may be referred to the Executive Director of Kendal at Lexington. In deciding the issue, the Executive Director will review our policies and procedures with the

resident and any representative the resident chooses to include. Residents may present any information concerning the issue. The Executive Director will consult with appropriate staff or seek other input as necessary and, after considering all the information presented, shall make a decision.

Residents may request the Board of Directors to review the matter after the Executive Director's decision. The Board, or its designees, will review all relevant information, including any presented by the resident and decide whether to direct the Executive Director to reconsider the issue. The Board's recommendation will be final.

23. Guest Policies

No one other than you shall have a right of occupancy in a living accommodation without the consent of the Executive Director unless otherwise permitted pursuant to guest policies established by us. The intent of such policies shall be to permit stays of short duration by your guests where such stays shall not, in the opinion of the Executive Director, adversely affect the operation of the Community or be inconsistent with the welfare of Residents.

24. Changes Because of Regulatory Agencies

Notwithstanding any other provision of this Agreement, we shall have the right to alter your living accommodations to meet the requirements of law, the regulations of regulatory agencies, or other duly constituted authorities or agencies.

25. Residents Association

You shall have the right to be a member of a Residents Association.

26. Notices

Notices, when required by the terms of this Agreement, shall be sufficient if given to us at our administrative office and if to you at the address given below until you enter the Community, and thereafter at your Community address.

27. Entire Agreement

This Agreement constitutes the entire Agreement between us and includes the Priority List Agreement, the Resident Financial Statement, the Health Care Record, and the report of the physical examination by a Physician. These documents are hereby incorporated by reference. Knowing that we will rely on your statements made therein, you represent that all such statements are true and complete.

28. Non-transferability

Your rights and privileges under this Agreement are personal to you and cannot be transferred or assigned by your act, by any proceeding at law, or otherwise.

29. Modification of Agreement

No amendment or modification of this Agreement shall be valid unless in writing executed by both of us.

30. Enforcement

We shall have the right at all times to enforce the provisions of this Agreement in strict accordance with their terms, notwithstanding any conduct or custom on our part in refraining from doing so at any time or times.

31. Attorney's Fees

Resident shall pay all costs, litigation-related expenses, reasonable attorney's fees and consultants' fees incurred by the Community in the event Kendal, as plaintiff, defendant or otherwise, prevails in whole or in part against the Resident or any Responsible Party acting on Resident's behalf in any judicial or administrative action or suit arising under this Agreement or concerning any services or products supplied by Kendal. The provision for attorney's fees, expenses and costs shall be in addition to the remedies available to Kendal under the Agreement's other provisions.

32. Forum Selection Clause

By virtue of entering into this Agreement, Resident agrees and submits to a court of competent jurisdiction in our serving the County of Rockbridge, Virginia, and further agrees that this Agreement is to be construed as if executed and performed entirely within the Commonwealth of Virginia; and all claims, disputes, and other matters touching or concerning this contract or its performance shall be decided only by such court according to the laws of the Commonwealth of Virginia.

33. Savings Clause

Should any provision or portion of this Agreement violate Federal, state or local law as announced by statute, regulation, ordinance, ruling or judicial decision, it shall be deemed as stricken from this Agreement, with the remainder of this Agreement continuing in full force.

34. Smoking Policy

As part of Kendal at Lexington's wellness philosophy, smoking is permitted only in residential living accommodations, excluding the Benjamin Borden Health Center and the Webster Assisted Living Center. Smokers are charged a nonrefundable surcharge based on unit square footage to remove smoke odor and otherwise restore the apartment or cottage prior to re-occupancy.

Options

If you have agreed to purchase, at an additional price, optional products or services beyond those included in the Entry and Monthly Fees, please reference the **Upgrades to Apartments/Cottages Addendum**.

If the Residence and Care Agreement is rescinded or you terminate it prior to the Occupancy Date, then those costs incurred by us in providing those products or services will be deducted from any refund otherwise due to you or your legal representative.

Resident Signature: _____

Date: _____ Address of Resident: _____

Resident Signature: _____

Date: _____ Address of Resident: _____

Kendal at Lexington: _____ Date: _____

Executive Director or other authorized signature

Definitions

Activities of Daily Living (ADLs). A group of activities which are necessary for safe and comfortable living. Activities of daily living include dressing/grooming, bathing/personal hygiene, mobility/ambulation, bowel and bladder control, and eating/nutrition.

Assisted Living. A level of care and accommodations licensed by the Commonwealth of Virginia to provide assistance with activities of daily living to its residents.

First Occupant. One of the residents of a double occupancy residential accommodation or the sole resident of a single occupancy residential unit. In the case of double occupancy, if one resident leaves for any reason, the remaining resident is deemed the First Occupant.

Geriatric Nurse Practitioner. Kendal at Lexington will engage through employment or contract a geriatric nurse practitioner or other health care professional whose education and competencies are equal or superior to those of a geriatric nurse practitioner.

Health Center. Includes our Assisted Living Facility and our Nursing Facility on site.

Kendal at Lexington. A continuing care retirement community in Lexington, Virginia, owned and operated by Lexington Retirement Community, Inc. Kendal at Lexington is also a registered legal alias for Lexington Retirement Community, Inc.

Lexington Retirement Community, Inc. A tax exempt, not-for-profit Virginia corporation which owns and operates Kendal at Lexington.

Nursing Care Benefit Period. That period you have selected, either 60 days or 1 year, during which nursing care in Our Nursing Facility will be provided and you will continue to be responsible for your monthly fee.

Occupancy Date. The date specified in your Residence and Care Agreement or the date on which you first personally occupy your living accommodation, whichever first occurs.

Our Nursing Facility. The nursing facility located on the campus of Kendal at Lexington and owned and operated by Lexington Retirement Community, Inc.

Probationary Period. The first ninety (90) days following the Occupancy Date.

Resident Care Committee. The interdisciplinary team members involved with the resident's care.

Second Occupant. Any second occupant of a residential or assisted living unit, regardless of the relationship between the two residents. In the case of double occupancy, if one resident leaves, that resident is deemed the Second Occupant.

Total Entry Fee. The total of the First Occupant plus Second Occupant Entry Fees; the Entry Fee paid on or before the occupancy date as specified in this Agreement.

Your Physician. A licensed physician you have identified to us as your primary physician and who has agreed to abide by our rules and procedures.

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Revised 10/28/16

RESIDENCE AND CARE AGREEMENT

For Extensive Coverage of Continuing Care

Kendal at Lexington
160 Kendal Drive
Lexington, VA 24450
(540) 463-1910

This Residence and Care Agreement was accepted by the Virginia State Corporation Commission which has registered Kendal at Lexington as a continuing care retirement community, effective June 29, 1998. Interested parties should also refer to the Disclosure Statement and the Priority Reservation Agreement.

KENDAL AT LEXINGTON

RESIDENCE AND CARE AGREEMENT

Notice of Right to Rescind

Date Rescission Period Begins

You may rescind and terminate your Residence and Care Agreement, without penalty or forfeiture, within seven (7) days of the above date. You are not required to move into Kendal at Lexington before the expiration of this seven (7) day period. No other agreement or statement you sign shall constitute a waiver of your right to rescind your Agreement within the seven (7) day period.

To rescind your Residence and Care Agreement, mail or deliver a signed and dated copy of this notice, or any other dated written notice, letter or telegram, stating your desire to rescind to Kendal at Lexington, 160 Kendal Drive, Lexington, VA 24450 not later than midnight of _____.

Pursuant to this notice, I hereby cancel my Residence and Care Agreement.

Your Signature _____ Date _____

Co-Occupant _____ Date _____

KENDAL AT LEXINGTON

RESIDENCE AND CARE AGREEMENT

THIS AGREEMENT is made between _____, hereafter called the "Resident" and referred to by the words "you" and "your" (if husband and wife, or two other persons, are parties hereto the words "Resident," "you" and "your" shall apply to them jointly and severally, where the context permits) and Lexington Retirement Community, Inc., doing business as Kendal at Lexington, hereafter called the "Community," and referred to by the words "we," "us," and "our," which owns and operates Kendal at Lexington, in the city of Lexington and Rockbridge County, Virginia. The word "us" in "one of us", "both of us", "either of us", and similar phrases shall apply to you and to Kendal at Lexington jointly. The word "Co-occupants" shall refer to two individuals who enter into this Agreement.

Lexington Retirement Community, Inc. (LRC) is a not-for-profit Virginia corporation governed by a Board of Directors. No other organization has any financial responsibility for the Community

Lexington Retirement Community, Inc. is affiliated with The Kendal Corporation, a Pennsylvania not-for-profit corporation, through provisions in its Bylaws. Refer to the Kendal at Lexington Disclosure Statement for a full description of the relationship. Lexington Retirement Community, Inc., and The Kendal Corporation reserve the right to modify the relationship at any time, subject to necessary approvals by the Virginia State Corporation Commission.

Lexington Retirement Community, Inc. and you agree as follows:

1. Admission

With the execution of this Agreement by both of us, you are guaranteed admission to Kendal at Lexington in accordance with the provisions of this Agreement, regardless of any change in your state of health between the date of this Agreement and the Occupancy Date.

To be eligible to reside in independent living residences at Kendal at Lexington, prospective residents must be capable of living safely in a residential setting and must be able to demonstrate the availability of financial assets and income sufficient to support their residency at Kendal at Lexington. To be covered by the full Residence and Care Agreement, individual residents must be age 65 or older. In the case of a couple, at least one of the residents must be age 65 or older; Kendal at Lexington reserves unilateral discretion as to whether to extend the full coverage of the Residence and Care Agreement to a spouse who is younger than age 65.

1.1 Prospective Residents Under Age 65

If you would be younger than the age of 65 on the Occupancy Date for your residence, we may at our sole discretion admit you on one of the following two bases. If we accept you for admission, you and we will agree mutually on which basis applies.

1.1.1 Full Residency

We will admit you as a full resident of the community if you meet all criteria for admissions except for age. You will pay the full Entry and Monthly Fee for your residence. You shall enroll or maintain medical and surgical insurance that is at least equivalent to that referred to in Section [10.7](#).

1.1.2 Limited Residency Without Pre-Paid Health Care

If you would be under the age of sixty-five (65) on your Occupancy Date and are one of two people signing this Agreement and the other person is sixty-five (65) or older and if you meet all the criteria for admissions except age, we will grant you the right to occupy the living accommodation and a right to the services specified in this Agreement except for all the services described in Section [10](#). If we grant you the rights described in this section, you and the other person will pay a Monthly Fee equal to the double occupancy Monthly Fee for your residence. The person over age sixty-five (65) will pay the single occupancy Entry Fee.

1.1.2.1 Conversion to Full Residency

In addition to the Limited Residency provisions above, under separate Agreement upon your reaching the age of sixty-five (65), we will grant you the right to convert to full resident status, contingent on your paying the difference between the single occupancy Entry Fee and the double occupancy Entry Fee in effect upon your sixty-fifth (65th) birthday for the accommodation you then occupy.

2. Occupancy Date

The Occupancy Date for all purposes under this Agreement shall be _____ or the date on which you first personally occupy your living accommodation, whichever first occurs. Monthly fees will begin on the occupancy date.

3. Services Provided

From and after the Occupancy Date, we will furnish you the living accommodation identified in Section [4](#), and the facilities, services, and health care to the extent specified in this agreement, and you will become liable for payment of the Monthly Fee. These services will be provided for your life, unless this Agreement is terminated at some earlier date. We will provide you with at least sixty (60) days notice in advance of changes in the scope of care or services except for changes required by State or Federal assistance programs. We reserve the right to modify the scope of services provided.

4. Accommodation

The living accommodation you will occupy, subject to the provisions of this Agreement, is unit number _____ which is a _____.

5. Entry Fee

On or before the Occupancy Date, you will pay us an Entry Fee less a credit for the total of the Deposits you have already made. You have selected a (check one) _____2% Declining Entry Fee/ _____50% Refundable Entry Fee/ _____ 90% Refundable Entry Fee.

The amount of your Entry Fee is \$_____ for the First Occupant and \$_____ for the Second Occupant, \$_____ for the enclosed patio/balcony, \$_____for the unfinished/walkout basement, totaling \$_____ (“Total Entry Fee”). The Entry Fee Deposits plus other deposits (including priority list deposit) you have paid total \$_____. The balance of the Entry Fee is \$_____. The Total Entry Fee is due to us prior to or on the Occupancy date.

The computations of the above amounts are:

Total entry fee	_____
Less sum of all deposits	_____
Amount due on signing Agreement	_____
Amount of entry fee due on or before occupancy date	_____

6. Monthly Fee

From and after the Occupancy Date, you will pay us a Monthly Fee each month. The Monthly Fee for your accommodation will be \$_____ as of your Occupancy Date.

We will adjust the Monthly Fee from time to time on the basis of our experience or to reflect changes in the cost of achieving our purposes. We will give you at least thirty (30) days’ notice of monthly fee adjustments. We agree that, in the exercise of our discretion, which shall be binding on you, we will endeavor” to maintain the Monthly Fee at the lowest feasible figure which in the judgment of the Board of Directors of Lexington Retirement Community, Inc., is consistent with sound financial operation and the maintenance of the quality of service we have undertaken to provide.

7. Termination or Death Prior to the Occupancy Date

You may terminate this agreement at any time prior to the Occupancy Date by written notice of termination to us. This agreement will also be terminated by written notice of your death. In the event of death of one or both of you, your entry fee deposit will be fully refunded in accordance with Section 14.8 of this Agreement. Should you withdraw due to a change in health status through injury, illness, incapacity or inability to live independently, your entry fee deposit will be fully refunded in accordance with Section 14.8 of this Agreement. Should you withdraw for any other reason, your entry fee deposit will be refunded, less 2% of the lifecare entry fee for the residence you have reserved, in accordance with Section 14.8 of this Agreement. If this agreement is with two persons and terminated by the death of one, the applicable refund will be paid to the survivor.

8. Facilities Provided by Us

8.1 Living Accommodation

You have the right to occupy and use the living accommodation assigned subject to provisions for changes in accommodations as provided below. We will furnish wall-to-wall carpeting, basic window treatments, a washer and dryer and a stove, garbage disposal, microwave, dishwasher and refrigerator in the living accommodation. You shall provide all other furnishings.

Modifications to any living accommodation, other than those we undertake, will require the approval of the Executive Director and, if so approved, will be at your expense and will thereafter become our property. Approval of such modifications may be conditioned upon your payment to us of a sum sufficient to later restore the living accommodation to its condition before the modifications. The firm or individual retained to make such changes, and the plans for the changes, are subject to the approval of the Executive Director. All modifications will be performed in a workman-like manner, with all necessary approvals. We have the right to stop any work if it interferes with the normal operation of the community.

8.2 Community Facilities

You may use the dining rooms, lobbies, living room, library, social and recreational facilities (indoor and outdoor), and other common facilities provided by us.

8.3 Health Center

We will provide the facilities necessary for the medical care and services (other than hospital care) specified in this Agreement. In this Agreement, the term "Health Center" includes the Assisted Living Facility and our Nursing Facility.

8.4 Laundry Facilities

Washers and dryers for personal laundry are provided in all residences. A community laundry room available to all residents will be provided in the Assisted Living Facility.

8.5 Parking

We will provide and maintain open parking areas. A limited number of covered parking areas will be available to Residents for an additional charge.

9. General Services We Will Provide

9.1 Food and Meals

9.1.1 Meals Offered

Dining Service is available for three meals a day in our dining areas. You will be able to select your meals from nutritionally well-balanced menus. At any time you move from an apartment or cottage to the Health Center, your monthly fee will cover one meal per day. The additional two meals per day will be billed to you at the then current published rates.

9.1.2 Dining Points Meal Program

A monthly allocation of dining points will be provided for your use in our dining venues and store. The allocation will be provided at the beginning of each new month and you will be allowed to carry over only one month's allocation. Dining points are neither refundable nor transferable

During temporary stays in the Health Center, if you are receiving care covered by Medicare you will retain your current dining points. The allocation of dining points will cease with your permanent move/transfer to the Health Center.

9.1.3 Tray Service

When ordered by our geriatric nurse practitioner, tray service at the then current published fee will be provided while in the Assisted Living Facility and in your residence during minor short-term illness. Tray service if needed by a resident in the Nursing Facility will be provided at no extra charge.

9.1.4 Other Service

Meals comprising substitute or alternative diets will be provided when ordered by our geriatric nurse practitioner.

9.1.5 Meal Charges

A statement of dining charges will be provided with the monthly bill. Charges exceeding the monthly allocation (minus any carryover) will be added to your bill, according to the then current established rates. We reserve the right to change these rates from time to time. We will notify you in writing of changes in rates no less than thirty (30) days in advance of their effective date.

9.1.6 Carry Over of Dining Points

Unused dining points, not to exceed one month's allocation amount, may be carried over from month to month.

9.2 Housekeeping Services

You will maintain your living accommodation in a clean, sanitary, and orderly condition. We will furnish routine housecleaning service every other week. Twice a year we will provide seasonal heavy housecleaning. At your option and expense according to a published fee schedule, we will provide more frequent housecleaning. You may arrange for more frequent heavy housecleaning at your expense. At your option and expense according to a published fee schedule, we will provide and launder standard sized linens and towels. If you do not maintain your accommodation in a proper manner, we have the right, after notice to you, to clean the accommodation and to charge the cost of such housecleaning to you.

9.3 Maintenance and Repair Service

We will perform and provide repairs, maintenance, and replacement of property and equipment we own. Repairs, maintenance, and replacement of your personal property will be your responsibility. Redecoration of any living accommodation, in addition to or other than that scheduled by us, will require the approval of the Executive Director and will be at your expense. Any change or replacement by you of the property or equipment we provide in the living accommodation gives title thereto to us unless we agree otherwise in writing.

9.4 Groundskeeping

We will furnish basic groundskeeping care, including lawn service and snow removal. With our approval, you may elect to plant and then maintain a specific area adjacent to your living accommodation per established community guidelines.

9.5 Utilities

We will furnish water, electricity, heat and air conditioning, connections to a common television signal distribution point, sewage disposal and garbage and trash removal from collection points. Installation and maintenance of private telephone service is your responsibility.

9.6 Local Transportation

We will provide limited, scheduled local transportation for residents wherever the resident resides in the community. Out of town transportation may be provided at an additional fee if Kendal vehicles and staff are available. Staff members are not permitted to transport residents in their personal vehicles or in a resident's vehicle.

9.7 Taxes

We will pay all real estate taxes assessed to Kendal at Lexington. You will be responsible for your own personal property taxes.

10. Health Services

10.1 General

When recommended by our Resident Care Committee, we will furnish, or cause to be furnished, temporary or permanent assisted living services in our Assisted Living Facility or nursing care in our Nursing Facility, or if space is not available in our Health Center, in another facility until such space is available. Such services include assistance with activities of daily living or general nursing care, special diets and health services which regulations allow us to provide. The cost of such services, subject to the limitations set forth in Sections 10.2 to 10.8 will be paid by us. Your monthly fee will be adjusted in accordance with Section 12 of this agreement.

10.2 Use of Medical Practitioner and Other Facilities

At your own expense, you may engage the services of medical practitioners or utilize medical facilities other than those designated by us and suggested by our staff. You shall be liable for any expense resulting from such care including, but not limited to, the cost of any physician services, surgical, nursing or hospital care provided other than the care provided in our Health Center, except as noted in Section [10.1](#).

10.3 Hospitalization

When your physician determines that it has become necessary to hospitalize you, your physician shall have the authority to arrange for such hospitalization. If hospital space is not immediately available, we will continue to provide medical care to the extent of our capability. All costs, if any, associated with hospitalization and surgical services are your responsibility.

10.4 Physicians

We will make space available and establish routine hours for physicians to be available within the Community. You may visit the physicians on site or utilize any other physician you wish. You will be responsible for all costs resulting from physicians and any other medical practitioner. You will notify us of Your Physician choice and of any future changes.

10.5 Exclusions

In addition to the other costs to be paid by you under this section, you will be solely responsible for payment for all drugs, refractions, eye-glasses, contact lenses, hearing aids, dentistry, dentures, dental inlays, incontinence supplies, orthopedic appliances, podiatry, chiropractic services; nursing care services generally defined as subacute, or specialty care, such as (but not limited to) ventilator care or care for some types of communicable diseases that are beyond the

scope of our care, home health care, hospitalization; inpatient and outpatient surgical services, renal dialysis, treatment for alcohol or drug abuse, and diagnosis and therapy for psychiatric disorders. However, you may have coverage for many of these costs through your Medicare and secondary insurance plans.

10.6 Illness or Accident While Away from Kendal at Lexington

If you have an accident or are ill while you are away from Kendal at Lexington, we shall have no responsibility to pay for costs resulting from such accident or illness until you return to Kendal at Lexington. At that time, we shall assume our responsibility for health care services thereafter rendered as provided in this Agreement.

10.7 Medical and Surgical Insurance

10.7.1 Your Obligation to Carry Insurance

You agree to enroll in, and maintain and pay all applicable premiums, deductibles, co-pays or other costs associated with the following types of health insurances:

(1) that provided by the Federal Social Security Amendments of 1965 (commonly referred to as "Medicare A and B") or any successor plan, or equivalent plans, whether now or in the future ; and (2) a Medigap plan that complements Medicare Parts A and B in the following ways: pays the in-patient hospital deductible and hospital co-pays in full, and includes 365 additional days after Medicare benefits; and pays the co-insurance for skilled nursing facility; and pays the co-insurance for all Medicare Part B approved amounts.

or

(2) an approved Medicare Health Maintenance Organization (referred to as HMO) or other insurance as approved by the Community. If you choose to enroll in this type of insurance, this will replace Federal Medicare and the need to maintain a Medigap plan. You agree to pay for all services and related expenses not covered by your HMO plan, including prescription drugs, as well as all co-pays, deductibles and premiums. You agree to be financially responsible for any services rendered to you without the proper referral from the Community Physician or required prior authorization.

A list of criteria for HMO plans that have been approved by the Community will be maintained and available in Kendal's finance office. If the HMO plan in which you are enrolled is no longer approved by the Community, you must enroll in an alternate plan which meets the requirements of this section and such additional requirements as the Community may from time to time impose.

and

(3) at least standard coverage meeting the requirements of a Medicare Part D prescription drug plan or any successor thereto or actuarially equivalent standard coverage.

For 1, 2, and 3 of this section, you agree to enroll in, maintain and pay all applicable premiums, deductibles, co-pays and other costs associated with any successor insurance programs or program equivalents, whether private or government-sponsored, in the event that any programs described above in which you are an enrollee ceases, changes or fails to provide coverage at least substantially equivalent to coverage provided with the programs herein described.

If we permit you, in our sole discretion, to maintain insurance coverage that does not meet the above requirements (including an employer provided plan), or to forego obtaining any such required insurances, then, in addition to paying the above enumerated costs, you agree to pay the difference between the required benefit and benefit actually paid by your insurance, if any, or, if you have no insurance to cover a particular health care service (including prescription drugs), to pay all costs associated with your receipt of such health care. You are also financially responsible for any future changes in coverages which result in a difference between required benefit coverages and benefit coverages actually paid by your insurance.

Furthermore, should you fail to arrange for and maintain any of the required insurances, we may, in our sole discretion: make application on your behalf for any insurance coverage(s) required by this contract and to pay on your behalf premiums in connection with such insurance coverage(s) and to charge such cost to you; if you are unable or unwilling to obtain such insurance coverages, require you to pay a higher Monthly Fee than that charged residents who maintain such insurance; or charge you the full costs of all health care services you receive for which you do not have coverage, including but not limited to, medical, surgical, nursing and pharmacy services.

Any exception granted to you by us under this section is done solely at our discretion and is specific to you and your circumstances at the time the exception is granted. We retain the right to revoke any exception at any time upon notice to you. Where two persons sign this Agreement as Resident, we may, in our sole discretion, grant or revoke an exception to only one person

10.7.2 Our Option to Insure for Health Care Costs

We may, at our option, obtain insurance to cover our obligation to pay for the costs of your health care under this Agreement.

10.7.3 Our Right to Insurance Benefits

You hereby authorize us to make any and all claims for insurance benefits to which we are entitled under this Agreement and agree to execute any and all documents necessary to enable us to collect or enforce such claims. If for any reason we cannot directly apply for benefits payable under insurance required by this Agreement, you agree to make such application and to pay us the proceeds received.

10.8 Our Rights in Case of Injury Caused by Third Party

At the time you first occupy your residential unit, you hereby agree to grant a limited power of attorney to us, which power shall not be affected by your disability, at our election to make any claims or initiate legal action, if necessary, against any person who has caused injury to you for

compensation for the injury or expenses thereby caused. You agree to execute such further authorizations as shall be desirable to prosecute such claims or causes of action. In such event and at our election, we may sue on and enforce any cause of action for you, in your name or in our own name, for injury or damages so resulting.

After we have been reimbursed for all costs, expenses, and damages incurred by us (including reasonable costs of care we furnish to you because of such accident or injury), the balance of any amount recovered will be paid to you or credited to your account, or, in the event of your death, will be paid to your estate, or the persons entitled thereto. We may limit our election as provided above to claims for recovery of the costs and expenses incurred by us, and in such event, we shall not be obligated to assert any claim of yours arising out of such accident or injury beyond the expenses incurred by us.

11. Entry Fee

11.1 Amount

You pay the Entry Fee as a condition of entrance according to the type of living accommodation selected, and whether it is single or joint occupancy. If the Entry Fee has been paid on behalf of two persons, the Second Occupant Fee, listed in Section [5](#), shall be deemed to be paid on behalf of the individual who first withdraws or dies. The balance of the Entry Fee is then attributed to the remaining party and refunds will be calculated accordingly.

11.2 Use

The Entry Fee will be held in escrow, as required by law, prior to the Occupancy Date. After the Occupancy Date, we may use the Entry Fee and apply it to any proper corporate purpose, whether or not directly or indirectly related to this Agreement.

11.3 Increases in the Entry Fee

The Entry Fee paid by you will not be increased during the life of this Agreement except on transfer to a larger accommodation or on the entry of a spouse or other person not already a resident to share the accommodation with you pursuant to Section [11.4](#) below.

11.4 Admission of a Second Occupant who is not a Resident

If you wish to live with a person who is not a resident, this person may apply for admission as a Resident. If accepted for residency by us, your co-occupant will pay one half of the then current double occupancy Entry Fee for the accommodation you occupy, or the lowest single occupancy Entry Fee charged by us, whichever is less. On and after your co-occupant's Occupancy Date, you and your co-occupant will pay the double occupancy Monthly Fee for the accommodation you occupy.

If your co-occupant is not accepted as a Resident or does not apply for admission, we may grant your co-occupant the right to occupy your accommodation with you only for your lifetime and a right to the services specified in this agreement except for the services described in Section [10](#).

You and your co-occupant will pay the double occupancy Monthly Fee for the accommodation you occupy, but no additional Entry Fee.

12. Monthly Fee

12.1 General

We bill the Monthly Fee in advance and it is payable in advance by you. The Monthly Fee is based on the size of the living accommodation and the number of persons occupying the accommodation. If you transfer to a smaller residential living accommodation, except in the Health Center, the Monthly Fee is reduced to that for the smaller living accommodation.

If you are permanently transferred to the Health Center your Monthly Fee is the same as it would be if you had remained in your most recently occupied living accommodation, plus the charge for the two additional meals a day. If one of two persons signing this Agreement remains in the residential living accommodation while the other permanently moves to the Health Center, then you continue to pay the double occupancy Monthly Fee for the independent living accommodation plus the charge for the two additional meals a day. If two persons sign this Agreement, the Monthly Fee will be reduced to the single occupancy rate if one of the two dies or withdraws from the Community.

If you live permanently in our Nursing Facility and your care is qualified for and paid by Medicare, you will not be responsible to pay your usual monthly fee during any such periods. When you no longer qualify for Medicare benefits, you will resume paying your usual monthly fee.

12.2 Monthly Statement

We shall present you a detailed monthly statement including: (a) the Monthly Fee for the following month; (b) charges exceeding the monthly allocations of dining points (c) additional services rendered during the preceding month or not previously paid; and (d) any other amounts due us.

12.3 Payment of Monthly Charges

The Monthly Fee is due in advance, and it and all other charges appearing on the monthly statement shall be paid to us on or before the first day of the calendar month following the date of the statement. If you fail to make the payment within thirty (30) days after receiving the statement, we may give you written notice that you must make such payment within fifteen (15) days after receiving such notice, and if you fail to comply with such notice, we may terminate this Agreement.

12.4 Inability to Pay

12.4.1 Our Policy

Without in any way qualifying our right to terminate this Agreement, if the sole reason for non-payment of your financial obligations to us is insufficient funds, for reasons beyond your control, we will review the matter with you. If you present us with facts which, in our opinion, justify special financial consideration, at our sole discretion we may partly or wholly subsidize your Monthly Fee provided that such subsidy can be granted or continued without impairing our ability to attain our objectives while operating on a sound financial basis. All determinations we make concerning the granting or continuing of special financial consideration shall be final and binding on you, and any such determination shall be regarded as a confidential transaction between us, except for reports required to be made to financial institutions lending monies to us or to regulatory or other governmental bodies.

12.4.2 Your Responsibility

It shall be a condition of receiving a subsidy that you shall represent that you have not made any gift or other transfer of money or personal property in contemplation of the execution of this Agreement, or subsequently, which would impair your ability or your estate's ability to satisfy the financial obligations under this Agreement. If your income is found to be inadequate to meet your responsibilities to us and to pay personal and incidental expenses, you will make every effort to obtain assistance from available resources and, if you can qualify, to take the necessary steps to obtain County, State or Federal aid or assistance. If your Entry Fee or Monthly Fee is subsidized wholly or partly by us you may not make a gift of your property without our written consent. If your Monthly Fee or Entry Fee is subsidized wholly or partly by us, from time to time at our request, you will supply us with financial statements and copies of your tax returns.

12.4.3 Recovery of Community Subsidy

When you die or withdraw, if your Entry Fee or Monthly Fee has been subsidized wholly or partly by us, your estate, if any, shall be liable to us for the full amount of the subsidy for the entire time of residency. This subsection shall apply whether or not you are in residence at Kendal at Lexington at the time of death.

13. Changes in Living Accommodations

13.1 Policy on Changes

It is our policy to approve accommodation changes initiated by you for the following reasons only: health, financial, death of a spouse or other co-resident, and marriage. If you move from one accommodation to another you shall pay the applicable Monthly Fee for the new accommodation.

13.2 Change in Living Accommodation by Our Action

We may relocate you to another living accommodation of the same size at the same level of care if we determine that such a move should be made for your benefit, or for the proper operation of the Community.

13.3 Permanent Transfer to the Health Center

You may be transferred to the Health Center for health conditions which require permanent or prolonged occupancy of such quarters. The decision regarding such a transfer shall be made jointly by our Resident Care Committee in consultation with you and your physician. If you are a single occupant resident or the remaining survivor of two Co-occupants, you shall make arrangements to remove your personal belongings from the original living accommodation within thirty (30) days after it has been determined that the transfer will be of a permanent or prolonged nature. No Entry Fee refund or adjustment is due on such a transfer.

13.4 Transfer made by One of Two Residents Sharing a Living Accommodation

If one of two residents sharing a living accommodation is transferred to the Health Center, we will not require the remaining resident to move to smaller residence.

13.5 Transfer from Single to Joint Occupancy

13.5.1 Transfer into a Current Accommodation

If two residents occupying separate living accommodations request a transfer into one of the two accommodations, and if such transfer is approved by the Executive Director, then no additional Entry Fee payment or refund is due upon such transfer. Any subsequent refunds due to termination of this agreement will be based on the individual resident's original Entry Fee and Occupancy Date.

13.5.2 Transfer into a Larger Accommodation

If two residents occupying separate living accommodations request a transfer into a larger accommodation, and if such transfer is approved by the Executive Director, the residents will pay the Monthly Fee for double occupancy associated with the residence they move into. The amount of the Entry Fee owed shall be the difference between (a) the sum of the original Entry Fees paid by each resident less 2% per month since the original occupancy dates and (b) the double occupancy Entry Fee for the new residence, less 2% per month using the average length of occupancy of the two residents moving to the new unit. A change from single to joint occupancy does not change the original Occupancy Date of either resident, nor does it initiate a new probationary period.

13.6 Temporary Transfer to a Nursing Facility, Hospital or Other Facility

You may be transferred on a temporary basis to a specialized nursing facility, hospital or other facility. If, in the estimation of you and your physician, you will return to Kendal at Lexington,

we will reserve your room or apartment until you return. You will be responsible for the normal monthly charges as described under this Agreement during your absence, as well as the costs of the specialized care facility you are transferred to.

13.7 Permanent Transfer to Another Facility

You may be transferred to another facility for health conditions which are beyond the care that we can legally and competently provide in our Health Center and which require permanent occupancy in a health facility that can provide the care you need. The decision regarding such a transfer shall be made by our Resident Care Committee in consultation with you and your physician. If you are a single occupant resident or the remaining survivor of two Co-occupants, you shall make arrangements to remove your personal belongings from the original living accommodation within thirty (30) days after it has been determined that the transfer will be of a permanent or prolonged nature.

14. Termination of Agreement

14.1 By Death or Permanent Transfer to Another Facility

Unless sooner terminated by either of us, this Agreement shall terminate at your death or upon permanent transfer to another facility not provided for under this Agreement.

14.2 By You

At any time prior to the Occupancy Date, you may terminate this Agreement effective upon delivery of written notice to us. If you withdraw for any reason, except in the event of death, an inability to qualify financially, or the inability to qualify for independent living admission, two percent (2%) of the total entry fee will be retained by us.

At any time within ninety (90) days after the Occupancy Date, you may terminate this Agreement by delivery of written notice to us and surrender of the living accommodations, such termination to be effective upon such surrender. An entry fee refund will be made in accordance to Section 14.7.

At any time after the 90 day period, you may terminate this Agreement by delivery of written notice to us stating when the termination shall be effective, which shall not be more than one hundred and twenty (120) days or less than thirty (30) days after notice has been given. An entry fee refund will be made in accordance to Section 14.7.

14.3 By Us

We reserve the right to terminate this Agreement for just cause after consultation with you for any one or more of the following: proof that you are a danger to yourself or others; nonpayment of a monthly fee; repeated conduct that interferes with other residents' quiet enjoyment of the facility; persistent refusal to comply with reasonable written rules and regulations of the facility;

a material misrepresentation made intentionally or recklessly in your application for residency, or related materials, regarding information which, if accurately provided, would have resulted in either your failure to qualify for residency or a material increase in the cost of providing to the resident the care and services provided under the contract; or material breach by the resident of the terms and conditions of the continuing care contract. In such case, we shall serve upon you written notice of termination specified to be effective on a date not less than thirty (30) days, nor later than one hundred twenty (120) days after the date of notice.

However, should the notice recite that it is based upon a written medical finding by two doctors, one of whom is not an employee of or associated with us, that you are a danger to yourself or others, then the date for termination shall be fixed at a date which is reasonable in light of the circumstances. On or before the termination date in any such notice, you shall move from and release your living accommodation.

14.4 Monthly Fee

On or before the effective date of termination, you shall surrender your living accommodation. Your Monthly Fee shall cease upon the effective termination date determined in accordance with this section, provided the living accommodations have been surrendered; if not, the Monthly Fee shall continue until such surrender.

14.5 Release Upon Termination

Upon termination of this Agreement, we are released from any further obligations to you or your estate except for the delivery of personal property and the payment of any refund which may be due under Section [14.7](#). Upon termination of this Agreement, you or your estate are released from any further obligations to us except for our right to have any subsidies reimbursed pursuant to Section [12.4.3](#) and any other amounts due.

14.6 Effect of Termination Upon Survivor

If this Agreement is made with two persons, a termination of this Agreement as to one of those persons shall not affect the continuation of this Agreement as to the other. The surviving Resident shall have the option of: (a) retaining the same living accommodation with the Monthly Fee changed to the rate for single occupancy; or (b) moving to a smaller living accommodation on notice given within one year of the death or termination of the co-occupant and when available, and paying the Monthly Fee for single occupancy of the new living accommodation. Any adjustment to the Entry Fee is subject to the provisions of Section [14.7](#) of this Agreement.

14.7 Refunds of All or Part of the Entry Fee

On termination of this Agreement, we will make full or partial refund of the Entry Fee to you or to your estate only in accordance with the following provisions.

14.7.1 Termination by Death or Withdrawal from the Community

14.7.1.1 Prior to the Occupancy Date

You may terminate this agreement at any time prior to the Occupancy Date by written notice of termination to us. This agreement will also be terminated by written notice of your death. In the event of death of one or both of you, your entry fee deposit will be fully refunded in accordance with Section 14.8 of this Agreement. Should you withdraw due to a change in health status through injury, illness, incapacity or inability to live independently, your entry fee deposit will be fully refunded in accordance with Section 14.8 of this Agreement. Should you withdraw for any other reason, your entry fee deposit will be refunded, less 2% of the lifecare entry fee for the residence you have reserved, in accordance with Section 14.8 of this Agreement. If this agreement is with two persons and terminated by the death of one, the applicable refund will be paid to the survivor.

14.7.1.2 Termination by a Single Occupant or Both Co-Occupants After the Occupancy Date (One of the following two sections shall apply in accordance with your selection in Section [5](#).)

2% Declining Refund Plan

In the event of the death, withdrawal or permanent transfer to a facility not provided for under this agreement of a single-occupant Resident or both Co-occupants, a refund shall be made to you or your estate equal to the original Total Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Total Entry Fee for each month or fraction thereof since the Occupancy Date of, up to and including the month in which you have vacated the accommodation and turned it over for our use, pursuant to Section [14.8](#) below. Before calculating this refund, any refund already paid under [14.7.1.3](#) or [14.7.1.4](#) below will be deducted from this refund. After fifty (50) months, there is no refund.

50% or 90% Refund Plan

In the event of the death, withdrawal or permanent transfer to a facility not provided for under this agreement of a single-occupant Resident or both Co-occupants, a refund shall be made to you or your estate equal to the original Total Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Total Entry Fee for each month or fraction thereof since the Occupancy Date of, up to and including the month in which you have vacated the accommodation and turned it over for our use, pursuant to Section [14.8](#) below. Before calculating this refund, any refund already paid under [14.7.1.3](#) or [14.7.1.4](#) below will be deducted from this refund. The refund will not be less than either 50% or 90% of the Total Entry Fee, according to the plan you selected in Section [5](#) of this agreement.

14.7.1.3 Termination by One of Two Co-Occupants (one of the following two sections apply in accordance with your selection in Section [5](#).)

2% Declining Refund Plan

In the event of the death, withdrawal or permanent transfer to a nursing facility not provided for under this agreement of one of you, a refund equal to the Second Occupant's Entry Fee, less a

sum equal to two percent (2%) for each month or fraction thereof this Agreement has been in force, up to and including the month in which such death or withdrawal occurs, shall be paid to the remaining individual. After fifty (50) months, there is no refund.

50% or 90 % Refund Plan

In the event of the death, withdrawal or permanent transfer to a nursing facility not provided for under this agreement of one of you, a refund equal to the Second Occupant's Entry Fee, less a sum equal to two percent (2%) for each month or fraction thereof this Agreement has been in force, up to and including the month in which such death or withdrawal occurs, shall be paid to the remaining individual. The refund will not be less than either 50% or 90% of the Second Person Entry Fee you paid according to the plan you selected in Section 5 of this agreement.

14.7.1.4 Termination by Either of Us

If either of us terminates this Agreement prior to the Occupancy Date or during the first three months following the Occupancy Date (the Probationary Period), we shall make a full refund of the Entry Fee, or your share thereof, to you, payable at such time as is provided in Section 14.8 below.

14.7.1.5 Entry Fee Reduction Resulting from Transfer to a Smaller Residential Accommodation

A surviving or remaining Resident who moves to a smaller living accommodation shall not be obligated to pay any additional Entry Fee; however, one of the following three sections will apply in accordance with your selection in Section 5.

2% Declining Refund Plan

Should you move from a larger living accommodation to a smaller accommodation during the first fifty (50) months of occupancy, the amount due you is the excess, if any, of (a) over (b). Payment shall be made pursuant to Section 14.8 below. Should you move from a larger living accommodation to a smaller accommodation after fifty (50) months of occupancy, there is no refund of the Entry Fee.

- (a) The original Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.
- (b) The Entry Fee required for the smaller accommodation at the time of transfer less a sum equal to two percent (2%) per month of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.

50% Refund Plan

Should you move from a larger living accommodation to a smaller accommodation during the first twenty five (25) months of occupancy, the amount due to you is the excess, if any, of (a) over (b). Payment shall be made pursuant to Section 14.8 below. Should you move from a larger

living accommodation to a smaller accommodation after twenty five (25) months of occupancy, there is no refund of the Entry Fee.

- (a) The original Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.
- (b) The Entry Fee required for the smaller accommodation at the time of transfer less a sum equal to two percent (2%) per month of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.

90% Refund Plan

Should you move from a larger living accommodation to a smaller accommodation during the first five (5) months of occupancy, the amount due to you is the excess, if any, of (a) over (b). Payment shall be made pursuant to Section [14.8](#) below. Should you move from a larger living accommodation to a smaller accommodation after five (5) months of occupancy, there is no refund of the Entry Fee.

- (a) The original Entry Fee paid less a sum equal to two percent (2%) of the original amount of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.
- (b) The Entry Fee required for the smaller accommodation at the time of transfer less a sum equal to two percent (2%) per month of the Entry Fee for each month or fraction thereof since the Occupancy Date, up to and including the month in which the transfer occurs.

14.8 Time for Payment of Refunds before Occupancy or after the Living Accommodation has been Vacated

If you terminate this Agreement prior to the Occupancy Date, no refund of the Entry Fee shall be paid until we have received one or more Entry Fee payments from another prospective resident, for the same accommodation for which you had contracted, in a total amount which is at least equal to the refund to which you or your estate are entitled. When you terminate this Agreement after occupancy, no refund of the Entry Fee shall be paid until we have accepted and entered into a Residence and Care Agreement with a new Resident who has accepted the living accommodation you formerly occupied and who has paid the Total Entry Fee for that living accommodation.

When we terminate this Agreement, any refund of the Entry Fee shall be paid to you within thirty (30) days of the termination date, provided that all outstanding charges have been paid and your living accommodation has been vacated and you have removed your belongings from it.

14.9 Our Option to Insure for Entry Fee Refunds

We may, at our option, obtain insurance to cover our obligation to pay refunds of the Entrance Fee under this Agreement.

15. Rights and Obligations Concerning Property

15.1 Rights to Property

The rights and privileges granted to you by this Agreement do not include any right, title or interest in any part of the personal property, land, buildings, and improvements owned, leased, or administered by us. Nothing contained in this Agreement shall be construed to create the relationship of landlord and tenant between us. Your rights are primarily for services, with a right of occupancy subject to all the terms and conditions of this Agreement. Any rights, privileges, or benefits under this Agreement shall be subordinate to any mortgage on any of the premises or interest in our real property and to such reasonable rules and regulations on the use of all Community property as shall from time to time be adopted by us.

15.2 Right of Entry

You recognize and accept our right and responsibility to enter your living accommodation in order to carry out the purpose and intent of this Agreement. The purposes for which such entry may be made include but are not limited to (a) performance of scheduled housekeeping duties, (b) response to the medical alert system, (c) response to the fire alarm system, (d) if you are reported missing or as having not responded to a call, and (e) maintenance. We recognize your right to privacy and our responsibility to limit entry to your living accommodation to emergencies and to maintenance and housekeeping work as set forth in this section.

15.3 Responsibility for Damages

Any loss or damage to our property caused by your negligence shall be charged to and paid for by you. Similarly, if any negligence of another Resident results in injury, illness, or damage to you, we assume no responsibility therefore, and you hereby release and discharge us from all liability or responsibility for injury or damage to you or to your property caused by the fault or negligence of other Residents. You shall have the responsibility of providing at your own expense any liability insurance you desire to protect against any such loss.

15.4 Responsibility of Protection of Your Property

We shall not be responsible for the loss of any property belonging to you due to theft, fire, or any other cause. You shall have the responsibility, at your own expense, of providing any insurance you desire to protect against any such loss.

In the event of your death or if you are no longer able to occupy the living accommodation or fail to vacate after having been given notice to do so, we shall have the right, at your cost, to remove promptly all your property from the living accommodation and store the same. We shall be required to exercise only ordinary care to protect such property against theft or other loss while stored.

If the property is stored in a commercial warehouse, we shall have no responsibility for such property after storage has been accomplished (including costs of storage). In the case of your death, it shall be the obligation of your executor, representative, or next of kin to vacate the accommodation theretofore occupied by you, and remove any of your property previously stored by us, within thirty (30) days after your death, unless you reside in the Health Center. The accommodation shall be vacated within fourteen (14) days after your death if you reside in Assisted Living. Your monthly fee will continue to be assessed until all furniture and personal possessions are removed and the residence is surrendered to Kendal at Lexington.

We will hold such personal property for a period not to exceed thirty (30) days at the risk of your estate or of the persons entitled thereto, subject to ordinary care by us in safeguarding the same until delivery can be made. You shall, at the time you move to Kendal at Lexington, designate the individual responsible for retrieving your property. After sixty (60) days, we have the right to dispose of all such property.

16. Arrangements in Case of Incapacity

You agree to make arrangements for the handling of your affairs in case of your incapacity and to notify us of the arrangements prior to the Occupancy Date. You agree to revise these arrangements as necessary to keep them current and to notify us of any changes as they occur.

If you become unable to care properly for your property and if you have made no other designation of a person or legal entity to serve as guardian, or trustee, or under power of attorney, then you hereby authorize us to nominate a person or entity to serve as legal guardian when approved by a court as provided by law.

17. Your Obligation to Us for Arrangements at Death

You agree to provide us with the following information prior to the Occupancy Date: name and address of the funeral director with whom you have made arrangements, the location of your will, the name and address of your lawyer and executor, the names and addresses of any banks, trust officers, etc., and information necessary to complete a death certificate, and whom to notify in case of death, including the person to whom your personal property is to be released.

18. Delegation by the Executive Director

It is understood that any authority or responsibility given by this Agreement to Kendal at Lexington's Executive Director may be delegated by him or her to any one or more members of our staff.

19. No Discrimination

Kendal at Lexington considers and admits residents without regard to race, color, sex, sexual orientation, religion, or national origin.

20. Possession of Firearms

In order to maintain a safe environment for Residents, visitors and employees, firearms will not be permitted on the premises of Kendal at Lexington.

21. Rules, Values and Practices Adopted by Us

Kendal at Lexington will operate in accordance with the *Statement of Values and Practices* published and adopted by The Kendal Corporation as it is currently written and as it may be revised in the future. By signing this Agreement, you acknowledge receipt of a copy of the Statement of Values and Practices. We reserve the right to adopt policies, procedures and rules regarding residency not inconsistent with the provisions of this Agreement, and you agree to abide by such policies, procedures and rules.

22. Procedure for Resolving Issues

It is our experience and our expectation that Residents and staff, working together in good spirit, generally will be able to resolve issues successfully and easily. Should there be an instance in which a problem is not resolved satisfactorily, residents are invited to ask assistance from the appropriate supervisor, department head, or area administrator, in that order. Residents may invite the participation of the Area Agency on Aging ombudsman, the name and address of which are on file in the office of the Executive Director. The Residents Association can also serve as an avenue for the discussion and resolution of issues. Should satisfactory resolution still not be achieved, the matter may be referred to the Executive Director of Kendal at Lexington. In deciding the issue, the Executive Director will review our policies and procedures with the resident and any representative the resident chooses to include. Residents may present any information concerning the issue. The Executive Director will consult with appropriate staff or seek other input as necessary and, after considering all the information presented, shall make a decision.

Residents may request the Board of Directors to review the matter after the Executive Director's decision. The Board, or its designees, will review all relevant information, including any presented by the resident and decide whether to direct the Executive Director to reconsider the issue. The Board's recommendation will be final.

23. Guest Policies

No one other than you shall have a right of occupancy in a living accommodation without the consent of the Executive Director unless otherwise permitted pursuant to guest policies established by us. The intent of such policies shall be to permit stays of short duration by your guests where such stays shall not, in the opinion of the Executive Director, adversely affect the operation of the Community or be inconsistent with the welfare of Residents.

24. Changes Because of Regulatory Agencies

Notwithstanding any other provision of this Agreement, we shall have the right to alter your living accommodations to meet the requirements of law, the regulations of regulatory agencies, or other duly constituted authorities or agencies.

25. Residents Association

You shall have the right to be a member of a Residents Association.

26. Notices

Notices, when required by the terms of this Agreement, shall be sufficient if given to us at our administrative office and if to you at the address given below until you enter the Community, and thereafter at your Community address.

27. Entire Agreement

This Agreement constitutes the entire Agreement between us and includes the Priority List Agreement, the Resident Financial Statement, the Health Care Record, and the report of the physical examination by a Physician. These documents are hereby incorporated by reference. Knowing that we will rely on your statements made therein, you represent that all such statements are true and complete.

28. Non-transferability

Your rights and privileges under this Agreement are personal to you and cannot be transferred or assigned by your act, by any proceeding at law, or otherwise.

29. Modification of Agreement

No amendment or modification of this Agreement shall be valid unless in writing executed by both of us.

30. Enforcement

We shall have the right at all times to enforce the provisions of this Agreement in strict accordance with their terms, notwithstanding any conduct or custom on our part in refraining from doing so at any time or times.

31. Attorney's Fees

Resident shall pay all costs, litigation-related expenses, reasonable attorney's fees and consultants' fees incurred by the Community in the event Kendal, as plaintiff, defendant or otherwise, prevails in whole or in part against the Resident or any Responsible Party acting on Resident's behalf in any judicial or administrative action or suit arising under this Agreement or concerning any services or products supplied by Kendal. The provision for attorney's fees, expenses and costs shall be in addition to the remedies available to Kendal under the Agreement's other provisions.

32. Forum Selection Clause

By virtue of entering into this agreement, Resident agrees and submits to a court of competent jurisdiction in or serving the County of Rockbridge, Virginia, and further agrees that this Agreement is to be construed as if executed and performed entirely within the Commonwealth of Virginia; and all claims, disputes, and other matters touching or concerning this contract or its performance shall be decided only by such court according to the laws of the Commonwealth of Virginia.

33. Savings Clause

Should any provision or portion of this Agreement violate Federal, state, or local law as announced by statute, regulation, ordinance, ruling, or judicial decision, it shall be deemed as stricken from this Agreement, with the remainder of this Agreement continuing in full force.

34. Smoking Policy

As part of Kendal at Lexington's wellness philosophy, smoking is permitted only in residential living accommodations, excluding the Benjamin Borden Health Center and Webster Assisted Living Center. Smokers are charged a nonrefundable surcharge based on unit square footage to remove smoke odor and otherwise restore the apartment or cottage prior to re-occupancy.

Options

If you have agreed to purchase, at an additional price, optional products or services beyond those included in the Entry and Monthly Fees, please reference the **Upgrades to Apartments/Cottages Addendum**.

If the Residence and Care Agreement is rescinded or you terminate it prior to the Occupancy Date, then those costs incurred by us in providing those products or services will be deducted from any refund otherwise due to you or your legal representative.

Resident Signature: _____

Date: _____ Address of Resident: _____

Resident Signature: _____

Date: _____ Address of Resident: _____

Kendal at Lexington: _____ Date: _____
Executive Director or other authorized signature

Definitions

Activities of Daily Living (ADLs). A group of activities which are necessary for safe and comfortable living. Activities of daily living include dressing/grooming, bathing/personal hygiene, mobility/ambulation, bowel and bladder control, and eating/nutrition.

Assisted Living. A level of care and accommodations licensed by the Commonwealth of Virginia to provide assistance with activities of daily living to its residents.

First Occupant. One of the residents of a double occupancy residential accommodation or the sole resident of a single occupancy residential unit. In the case of double occupancy, if one resident leaves for any reason, the remaining resident is deemed the First Occupant.

Geriatric Nurse Practitioner. Kendal at Lexington will engage through employment or contract a geriatric nurse practitioner or other health care professional whose education and competencies are equal or superior to those of a geriatric nurse practitioner.

Health Center. Includes our Assisted Living Facility and Our Nursing Facility on site.

Kendal at Lexington. A continuing care retirement community in Lexington, Virginia, owned and operated by Lexington Retirement Community, Inc. Kendal at Lexington is also a registered legal alias for Lexington Retirement Community, Inc.

Lexington Retirement Community, Inc. A tax exempt, not-for-profit Virginia corporation which owns and operates Kendal at Lexington.

Occupancy Date. The date specified in your Residence and Care Agreement or the date on which you first personally occupy your living accommodation, whichever first occurs.

Our Nursing Facility. The nursing facility located on the campus of Kendal at Lexington is owned and operated by Lexington Retirement Community, Inc.

Probationary Period. The first ninety (90) days following the Occupancy Date.

Resident Care Committee. The interdisciplinary team members involved with the resident's care.

Second Occupant. Any second occupant of a residential or assisted living unit, regardless of the relationship between the two residents. In the case of double occupancy, if one resident leaves, that resident is deemed the Second Occupant.

Total Entry Fee. The total of the First Occupant plus Second Occupant Entry Fees; the Entry Fee paid on or before the occupancy date as specified in this Agreement.

Your Physician. A licensed physician you have identified to us as your primary physician and who has agreed to abide by our rules and procedures.

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Kendal at Lexington
Upgrades to Apartments/Cottages
Addendum to Resident Care Agreement

Name:

Apt/cottage #:

Requested upgrades to be paid by depositor:

Description	Estimate (pass-through costs*)
-------------	--------------------------------

Upgrades to be paid by Kendal at Lexington:

Incentives and standard upgrades

Approved by Marketing Director: _____ Date: _____

Approved by Director of Operations: _____ Date: _____

Approved by Finance Manager: _____ Date: _____

Approved by Executive Director: _____ Date: _____

Depositor agrees to pay for the cost of requested upgrades not covered by Kendal at Lexington. Payment will be in addition to any reservation deposit and no refund will be given after work has begun or materials have been purchased. If depositor decides to withdraw

the reservation agreement, payment must be made or the cost of the requested upgrades will be deducted from any reservation deposit.

***Pass-Through Costs:** Where applicable, Kendal at Lexington has collected estimates from outside contractors. Please keep in mind that these are “estimates”. The full actual cost of the work is the responsibility of the resident(s).

Replacement: Resident(s) are responsible for the full cost of replacement parts of non-standard upgrades. If non-standard items (such as stainless steel appliances) need to be replaced, then Kendal will replace with a standard item. The cost for upgraded items is the responsibility of resident(s).

Depositor: _____ Date: _____

Depositor: _____ Date: _____

Attachment 2 - Certified Financial Statements

**LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
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INDEPENDENT AUDITORS' REPORT

Audit and Oversight Committee
Lexington Retirement Community, Inc.
(d/b/a Kendal at Lexington)
Lexington, Virginia

Report on Financial Statements

We have audited the accompanying financial statements of Lexington Retirement Community, Inc. (d/b/a Kendal at Lexington), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Audit and Oversight Committee
Lexington Retirement Community, Inc.
(d/b/a Kendal at Lexington)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lexington Retirement Community, Inc. (d/b/a Kendal at Lexington) as of December 31, 2016 and 2015, and the results of its operations, changes in net assets (deficit), and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Lexington Retirement Community, Inc. adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest rate method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Plymouth Meeting, PA
April 20, 2017

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 886,720	\$ 529,335
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$224,052 in 2016 and \$232,705 in 2015	659,673	638,500
Contributions Receivable and Other	149,745	10,000
Entry Fee Receivable	646,850	1,296,375
Prepaid Expenses and Other	270,131	237,213
Current Portion of Assets Limited as to Use	265,740	1,546,300
Total Current Assets	2,878,859	4,257,723
INVESTMENTS	16,286,119	14,886,536
ASSETS LIMITED AS TO USE		
By Trustee under Bond Indenture	2,052,246	4,050,755
By Board	804,560	763,654
Escrowed Deposits	359,300	152,500
By Donors	1,461,659	1,085,341
Total	4,677,765	6,052,250
Less: Current Portion of Assets Limited as to Use	(265,740)	(1,546,300)
Total Assets Limited as to Use	4,412,025	4,505,950
PROPERTY AND EQUIPMENT		
Land	824,971	824,971
Buildings and Improvements	52,592,737	52,070,524
Equipment and Furniture	3,940,918	3,879,139
Construction In Progress	1,361,598	350,826
Total	58,720,224	57,125,460
Less: Accumulated Depreciation	(21,963,136)	(20,029,014)
Property and Equipment, Net	36,757,088	37,096,446
OTHER ASSETS		
Contributions Receivable	327,455	-
Deferred Marketing Costs, Net of Accumulated Amortization of \$466,718 in 2016 and \$413,882 in 2015	181,209	220,188
Insurance Deposits	317,642	311,440
Beneficial Interest in Charitable Remainder Unitrust Receivable	17,075	14,616
Total Other Assets	843,381	546,244
Total Assets	\$ 61,177,472	\$ 61,292,899

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 20,000	\$ 710,000
Accounts Payable and Accrued Expenses	888,104	771,337
Accrued Interest Payable	245,740	836,300
Due to The Kendal Corporation	5,691	22,158
Entry Fee Refund Payable	-	18,990
Total Current Liabilities	<u>1,159,535</u>	<u>2,358,785</u>
 LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	29,373,992	29,350,115
Deferred Entrance Fee Revenue	27,747,967	27,928,828
Refundable Contract Obligations	479,520	479,520
Entry Fee Deposits	359,300	152,500
Total Long-Term Liabilities	<u>57,960,779</u>	<u>57,910,963</u>
Total Liabilities	59,120,314	60,269,748
 NET ASSETS (DEFICIT)		
Unrestricted	(693,337)	(840,460)
Unrestricted-Board Designated	804,560	763,654
Total Unrestricted	<u>111,223</u>	<u>(76,806)</u>
Temporarily Restricted	1,661,581	820,675
Permanently Restricted	284,354	279,282
Total Net Assets	<u>2,057,158</u>	<u>1,023,151</u>
Total Liabilities and Net Assets	<u>\$ 61,177,472</u>	<u>\$ 61,292,899</u>

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUE		
Net Residential Services Revenue	\$ 6,214,462	\$ 5,866,717
Health Center Fees	6,028,891	6,117,878
Amortization of Deferred Entry Fees	2,564,493	2,746,629
Investment Income	724,141	635,642
Contributions	260	520
Other Income	327,577	346,109
Net Assets Released from Restrictions	35,762	33,312
Total Revenue	15,895,586	15,746,807
OPERATING EXPENSES		
General and Administrative	1,694,217	1,511,442
Housekeeping and Laundry	307,752	302,601
Maintenance	885,276	784,447
Food Service	1,558,567	1,492,551
Health Service	3,983,597	3,951,838
Employee Benefits	1,363,838	1,173,290
Utilities	609,644	619,382
Real Estate Taxes	216,582	204,236
Affiliation and Service Fee	489,359	479,904
Interest Expense	1,666,798	1,739,752
Depreciation and Amortization	2,031,438	1,976,227
Provision for Bad Debt Expense	15,815	177,457
Total Operating Expenses	14,822,883	14,413,127
INCOME FROM OPERATIONS	1,072,703	1,333,680
NON-OPERATING LOSS		
Loss on Extinguishment of Long-Term Debt	(979,159)	-
Loss on Disposal of Property and Equipment	(9,702)	(3,816)
Total Non-Operating Loss	(988,861)	(3,816)
EXCESS OF REVENUE OVER EXPENSES	\$ 83,842	\$ 1,329,864

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET DEFICIT		
Excess of Revenue Over Expenses	\$ 83,842	\$ 1,329,864
Unrealized Gain (Loss) on Investments	101,426	(422,684)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	<u>2,761</u>	<u>35,722</u>
Increase in Unrestricted Net Assets	188,029	942,902
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	828,217	161,724
Investment Income	48,753	10,734
Change in the Beneficial Interest in Charitable Remainder Unitrust Receivable	2,459	(130)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	(2,761)	(35,722)
Net Assets Released from Restrictions Used for Operations	<u>(35,762)</u>	<u>(33,312)</u>
Increase in Temporarily Restricted Net Assets	840,906	103,294
PERMANENTLY RESTRICTED NET ASSET CONTRIBUTIONS	<u>5,072</u>	<u>1,232</u>
INCREASE IN NET ASSETS	1,034,007	1,047,428
Net Assets (Deficit) - Beginning of Year	<u>1,023,151</u>	<u>(24,277)</u>
NET ASSETS - END OF YEAR	<u><u>\$ 2,057,158</u></u>	<u><u>\$ 1,023,151</u></u>

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 1,034,007	\$ 1,047,428
Adjustments to Reconcile Increase in Net Assets to Cash Flows Provided by Operating Activities:		
Loss on Disposals of Property and Equipment	9,702	3,816
Restricted Contributions	(5,072)	(1,232)
Unrealized and Realized (Gain) Loss on Investments and Assets Limited As to Use	(407,564)	148,705
Depreciation and Amortization of Deferred Marketing Costs	2,031,438	1,976,227
Amortization of Deferred Financing Costs	38,520	51,360
Loss on Extinguishment of Debt	979,159	-
Entry Fee Amortization	(2,564,493)	(2,746,629)
Deferred Entry Fees Received	3,220,967	3,019,220
Amortization of Original Issue Discount	11,844	15,792
(Increase) Decrease in:		
Accounts Receivables, Net	(21,173)	50,128
Contributions Receivable and Other	(469,659)	130
Prepaid Expenses and Other	(32,918)	(50,443)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	116,767	203,603
Accrued Interest Payable	(1,023,197)	(18,900)
Due to Kendal Corporation	(16,467)	11,171
Net Cash Provided by Operating Activities	2,901,861	3,710,376
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,648,946)	(1,299,219)
Outlay for Deferred Marketing Costs	(13,857)	-
Net Purchases of Investments	(992,019)	(1,658,205)
Deposit of Self Insurance	(6,202)	(44,627)
Decrease in Assets Limited As to Use	1,374,485	112,240
Net Cash Used by Investing Activities	(1,286,539)	(2,889,811)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted Contributions	5,072	1,232
Payments for Debt Issuance Costs	(581,798)	-
Proceeds from Issuance of Debt	29,975,790	-
Repayment of Long-Term Debt	(30,657,001)	(675,000)
Net Cash Used by Financing Activities	(1,257,937)	(673,768)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	357,385	146,797
Cash and Cash Equivalents - Beginning of Year	529,335	382,538
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 886,720	\$ 529,335

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lexington Retirement Community, Inc. ("LRC") or (the "Corporation") was formed March 16, 1995 as a Virginia non-stock corporation for the purpose of establishing, maintaining, operating, and managing a continuing care retirement community in Lexington, Virginia. LRC is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Effective March 11, 1997, LRC amended its bylaws for the purpose of affiliating with The Kendal Corporation, a Pennsylvania nonprofit organization. Certain activities of LRC require the approval of The Kendal Corporation. The amended bylaws specify the composition of LRC's Board of Directors and create authority for a residents' association. LRC has registered the trade name "*Kendal at Lexington*" with the Commonwealth of Virginia.

In July 2000, LRC commenced operations. LRC consists of 120 independent living residences in cottages, cottage clusters, and apartments, plus an assisted living facility for 20 residents.

Effective September 6, 2001, LRC became the sole member of Lexington Health Investors, LLC (LHI). LHI was a Virginia limited liability company whose purpose was to operate a 60 bed nursing facility on approximately 2 acres of land, which was transferred by LRC. LHI was exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. LHI financed the construction of the facility, which began in September 2001 and was completed in September 2002, through a loan from a local hospital as well as a tax-exempt bond issue. LRC was the sole member of LHI. On December 31, 2009, LHI dissolved and all assets, liabilities, and net assets were transferred to LRC.

Use of Estimates

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

Cash and Cash Equivalents

The Corporation considers cash and cash equivalents to include all highly liquid investments with maturities of three months or less.

Allowance for Doubtful Accounts

The Corporation provides an allowance for uncollectible accounts using management's estimate about the collectibility of past due accounts. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. Accounts past due more than 30 days are individually analyzed for collectibility. When all collection efforts have been exhausted, the accounts are written off against the related allowance. Management believes that the allowance for doubtful accounts is adequate to provide for estimated uncollectible accounts associated with the accounts receivable balances.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Entry Fee Receivable

Entry fee receivable represents entrance fees that are deferred for up to 12 months after a resident occupies a unit. The receivable is expected to be collected during the next twelve months and is, therefore, categorized as a current asset as of December 31, 2016 and 2015. Management determined that no allowance is necessary on the entry fee receivable.

Investments

Investments are comprised primarily of mutual funds, equity securities and debt securities and are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income, including interest and dividends, declines in market value deemed to be other than temporary and earnings on trustee held funds, are reported as investment income and included in the deficiency of revenue over expenses. The cost of substantially all securities sold is based on the specific identification method. Unrealized gains are excluded from the excess of revenue over expenses.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the risk associated with certain investments, it is reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under bond indenture agreements, escrowed deposits, and certain donor restricted assets. In addition, unrestricted resources designated by the Corporation's Board for the Fellowship Fund and Employee Education Fund are reported as assets limited as to use. Assets limited as to use are carried at fair value. Certain amounts required for obligations classified as current liabilities are reported in current assets.

The Corporation's Board has designated a portion of cash and investments for specific purposes, which include future capital replacements and repairs, fellowship assistance, refunds of deposits from prospective residents, and other general purposes. The Corporation's Board retains control of these assets and may at its discretion subsequently use the funds for other purposes.

Concentration of Credit Risk

The Corporation maintains its cash accounts at commercial banks. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in the bank may exceed FDIC insurable limits. The funds on deposit in brokerage accounts are insured by the SIPC up to \$500,000.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Property and Equipment

The Corporation capitalizes all expenditures for property and equipment with costs over \$1,000 and an estimated life greater than one year. The cost of maintenance and repairs are charged against operations as incurred. Property and equipment is stated at cost or at fair value at the date of donation. Depreciation of office furniture and equipment is computed using the straight-line method over estimated useful lives ranging from three to twenty years. Buildings and improvements are depreciated on a straight-line basis over three to forty years. Depreciation expense was \$1,978,602 and \$1,923,391 for the years ended December 31, 2016 and 2015, respectively.

Deferred Marketing Costs

Direct marketing costs of acquiring initial continuing care contracts, including an allocable marketing portion of the costs incurred under the development and marketing contract with The Kendal Corporation, are capitalized. These costs are amortized over the average estimated life expectancy of the initial residents (twelve years) beginning at the date of initial occupancy. Amortization expense was \$52,836 for both of the years ended December 31, 2016 and 2015.

Net Assets (Deficit)

The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted (subject to donor or time restrictions), and permanently restricted (principal maintained in perpetuity).

Temporarily restricted net assets are net assets whose use has been limited by donors to a specific purpose. These amounts are principally restricted to resident care and for acquisition or construction of property and equipment. Gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets (deficit) as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Deferred Entrance Fee Revenue

Non-refundable entry fees paid by residents pursuant to a continuing care contract are recorded as deferred revenue and amortized into operating revenue over the actuarially determined life expectancy of each resident or couple, adjusted annually. Upon death of a sole surviving resident, any remaining unamortized portion of the entry fee is recognized as revenue.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Deferred Entrance Fee Revenue (Continued)

A resident may terminate their contract at any time during the first 90 days, without notice. After that, 30 days' notice is required. In both instances, the paid entry fee is decreased by 2% per month. Amounts refundable are equal to the original fee paid less 2% for each month of occupancy. At December 31, 2016 and 2015, the portion of deferred entry fee revenue subject to such refund provisions amounted to approximately \$6,828,000 and \$7,291,000, respectively.

Other contracts include a 50% and a 90% refundable option upon the death of the resident or upon termination by the resident. Refunds are payable once the resident's unit is reoccupied. Refundable amounts under these contracts are not amortized to revenue.

Obligation to Provide Future Services

The Corporation annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred entry fee revenue. If the present value of the net cost of future services and the use of facilities exceeds the deferred entry fee revenue, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5.5% in 2016 and 2015, based on the expected long-term rate of return on investments. Increases or decreases in the obligation are charged or credited to operations, respectively. This calculation did not result in a liability as of December 31, 2016 and 2015.

Charitable Gift Annuities

The Corporation receives assets from donors under gift annuity agreements in exchange for a promise to pay a fixed amount during the annuitant's or specified beneficiary's life. Assets received are recorded at fair value, and a liability is recognized for the present value of future cash flows expected to be paid to the donor. Contribution revenue is recognized for the difference between these amounts. Adjustments to the annuity liability are made annually to reflect changes in the discount rate and the life expectancies of the donors. As of December 31, 2016 and 2015, the Corporation was not the beneficiary of charitable gift annuities.

Charitable Remainder Unitrust

The Corporation is the beneficiary of one charitable remainder unitrust. Each year the trustees pay the recipients during the recipient's life an annuity amount. Upon the death of the recipient, the trustee will distribute the principal and income of the trust. The trust requires the Corporation to use the principal and income for a specified purpose.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Excess of Revenues over Expenses

The statement of operations and changes in net assets (deficit) include the excess of revenues over expenses which represent all unrestricted revenues and expenses with the exception of other changes in unrestricted net deficit. Other changes in unrestricted net assets include unrealized gains (losses) on investments and net assets released from restrictions used for purchase of property and equipment.

Net Residential Services Revenue

Residential services revenue is recorded at established rates with vacancies and absence allowances deducted to arrive at net residential services revenue. Monthly residential occupancy fees are recognized as revenue in the month of assessment.

Health Care Services Revenue

Health care services rendered to Medicare and Medicaid program beneficiaries are reimbursed at prospectively determined rates. The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by Medicare and Medicaid.

Health care services revenue is reported at net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The Corporation's health service revenues from the Medicare and Medicaid programs, as a percent of total health service revenues, were approximately 29% and 26% for the year ended December 31, 2016 and 29% and 24% for the year ended December 31, 2015, respectively.

Professional Liability Insurance

The Corporation's professional liability insurance is on the claims made basis.

Income Taxes

The Corporation has been granted exempt status relative to federal and state corporate income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. The Corporation follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard has no impact on the Corporation's financial statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Change in Accounting Policies

The Corporation has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record amortization as a component of interest expense. The effect of adopting the new standard eliminated the separate presentation of debt issuance costs as an asset. The adoption of the standard has no effect on previously reported net assets. The ASU is retrospectively applied. The Corporation has elected to adopt this change in accounting principle as of January 1, 2015.

During the year ended December 31, 2016, the Corporation adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized costs, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Corporation has omitted this disclosure for the years ended December 31, 2016 and 2015. The adoption of this provision did not have an impact on the Corporation's financial position or results of operations.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through April 20, 2017, the date the financial statements were issued.

NOTE 2 RELATED PARTY TRANSACTIONS

The Corporation is affiliated with The Kendal Corporation, a not-for-profit Pennsylvania corporation, through bylaws and the signing of an *Agreement Between The Kendal Corporation and its Affiliates: Mutual Expectations, System Services, and Financial Understandings*. The agreement calls for the Corporation to pay The Kendal Corporation a "System Fee." The System Fee has three components: a Base System Fee, a Contingency Reserve, and a System Growth Fund Reserve.

The Kendal Corporation must approve the selection of new board members of the Corporation, amendments to the articles of incorporation, and specific sections of the bylaws of the Corporation, as well as, the incurrence of debt of specified value; changes in corporate purpose; use of the name "Kendal"; the substance of resident contracts; and the purchase, sale, lease, or other disposition of any real estate or improvements thereon of a specific value; and dissolution, merger with another entity, division, or acquiring control of another entity.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 RELATED PARTY TRANSACTIONS (CONTINUED)

The Base System Fee is calculated based on budgeted expenses less the System Fee itself, with a minimum fee payment for expenses less than five million, and a percentage for expenses between five million and fifteen million (3%), fifteen million to twenty-five million (2.8%), and over twenty-five million (2.5%).

The Contingency Reserve and System Growth Fund Reserve are each 0.25% of budgeted operating expenses, less the System Fee itself. Each of the reserves has a specific target the Corporation will pay. When the target is met, the System Fee will be decreased accordingly. Kendal at Lexington met the target for the System Growth Fund Reserve in 2013. For the years ended December 31, 2016 and 2015, the Corporation paid a total of \$489,359 and \$479,904, respectively, under the terms of this agreement.

The Corporation bylaws also specify that the President of The Kendal Corporation, or his/her designee, shall be entitled to attend and speak at all board meetings, but shall not otherwise be part of the consensus.

NOTE 3 ENTRY FEE DEPOSITS

As of December 31, 2016 and 2015, some prospective residents have paid an entry fee deposit, signed a Residency Agreement, and selected a unit. These deposits (which are refundable if the prospective resident does not move in) are held in escrow and are reflected in the financial statements as assets limited as to use. Under the terms of the escrow agreement, interest on these deposits is the property of the Corporation and is recorded as investment income by the Corporation when earned. Upon individual occupancies, deposits will be released from escrow and recorded as deferred entry fee revenue on the balance sheets.

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments, recorded at fair value, are summarized by type of investment as follows:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	\$ 3,863,617	\$ 3,863,617	\$ 3,506,843	\$ 3,506,843
Mutual Funds	12,422,001	12,017,766	9,839,135	9,539,209
U.S. Government Securities	-	-	581,485	582,605
Corporate Bonds	-	-	462,274	470,376
Equities	501	516	496,799	447,198
Total	<u>\$ 16,286,119</u>	<u>\$ 15,881,899</u>	<u>\$ 14,886,536</u>	<u>\$ 14,546,231</u>

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Assets limited as to use, recorded at fair value, are summarized by type of investment as follows:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	\$ 2,411,546	\$ 2,411,546	\$ 4,508,094	\$ 4,508,094
Mutual Funds	2,266,219	2,266,219	1,544,156	1,544,156
Total	<u>\$ 4,677,765</u>	<u>\$ 4,677,765</u>	<u>\$ 6,052,250</u>	<u>\$ 6,052,250</u>

The composition of assets limited as to use is as follows:

	2016	2015
Held by Trustee for Debt Service Reserve	\$ 2,038,838	\$ 2,429,014
Held by Trustee for Bond Principal and Interest	13,408	1,621,741
Board-Designated Funds	804,560	763,654
Escrowed Deposits for Entry Fees	359,300	152,500
By Donors	1,461,659	1,085,341
Total	<u>\$ 4,677,765</u>	<u>\$ 6,052,250</u>

Investment income from investments and assets limited as to use is as follows:

	2016	2015
Unrestricted:		
Dividends and Interest Income, Net of Fees	\$ 438,683	\$ 352,479
Net Realized Gains on Investments	285,458	283,163
Total	<u>\$ 724,141</u>	<u>\$ 635,642</u>
Net Unrealized Gain (Loss) on Investments	<u>\$ 101,426</u>	<u>\$ (422,684)</u>
Temporarily Restricted:		
Dividends and Interest Income, Net of fees	\$ 28,073	\$ 19,918
Net Realized Gain on Investments	11,523	78,976
Net Unrealized Gain (Loss) on Investments	9,157	(88,160)
Total	<u>\$ 48,753</u>	<u>\$ 10,734</u>

The Corporation performs due diligence on the valuation of their investments. The Corporation reviews its portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Management considers in this evaluation factors such as general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of its investment advisors, and the length of time and extent to which the market value has been less than cost, and the ability and intent of the Corporation to hold investments in the long term.

For the years ended December 31, 2016 and 2015 management does not believe that the declines in the market value of investments are considered other-than-temporary.

LEXINGTON RETIREMENT COMMUNITY, INC.
(D/B/A KENDAL AT LEXINGTON)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

	<u>2016</u>	<u>2015</u>
Health Centers Renovations	\$ 369,422	\$ -
Contributions Receivable	484,275	14,616
Resident Financial Assistance (Fellowship Fund)	779,659	703,948
Other	28,225	102,111
Total	<u>\$ 1,661,581</u>	<u>\$ 820,675</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the investments be maintained in perpetuity. The income from the investments is expendable to support the Fellowship Fund and Employee Education and Development Fund of the Corporation.

Interpretation of Relevant Law

The Commonwealth of Virginia adopted the Uniform Prudent Management of Institutional Funds Act (the Act) effective during 2008. The board of directors of the Corporation has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, the Corporation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Corporation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Corporation
- The investment policy of the Corporation

LEXINGTON RETIREMENT COMMUNITY, INC.
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NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

The following were the changes in the endowment net assets for the years ended December 31, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2014	\$ -	\$ 86,236	\$ 278,050	\$ 364,286
Contributions	-	-	1,232	1,232
Investment Income, Net of Fees	-	7,087	-	7,087
Net Appreciation Realized and Unrealized Losses, Net	<u>-</u>	<u>(3,268)</u>	<u>-</u>	<u>(3,268)</u>
Endowment Net Assets, December 31, 2015	-	90,055	279,282	369,337
Contributions	-	-	5,072	5,072
Investment Income, Net of Fees	-	8,570	-	8,570
Net Appreciation Realized and Unrealized Gains, Net	<u>-</u>	<u>6,347</u>	<u>-</u>	<u>6,347</u>
Endowment Net Assets, December 31, 2016	<u>\$ -</u>	<u>\$ 104,972</u>	<u>\$ 284,354</u>	<u>\$ 389,326</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Corporation to retain as a fund of perpetual duration. As of December 31, 2016 and 2015, there were no deficiencies of this nature that are reported in unrestricted net assets.

Other Policies

The Corporation has established guidelines for accepting, investing, managing and using endowments, both restricted and endowments created by donors or unrestricted quasi-endowments created by the Board of Directors. Once the requirements are met to establish an endowment, a portion of the endowment principal is deemed expendable for spending. Up to 5% of the three-year rolling average market value for the three years prior to the year prior to the budgetary year shall be deemed expendable. Any funds not expended in that year, may be carried over for future use or returned to principal.

LEXINGTON RETIREMENT COMMUNITY, INC.
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NOTE 6 CONSTRUCTION IN PROGRESS

Kendal at Lexington is in the process of renovating both the Webster Assisted Living Center and the Benjamin Borden Health Center and expanding the number of residential living units. As of December 31, 2016, \$1,101,728 has been incurred for the master plan, pre-construction costs, schematic design and design development.

The Corporation is in the process of a land exchange of approximately 12 acres of bordering buildable farmland. Kendal will receive \$24,000 in addition to the land from the exchange. Included in Construction in Progress is \$13,167 of costs incurred through December 31, 2016. The exchange is expected to be finalized in the second quarter of 2017.

NOTE 7 LONG-TERM DEBT

In June 2007, the Industrial Development Authority of the City of Lexington, Virginia, issued \$34,155,000 of Tax-Exempt and \$645,000 of Taxable Residential Care Facilities Mortgage Revenue Bonds (the "Series 2007 Bonds"). The proceeds of the Series 2007 Bonds were used to repay the Series 2001 bonds and the Stonewall Jackson Hospital note, and to defease the Series 1999 Bonds. In addition, \$25 million from the sale of the bonds was used to provide for construction of 32 cottages, a 14-apartment addition, a fitness center and renovations to the commons building.

Bond proceeds also paid a portion of the interest on the bonds during construction, funded the cost of issuance associated with the transaction including feasibility, legal and underwriting expenses, and establish a debt service reserve fund. The bonds were issued at a discount of \$328,530.

Principal on the Series 2007 Bonds is due annually on January 1 of each year beginning January 1, 2008 for the tax-exempt bonds, and beginning January 1, 2010 for the taxable bonds. Interest is due semi-annually on January 1 and July 1 for the tax-exempt and taxable bonds. The interest on these bonds is paid semi-annually.

In October 2016, the Industrial Development Authority of the City of Lexington, Virginia, issued \$28,210,000 of Tax-Exempt Residential Care Facility Refund Revenue Bonds. Principal is due annually on January 1 of each year. Interest is due semiannually on January 1 and July 1 beginning January 1, 2017. There was no interest paid on the Series 2016 bonds in 2016.

The proceeds of the Series 2016 Bonds were used to refund the Authority's Residential Care Facilities Mortgage Revenue Bonds Series 2007A, to fund a debt service reserve fund for the Series 2016 Bonds, and to finance cost of issuing the Series 2016 Bonds. At the time of issuance, a portion of the proceeds were placed into escrow to refund the Series 2007A Bonds on January 1, 2017. As of December 31, 2016, the Series 2007A bonds were no longer outstanding and deemed to be fully defeased. The bonds were issued at a premium of \$1,765,790.

During 2016, the Corporation recorded a loss on defeasance totaling \$979,159, including \$552,067 related to the write-off of deferred financing costs.

LEXINGTON RETIREMENT COMMUNITY, INC.
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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 LONG-TERM DEBT (CONTINUED)

The components and maturities of long-term debt are as follows:

	2016	2015
Series 2016:		
Tax-Exempt Serial Bonds, Maturing between 2017 and 2024 at Rates Varying from 1.00% to 4.00% and Amounts Ranging from \$20,000 to \$1,215,000	\$ 7,690,000	\$ -
Tax-exempt Term Bond, 2.75%, Maturing 2026	2,565,000	-
Tax-exempt Term Bond, 4.00%, Maturing 2031	6,480,000	-
Tax-exempt Term Bond, 3.25%, Maturing 2031	760,000	-
Tax-exempt Term Bond, 4.00%, Maturing 2037	8,815,000	-
Tax-exempt Term Bond, 3.375%, Maturing 2037	1,900,000	-
Series 2007:		
Tax-Exempt Serial Bonds, Maturing between 2016 and 2023 at Rates Varying from 5.175% to 5.375% and Amounts Ranging from \$710,000 to \$1,015,000	-	6,830,000
Tax-Exempt Term Bonds, 5.375%, Maturing between 2024 and 2028, Amounts Ranging from \$1,070,000 to \$1,320,000	-	5,965,000
Tax-Exempt Term Bonds, 5.5%, Maturing between 2029 and 2037, Amounts Ranging from \$1,390,000 to \$4,520,000	-	18,050,000
Long-Term Debt	28,210,000	30,845,000
Unamortized Debt Issuance Costs	(581,798)	(590,587)
Unamortized Bond Premium	1,765,790	-
Unamortized Bond Discount	-	(194,298)
Total	29,393,992	30,060,115
Less: Current Portion of Long-Term Debt	(20,000)	(710,000)
Long-term Debt, Net of Current Portion	\$ 29,373,992	\$ 29,350,115

LEXINGTON RETIREMENT COMMUNITY, INC.
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NOTE 7 LONG-TERM DEBT (CONTINUED)

As of December 31, 2016, aggregate principal maturities for long-term debt and bond premium amortization over the next five years and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>	<u>Bond Premium</u>
2017	\$ 20,000	\$ 171,799
2018	1,010,000	171,799
2019	1,020,000	171,799
2020	1,050,000	159,090
2021	1,080,000	146,012
Thereafter	<u>24,030,000</u>	<u>945,291</u>
Total	<u>\$ 28,210,000</u>	<u>\$ 1,765,790</u>

Interest expense paid totaled approximately \$2,206,992 and \$1,707,292 for the years ended December 31, 2016 and 2015, respectively.

The Corporation has pledged certain assets, including, but not limited to gross receipts, which include all revenues, investments, accounts, inventory and entry fees, to the extent they are not held in escrow under Virginia requirements; as well as the rights under the residency agreements. Donor-restricted gifts cannot be used as collateral. There is a lien on, as well as a security interest in, all fixtures, furniture and equipment.

Among other things, the Corporation is required to meet certain marketing and financial covenants under the security agreements related to the bond issue. There are financial and operational covenants associated with the bond. As of December 31, 2016, management is not aware of any instances of non-compliance with the required covenants.

NOTE 8 RETIREMENT PLANS

The Corporation participates in The Kendal Corporation Pension Plan, a noncontributory defined benefit plan along with other entities affiliated with The Kendal Corporation. An employee is eligible for the plan when the employee has worked 1,000 hours per year, attained the age of 21, and has completed one year of eligible service. In order to be vested, an employee needs five years of vesting service. A year of vesting service is earned when an employee works at least 1,000 hours. Total expenses related to the Plan during fiscal 2016 and 2015 were \$66,420 and \$40,848, respectively. On January 1, 2015, the Plan was frozen.

Effective July 1, 2006, the Corporation participates in a defined contribution plan under Internal Revenue Code Section 401(a) and 403(b) through The Kendal Corporation. The plan contains an employer grant and/or match component for eligible employees. Eligible employees must have attained age 21 and must complete one eligibility year of service. The Corporation's grant and/or matching contribution is discretionary. All employees are eligible to make contributions to the plan. The Corporation may elect a basic contribution percentage of annual compensation or a grant subject to certain limitations. Contributions accrued by the Corporation were approximately \$219,764 and \$177,636 for the years ended December 31, 2016 and 2015, respectively.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 CONCENTRATION OF CREDIT RISK

The Corporation grants credit without collateral to their residents, most of whom are insured under third-party payor agreements. The mix of the Corporation's net receivables from residents and third-party payors as of December 31 was as follows:

	<u>2016</u>	<u>2015</u>
Medicare	36%	29%
Medicaid	26%	21%
Residents and Other	38%	50%
Total	<u>100%</u>	<u>100%</u>

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Corporation emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets of the Corporation measured at fair value on a recurring basis as of December 31:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016:				
Investments:				
Mutual Funds	\$ 12,422,001	\$ -	\$ -	\$ 12,422,001
Equities	501	-	-	501
Total	<u>\$ 12,422,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,422,502</u>
Assets Limited as to Use:				
Mutual Funds	<u>\$ 2,266,219</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,266,219</u>
Beneficial Interest in Charitable Remainder Unitrust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,075</u>	<u>\$ 17,075</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2015:				
Investments:				
Mutual Funds	\$ 9,839,135	\$ -	\$ -	\$ 9,839,135
U.S. Government Securities	581,485	-	-	581,485
Corporate Bonds	462,274	-	-	462,274
Equities	496,799	-	-	496,799
Total	<u>\$ 11,379,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,379,693</u>
Assets Limited as to Use:				
Mutual Funds	<u>\$ 1,544,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,544,156</u>
Beneficial Interest in Charitable Remainder Unitrust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,616</u>	<u>\$ 14,616</u>

Investments and Assets Limited as to Use

Investments and Assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Government and Corporate Obligations and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

**LEXINGTON RETIREMENT COMMUNITY, INC.
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NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Beneficial Interest in Charitable Remainder Unitrust

Fair values of the beneficial interest in a charitable remainder unitrust are determined based upon good faith estimates of the trust's assets less the present value of estimated future payments to the recipient. The present value is based upon an estimated discount rate and applicable mortality tables and, accordingly, is classified as using a Level 3 input.

NOTE 11 FUNCTIONAL EXPENSES

The Corporation provides residential and health care services to residents. The functional allocation of these expenses related to these services is as follows:

	<u>2016</u>	<u>2015</u>
Residential and Health Care Services	\$ 10,461,975	\$ 10,044,152
General and Administrative	4,354,337	4,366,361
Fundraising	6,571	2,614
Total	<u>\$ 14,822,883</u>	<u>\$ 14,413,127</u>

NOTE 12 COMMITMENTS AND CONTINGENCIES

Compliance

The Corporation operates in the health care industry and may be subject to legal proceedings and claims from time to time that arise in the course of providing its services. The Corporation maintains malpractice insurance coverage on an occurrence basis, which provides coverage for claims occurring during the policy year. Management has determined that no provision is required for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Development Agreement

On November 16, 2016, the Corporation entered into a development agreement with Kendal Corporation for the management, in collaboration with the Executive Director, of the expansion and re-positioning of its campus, including renovations and additions to the health centers, additional residential living cottages, new and expanded dining venues and kitchen renovations, an emergency access road, and a maintenance building. The fee related to this agreement is a minimum of \$875,000 up to a maximum of \$1,050,000, which will be paid over the construction period of the project.

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NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

In the normal course of business, there could be various outstanding claims and contingent liabilities. No contingent liabilities are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

NOTE 13 INSURANCE

In 2014, the Corporation began participating in an insurance risk retention group, the Peace Church Risk Retention Group (the "PCRRG"), a group insurance captive corporation licensed by the State of Vermont, to cover basic professional and general liability insurance on a claims-made basis. Entrance into the captive required a capital purchase of stock of \$50,682. The investment is accounted by the cost method and is included in other assets on the balance sheet.

NOTE 14 SELF-INSURED GROUP HEALTH PLAN

Effective January 1, 2014, Kendal at Lexington elected to participate in a self-insured medical and prescription plan established by The Kendal Corporation for the benefit of the employees of The Kendal Corporation and the employees of participating Kendal Affiliates, the "Welfare Plan". The Kendal Corporation serves as the Welfare Plan sponsor and has established operational guidelines for the Welfare Plan as well as an oversight committee which includes representatives from participating Affiliates. With the assistance of consultants, the committee will estimate future claims as well as required premiums to fund future claims and establish required cash balances. The total premium determined for the Welfare Plan will be allocated using the participating lives for each participating entity. The premiums will be determined based on a shared risk pool and will not be adjusted to reflect the claims experience of any participating entity. There is an initial commitment of five years from the effective date of participation.

The Welfare Plan is administered by an insurance carrier and backed by a letter of credit. The Welfare Plan is responsible for funding employer liability losses to a maximum of \$125,000 per participant in 2016 and \$100,000 per participant in 2015 and \$1,000,000 in the aggregate per policy year. Third party stop-loss insurance coverage is in place for losses that exceed these amounts.

Kendal at Lexington has executed a Joinder Agreement with The Kendal Corporation to participate in the Welfare Plan effective January 1, 2014. In conjunction with execution of this agreement, Kendal at Lexington's ownership interest in the Welfare Plan is \$266,960 and \$260,758 as of December 31, 2016 and 2015, respectively.

Self-Insurance expense was \$762,293 and \$677,517 for the years ended December 31, 2016 and 2015, respectively.

Attachment 3 - Priority List Agreements

Persons wishing to maintain a position on the Kendal at Lexington Priority Waitlist may do so by signing and delivering this agreement to Kendal at Lexington (hereinafter “Kendal”), accompanied by a payment of \$1,250.

1. An applicant’s Priority Fee of \$1,000 will be credited in full against the Kendal at Lexington Entry Fee. The Priority Fee will be repaid in full within 60 days if applicant is not admitted to the Community or upon receipt by Kendal of a written request for repayment. Kendal will not pay interest on Priority Fees, either when repaid or when credited against the entry fee.
2. The Application Fee (\$250) represents a recovery by Kendal as a part of its administrative costs and is non-refundable.
3. The decision to admit or not to admit an applicant is made by Kendal and is the exercise of its sole discretion. The applicant agrees to accept such decisions as binding and final in all respects. Kendal at Lexington considers and admits applicants without regard to race, religion, sex, national origin, or sexual orientation.
4. The Schedule of Fees for Kendal at Lexington may be changed at any time. Written notices of such changes shall be mailed to everyone on the Priority Waitlist.
5. The Statement of Admission Procedures may be changed at any time. Written notice of such changes shall be mailed to everyone on the Priority Waitlist not less than sixty days prior to the effective date of such changes.
6. If application is made by two people intending to share one unit, both are deemed to be included in the word “applicant” as used in this agreement, and payment of a single Priority Fee and Application Fee shall cover both. Either person may terminate the Agreement. In such case, the second applicant may reapply within 30 days and maintain the original position on the Priority List.
7. If you die while your priority deposit is still being held by Kendal at Lexington, the deposit will be refunded in full to the duly appointed personal representative of your estate or, if none, to your spouse, or, if none, to those entitled to your estate under the Virginia law of interstate succession as in effect at the time of your death. Such refund shall be made no later than thirty days after receipt by Kendal of written request therefore and satisfactory proof of death. Payment shall constitute full and complete discharge of the community’s obligation to you and your estate.
8. Except as provided in paragraph 7 in respect of repayments, an applicant’s rights under this

agreement are personal to you and may not be assigned or transferred by you and shall not pass to your heirs or devisees or to a personal representative of your estate.

9. It is understood that Kendal is free to expend Priority Fees for any proper corporate purpose, including costs of construction, subject to its responsibility to credit or repay the Fee in accordance with the terms of this agreement.
10. Any notice to an applicant shall be sufficiently given if mailed to the address provided on this form (or as an applicant may later inform Kendal).
11. This agreement shall supersede any priority list information or agreement previously signed by the applicant.

Note: Two persons intending to occupy one residence may complete one Priority Agreement and pay one Priority Reservation Fee that will cover both persons.

Please Complete Sections Below:

Name of First Occupant: _____

Marital Status _____ Sex _____ Date of Birth: Month _____ Day _____ Year _____

Address _____

City _____ State _____ Zip Code _____ Telephone () _____

E-mail Address _____

Alternate Address:

Address _____ Effective Dates _____

City _____ State _____ Zip Code _____ Telephone () _____

Name of Second Occupant _____ Relationship to First _____

Marital Status _____ Sex _____ Date of Birth: Month _____ Day _____ Year _____

Address of Second Occupant, if different from above:

Address _____

City _____ State _____ Zip Code _____ Telephone () _____

E-mail Address _____

RESIDENTIAL PREFERENCE

Type of Residence Preferred: Cottage Apartment

Size of Residence Preferred: Studio or One Bedroom One Bedroom/Den Two Bedroom
Two Bedroom/Den

Estimated Year of Entry _____

What is your present living situation? Own home Rent
Other _____

PERSONAL INFORMATION (Optional- We'd like to get to know you better.)

First Occupant:

Education: High School Undergraduate Graduate Other _____

College or University _____ Majors/Areas of Study _____

Volunteer Activities _____

Current or Previous Occupation(s) _____

Civic/Service/Religious Affiliation _____

Special Interests/Talents _____

Long-term Care Insurance: Yes No

Second Occupant:

Education: High School Undergraduate Graduate Other _____

College or University _____ Majors/Areas of Study _____

Volunteer Activities _____

Current or Previous Occupation(s) _____

Civic/Service/Religious Affiliation _____

Special Interests/Talents _____

Long-term Care Insurance: Yes No

PAYMENT

A check for **\$1,250** (your Priority List Fee of \$1,000 plus the \$250 non-refundable application fee) should be made **payable to Kendal at Lexington**.

Please mail the signed Priority Reservation Agreement and check to:

Kendal at Lexington
160 Kendal Drive, Lexington, Virginia 24450
Att: Marketing Department

Feel free to contact the Marketing Department with any questions. We're happy to help!
540-463-1910 | 800-976-8303 | info@kalex.kendal.org

First Applicant's Signature

Date

Second Applicant's Signature

Date

Kendal at Lexington Representative

Date

Persons wishing to maintain both their current position on the Kendal at Lexington Priority Waitlist and the same corresponding order on a new Priority List for new cottages may do so by signing and delivering this Priority agreement to Kendal at Lexington (hereinafter “Kendal”), accompanied by a fully refundable, non-interest bearing payment of \$2,500.

1. An applicant’s Priority Fee of \$2500 will be credited in full against the Kendal at Lexington Entry Fee for new cottages. Or the Priority Fee will be repaid in full within 60 days of a written request for repayment. Kendal will not pay interest on Priority Fees, either when repaid or when credited against the entry fee.
2. There is no Application Fee.
3. The decision to admit or not to admit an applicant is made by Kendal and is the exercise of its sole discretion. The applicant agrees to accept such decisions as binding and final in all respects. Kendal at Lexington considers and admits applicants without regard to race, religion, sex, national origin, or sexual orientation.
4. The Schedule of Fees for Kendal at Lexington may be changed at any time. Written notices of such changes shall be mailed to everyone on the Priority Waitlist.
5. The Statement of Admission Procedures may be changed at any time. Written notice of such changes shall be mailed to everyone on the Priority Waitlist not less than sixty days prior to the effective date of such changes.
6. If application is made by two people intending to share one unit, both are deemed to be included in the word “applicant” as used in this agreement, and payment of a single Priority Fee shall cover both.
7. If you die while your priority deposit is still being held by Kendal at Lexington, the deposit will be refunded in full to the duly appointed personal representative of your estate or, if none, to your spouse, or, if none, to those entitled to your estate under the Virginia law of interstate succession as in effect at the time of your death. Such refund shall be made no later than thirty days after receipt by Kendal of written request therefore and satisfactory proof of death. Payment shall constitute full and complete discharge of the community’s obligation to you and your estate.
8. Except as provided in paragraph 7 in respect of repayments, an applicant’s rights under this agreement are personal to you and may not be assigned or transferred by you and shall not pass to your heirs or devisees or to a personal representative of your estate.

9. Any notice to an applicant shall be sufficiently given if mailed to the address provided on this form (or as an applicant may later inform Kendal).
10. This agreement shall supersede any priority list information or agreement previously signed by the applicant.

Note: Two persons intending to occupy one residence may complete one Priority Agreement and pay one Priority Deposit Fee that will cover both persons.

Name: _____

Sex _____ Date of Birth: Month _____ Day _____ Year _____

Address _____

City _____ State _____ Zip Code _____ Telephone () _____

E-mail Address _____

Alternate Address:

Address _____ Effective Dates _____

City _____ State _____ Zip Code _____ Telephone () _____

Name of Second Occupant _____ Relationship _____

Sex _____ Date of Birth: Month _____ Day _____ Year _____

Address of Second Occupant, if different from above:

Address _____

City _____ State _____ Zip Code _____ Telephone () _____

E-mail Address _____

What is your present living situation? Own home Rent
 Other _____

RESIDENTIAL PREFERENCE

Type of Residence Preferred: 2 bed plus den freestanding cottage 2 bed freestanding cottage

2 bed duplex cottage

PAYMENT

A check for **\$2,500** should be made **payable to Kendal at Lexington.**

Please mail the signed new Cottages Priority Agreement and check to:

Kendal at Lexington
160 Kendal Drive
Lexington, Virginia 24450
Attn: Marketing Department

Feel free to contact the Marketing Department with any questions. We're happy to help!
540-463-1910 | 800-976-8303 | info@kalex.kendal.org

Applicant's Signature

Date

Second Applicant's Signature

Date

Kendal at Lexington Representative

Date

Attachment 4 – Resident Reservation Agreements

KENDAL[®] at Lexington

Together, transforming the experience of aging.[®]

Residence Reservation Agreement: *This agreement secures your apartment or cottage with Kendal at Lexington.*

Residence Number: _____ **Floor Plan Type:** _____

First Person Entrance Fee: _____ **Second Person Entrance Fee:** _____

Basement Fee: _____ **Enclosed Patio Fee:** _____

Total Entrance Fee: _____ **Reservation Deposit Due:** _____

Name of Resident #1: _____ **Name Resident #2:** _____

Address: _____ **Phone:** _____

You are making a Residence Reservation Deposit of ___ ten percent (10%) or ___ thirty-five percent (35%) of the total entrance fee so that Kendal at Lexington will hold this residence of choice while you are completing the admissions process. The current deposit due is \$_____. This deposit will be applied to the payments as outlined in the Residence and Care Agreement.

The Reservation Deposit is fully refundable within thirty (30) days in the event of death, change in health status where one or both of you is no longer capable of independent living, or an inability to qualify for independent living admission. If you withdraw for any other reason, two percent (2%) of the total entrance fee will be retained by Kendal at Lexington. If this agreement is terminated prior to occupancy, no refund of the deposits shall be paid until Kendal at Lexington has received a 10% deposit payment from a new prospective resident for the same residence for which you have signed this agreement.

The Residence and Care Agreement you are selecting is:

Resident #1

Extensive Lifecare Residence and Care Agreement

Modified Lifecare Residence and Care Agreement: ___60 Day or ___365 Day Coverage

Resident #2

Extensive Lifecare Residence and Care Agreement

Modified Lifecare Residence and Care Agreement: ___60 Day or ___365 Day Coverage

I/We understand and accept the terms of this agreement. I/We have received the Residence and Care Agreement and all admissions paperwork and understand that we will be notified as to whether or not I/we have been accepted for admission. Upon notification of approval I/we will return, within seven (7) days, two signed Residence and Care Agreements to Kendal at Lexington. The remaining entry fee and first month's fee is due upon taking occupancy.

Occupancy date is on or before _____.

All requested upgraded renovations must be made prior to one month after signing this agreement to guarantee completion by the occupancy date. Depositor agrees to pay for the cost of requested upgrades not covered by Kendal at Lexington. If depositor decides to withdraw the reservation agreement, payment must be made or the cost of the requested upgrades will be deducted from any reservation deposit.

Resident Signature: _____ Date: _____

Resident Signature: _____ Date: _____

Kendal at Lexington: _____ Date: _____

KENDAL[®] at Lexington

Together, transforming the experience of aging.[®]

Sunrise Ridge Residence Reservation Agreement: This agreement secures your cottage with Kendal at Lexington.

Residence Number: _____ **Floor Plan Type:** _____

First Person Entrance Fee: _____ **Second Person Entrance Fee:** _____

Sunroom/Den Fee: _____ **T3 Add Extra Garage Fee:** _____

Fireplace Fee: _____

Total Entrance Fee: _____ **Reservation Deposit Due:** _____

Name of Resident #1: _____

Name Resident #2: _____

Address: _____

Phone: _____

Email: _____

You are making a Residence Reservation Deposit of ten percent (10%) of the total entrance fee so that Kendal at Lexington will hold this residence of choice while you are completing the admissions process and the cottage is being built. The current deposit due is \$_____. This deposit will be applied to the payments as outlined in the Residence and Care Agreement.

The Reservation Deposit is fully refundable under the following circumstances: prior to August 31, 2017, if the Sunrise Ridge expansion does not proceed, within thirty (30) days in the event of death or change in health status where one or both of you is no longer capable of independent living, or an inability to financially or health qualify for independent living admission. If you withdraw after August 31, 2017 or for any other reason, two percent (2%) of the total entrance fee will be retained by Kendal at Lexington. If this agreement is terminated prior to occupancy after August 31, 2017, no refund of the deposits shall be paid until Kendal at Lexington has received a 10% deposit payment from a new prospective resident for the same residence for which you have signed this agreement.

Another 5% deposit and the full cost of upgraded renovations will be due following admission acceptance and after Sunrise Ridge groundbreaking. The remaining entry fee and first month's fee is due on the occupancy date. Upgraded renovations do not impact the monthly fee. If depositor decides to withdraw the reservation agreement, payment must be made for the cost of the requested upgrades or the cost of the upgrades will be deducted from any reservation deposit.

The Residence and Care Agreement you are selecting is:

Resident #1

Extensive Lifecare Residence and Care Agreement

Modified Lifecare Residence and Care Agreement

Resident #2

Extensive Lifecare Residence and Care Agreement

Modified Lifecare Residence and Care Agreement

I/We understand and accept the terms of this agreement. I/We have received a copy of the Residence and Care Agreement and all admissions paperwork and understand that we will be notified as to whether or not I/we have been accepted for admission.

The anticipated closing/occupancy date to be finalized 1 year prior to closing/occupancy date.

Resident Signature: _____ Date: _____

Resident Signature: _____ Date: _____

Kendal at Lexington: _____ Date: _____

Attachment 5 – Narrative of material differences

Code of Virginia: Section 38.2-4904B Narrative describing any material differences between prior fiscal year's pro forma income statement and the actual results of operations during that fiscal year.

Operating Revenues:

Actual revenue for Kendal at Lexington exceeded budget by over \$755,000 (5.0%). Fifty percent of the overage was due to unbudgeted realized gains on the sale of investments. In addition, both monthly service fees and health center fees were above budget by a total of \$187,000 because of greater than expected occupancy. However, the payer mix for the Borden Center Health Center continued to report a decline in Medicare Part A residents and an increase in private pay residents. Entry fee amortization exceeded budget by \$100,000 because of the higher than budgeted residential living occupancy in 2016. Other income exceeded budget by \$91,000 as a result of larger than anticipated dining revenue, lodging revenue from on-site guest accommodations, and unbudgeted rental income from a house purchased adjacent to Kendal. Lastly, net asset releases, which are not budgeted, were \$36,000.

Operating Expenses:

Total expenses were under budget by \$262,000 (1.7%) with plant operations and interest expense reporting overages greater than \$15,000. Plant operations included the write-off of costs associated with exploring the installation of a campus-wide generator. Interest expense was slightly over budget as a result of the refunding of the 2007 Series A bonds. Health services expenses were substantially under budget as Kendal at Lexington continued to see a decrease in temporary nursing agency costs and costs associated with nursing home residents on Medicare Part A skilled stays.

In summary, Kendal at Lexington outperformed budget with an operating gain of \$1,072,703 versus a budgeted gain of \$55,006.

Lexington Retirement Community, Inc. Statement of Revenues and Expenses	Actual FY 2016	Budget FY 2016
Operating Revenues		
Entrance Fee Amortization	2,564,493	2,464,561
Monthly Service Fees	6,214,462	6,166,802
Other Income	363,597	272,575
Investment Income	724,141	346,550
Health Center Fees	6,028,893	5,889,553
Total Operating Revenues	15,895,586	15,140,041
Operating Expenses		
General & Administrative	1,710,032	1,722,413
Housekeeping & Laundry	307,752	308,338
Plant Operations	885,276	805,153
Food Service	1,558,567	1,554,498
Health Services	3,983,597	4,191,854
Depreciation & Amortization	2,031,438	2,104,200
Staff Benefits	1,363,838	1,421,665
Utilities	609,644	624,050
Real Estate Taxes	216,582	211,500
Interest	1,666,798	1,652,005
Management Fee	489,359	489,359
Total Operating Expenses	14,822,883	15,085,035
Excess or (Deficiency) of Operating Revenues over Operating Expenses	1,072,703	55,006

Attachment 6 – Resident’s Financial Statement



FINANCIAL STATEMENT FOR PROSPECTIVE RESIDENTS

(form updated 4/23/16)

The Board of Directors of Kendal at Lexington respects the privacy of every applicant and does not wish to intrude into any applicant's personal financial circumstances other than to have assurance that the amounts needed under the Agreement and for the applicant's personal needs can be met adequately. This information will be kept confidential.

Full Name(s) _____

Applicant #1 _____
Last First Middle

Date of Birth ____/____/____

Social Security # _____

Applicant #2 _____
Last First Middle

Date of Birth ____/____/____

Social Security # _____

Address _____
Street City State Zip Code

Home Phone _____; Cell #1 _____; Cell #2 _____

Email Address _____



CONTRACT AND AGREEMENT CHOICE

Please record floor plan. Refund option, and contract type choice.

Floor Plan Choice(s)			
Refund Option	Check one: <input type="checkbox"/> 2% declining <input type="checkbox"/> 50% declining <input type="checkbox"/> 90% declining		
Contract Type	Person 1 (check one or more)	Person 2 (check one or more)	
	<input type="checkbox"/> Modified 60 <input type="checkbox"/> Modified 365 <input type="checkbox"/> Lifecare	<input type="checkbox"/> Modified 60 <input type="checkbox"/> Modified 365 <input type="checkbox"/> Lifecare	
Other Comments			

Please record your personal monthly expenses. **Do not include monthly resident fees, long-term care insurance premiums, and income taxes (state or federal).** For couples (or roommates), record the expenses for the first person in the Person 1 column and the additional expenses for the second person in the Person 2 column. All expenses should be recorded as monthly amounts, so if you have an annual expense, divide by 12 and record that amount.

MONTHLY EXPENSES

	Person 1	Person 2
Prescriptions and other medical costs		
Telephone, Internet and cable services		
Travel and entertainment		
Personal items and clothing		
Automobile expenses (including insurance)		
Medical insurance premiums, excluding long-term care		
Contributions to charities		
Gifts to family and friends		
Other (Describe)		
Other (Describe)		
Other (Describe)		
Total Monthly Expenses		

LIABILITIES AND DEBT

Please record any liabilities or debt.

	Total Debt	Monthly Payment	Terms
Credit card debt			
Home equity loan debt			
Loans against stocks or bonds			
Personal notes, Loan, or guarantees			
Other debt			



LONG-TERM CARE INSURANCE

Please describe the provisions of your long-term care insurance policies and **provide a copy of the policies**. Circle your response for YES or NO questions. Please indicate the frequency of payments per year (annual, quarterly, or monthly).

	Person 1	Person 2
Benefit Period (number of years or "L" for lifetime)		
Elimination period (the number of days before benefit payments start)		
Daily benefit for home care in current dollars	\$ _____	\$ _____
Daily benefit for assisted living in current dollars	\$ _____	\$ _____
Daily benefit for nursing care in current dollars	\$ _____	\$ _____
Does the policy include a benefit inflation adjustment rider?	YES NO	YES NO
If YES, please indicate the inflation amount	_____ %	_____ %
Premium Payment	\$ _____	\$ _____
Frequency of payment		
Assumed inflation rate on premiums	_____ %	_____ %

REAL ESTATE

Please provide information for real estate that does not generate income (income-generating real estate must be recorded on the Other Assets form). In regard to owner name for couples, enter “joint” if owned jointly; otherwise, record first name of owner. The survivor percentage is the amount of real estate that is bequeathed to surviving spouse. Circle your response for YES or NO questions.

	Location & Type	Owner Name	Current Market Value	Mortgages or Loan Amount	Does Asset Appreciate?	Survivor Percentage
Primary residence					YES NO	____%
Other NON-income generating real estate					YES NO	____%
					YES NO	____%
					YES NO	____%
					YES NO	____%

SAVINGS, STOCKS, BONDS, AND INVESTMENTS

Please provide information about your investments and a **copy of the most recent investment statement for each account**. It is preferable to record totals for stocks and bonds rather than listing all individual accounts. In regard to owner name for couples, enter “joint” if owned jointly; otherwise, record first name of owner. In the APR% (annual percentage rate) or income column, record either (a) the annual percentage earnings rate of (b) the total income and dividends. Please indicate the frequency of payments per year (annual, quarterly, or monthly). The survivor percentage is the amount of each asset that is bequeathed to surviving spouse. Circle your response for YES or NO questions.

Description	Owner Name	Current Market Value	APR% or Income and Dividends	Frequency of Payments	Does Asset Appreciate?	Is Income Taxable?	Survivor Percentage
Checking/Savings						YES NO	_____%
CDs						YES NO	_____%
Stock/mutual funds					YES NO	YES NO	_____%
Bonds/bond funds					YES NO	YES NO	_____%
					YES NO	YES NO	_____%
					YES NO	YES NO	_____%

LIFE INSURANCE

Please provide information for any life insurance policies in which your spouse (or roommate) has been designated as a beneficiary. Do not record life insurance policies in which your spouse (or roommate) is NOT listed as a beneficiary. The death benefit recorded should equal the greater of the face amount or the case value amount minus any policy loans. In regard to owner name for couples, record first name of owner. The survivor percentage is the amount of insurance that is bequeathed to surviving spouse.

	Type of Policy (Whole or Term)	Owner Name	Death Benefit	Survivor percentage
Policy #1				____%
Policy #2				____%
Policy #3				____%
Policy #4				____%
Policy #5				____%

OTHER ASSETS

(Such as income-generating real estate)

Please list any other assets. For Net Value, record your estimate of the market value minus any outstanding obligations and costs of disposing of or selling the asset. In regard to owner name for couples, enter “joint” if owned jointly; otherwise, record first name of owner. In the APR% (annual percentage rate) or income column, record either (a) the annual percentage earnings rate of (b) the total income and dividends. Please indicate the frequency of payments per year (annual, quarterly, or monthly). For the Date Began column, record when payments began, or if unknown, record NOW. In the Date Ends column, record month and year when payments end, or record “L” if lifetime. Circle your response for YES or NO questions. The survivor percentage is the amount of each asset that is bequeathed to surviving spouse.

Description	Owner Name	Net Value	APR% or Income & Dividends	Frequency of Payments	Date Began	Date Ends	Does Asset Appreciate?	Does Income Adjust for Inflation?	Is Income Taxable?	Survivor Percentage
							YES NO	YES NO	YES NO	_____%
							YES NO	YES NO	YES NO	_____%
							YES NO	YES NO	YES NO	_____%
							YES NO	YES NO	YES NO	_____%

SOCIAL SECURITY

Please provide information regarding your social security income. Circle your response for YES or NO questions.

	Social Security Number	Owner Name	Monthly Income	Are You Currently Receiving Social Security Income?	If Not, When Do You Plan to Begin Drawing Social Security?
Person 1				YES NO	
Person 2				YES NO	



PENSIONS AND ANNUITIES

Please provide information regarding your pension and annuity income. In regard to owner name for couples, record “joint” if owned jointly; otherwise, record first name of owner. Please indicate the frequency of payments per year (annual, quarterly, or monthly). For the Date Began column, record when payments began, or if unknown, record NOW. In the Date Ends column, record month and year when payments end, or record “L” if lifetime. Circle your response for YES or NO questions. The survivor percentage is the amount of each asset that is bequeathed to surviving spouse.

	Description	Owner Name	Income	Frequency of Distribution	Is There a Required Minimum Distribution?	Date Began	Date Ends	Does Income Adjust for Inflation?	Survivor Percentage
Pension					YES NO			YES NO	____%
Pension					YES NO			YES NO	____%
Annuity					YES NO			YES NO	____%
Annuity					YES NO			YES NO	____%
					YES NO			YES NO	____%
					YES NO			YES NO	____%



IRAs, ROTH IRAs, 401(k) and 403(b) PLANS

Please provide information regarding your IRA, Roth IRA, 401(k) or 403(b) retirement plans. In regard to owner name for couples, record “joint” if owned jointly; otherwise, record first name of owner. In the Balance column, record the balance that corresponds to your “as of date,” or most current balance available. In the Draw column, record the income draw and record the frequency of payments per year (annual, quarterly, or monthly. For the Date Began column, record when payments began, or if unknown, record NOW. In the Date Ends column, record month and year when payments end, or record “L” if lifetime. The survivor percentage is the amount of each asset that is bequeathed to surviving spouse.

	Description	Owner Name	Balance	Draw or Required Distribution	Frequency of Payments	Date Began	Date Ends	Survivor Percentage
IRA								_____%
401(k)								_____%
Roth IRA								_____%
403(b)								_____%
								_____%
								_____%
								_____%

OTHER INCOME

Please provide information regarding other income in which you do not own any portion of the asset, such as alimony. In regard to owner name for couples, record "joint" if owned jointly; otherwise, record first name of owner. Please indicate the frequency of payments per year: annual, quarterly, or monthly. For the Date Began column, record when payments began, or if unknown, record NOW. In the Date Ends column, record month and year when payments end, or record "L" if lifetime. Circle your response for YES or NO questions. The survivor percentage is the amount of each asset that is bequeathed to surviving spouse.

Description	Owner Name	Income	Date Began	Date Ends	Frequency of Payments	Does Income Adjust for Inflation?	Is Income Taxable?	Survivor Percentage
						YES NO	YES NO	_____%
						YES NO	YES NO	_____%
						YES NO	YES NO	_____%



DECLARATION
(Please sign if applying for admission to Kendal at Lexington)

I (we) agree to furnish additional financial information if requested, including tax returns, investment statements, proof of income, to process this application.

I (we) agree to a credit check.

I (we) agree to furnish additional financial information as may be required from time to time and agree to report any major changes in financial status as soon as possible.

I (we) will not, during residence at Kendal at Lexington, transfer or reduce resources needed to carry out my (our) commitments to Kendal at Lexington.

I (we) estimate that I (we) will need financial assistance to live at Kendal at Lexington: Yes _____ No _____

I (we) affirm that the information provided to Kendal at Lexington in this financial disclosure and any attachments in connection with my (our) application for residence is true, accurate and complete to the best of my (our) ability. All information has been provided with the express knowledge that it will be relied on my Kendal at Lexington in making a determination regarding the application.

Applicant #1 Signature

Date

Applicant #2 Signature

Date

Attachment 7 – Summary of Financial Information

Lexington Retirement Community, Inc.
d/b/a Kendal at Lexington
Summary of Financial Information
As of December 31, 2016

	Current Year 2016	Prior Year 2015
Total Assets	61,177,473	61,292,899
Total Liabilities	59,120,314	60,269,748
Total Net Assets (Deficit)	2,057,159	1,023,151
Total Revenues	15,895,586	15,746,807
Total Expenses	14,822,881	(14,413,127)
Operating Income	1,072,705	1,333,680
Net Income	1,034,007	1,047,428

Narrative on financial condition:

Narrative on financial condition:

There was a decrease in Kendal at Lexington's total assets of \$115,000 from 2015 to 2016. A noticeable change in both Current Assets and Other Assets was the reporting of Contributions Receivable as a result of the 2020 Capital Campaign. The contribution revenue of \$781,000, recognized from the 2020 Capital Campaign, was restricted for the Borden and Webster Health Centers renovations.

Construction in Progress at December 31, 2016 included not only costs to refurbish existing apartments and cottages, but also \$1.1 million to expand the community by 30 residential living cottages and to renovate the health centers.

In 2016, Kendal at Lexington received a BBB- rating from Fitch and in October 2016, refinanced the IDA City of Lexington, Virginia 2007 Series A bonds. With the issuance of the 2016 Series bonds of \$28,210,000, Kendal at Lexington will recognize a total net present savings value of \$6.2 million by the final maturity in January, 2037. Kendal at Lexington recorded a loss on the defeasance of debt of \$979,000.

Total operating revenue for Kendal at Lexington increased by \$149,000. Residential Services Revenue increased by \$348,000 as average residential occupancy increased from 92.8% in 2015 to 96.7% in 2016. Amortization of deferred entry fees decreased \$182,000 despite the increase of resident deaths/withdrawals from 11 to 14 because the average termination income decreased by \$25,000 per contract. Health Center Fees decreased

by \$89,000, all of which was attributable to decreased assisted living revenue due to fewer admissions of outside per diem residents. Skilled nursing recorded strong occupancy in private pay residents while skilled Medicare Part A occupancy declined from 2015.

Expenses for 2016 increased by a total of \$410,000 (2.8%) from 2015. All expense categories increased except real estate taxes, interest expense and bad debt expense. The most significant increases occurred in Plant Operations, Food Service and Staff Benefits. Plant Operations included the write off expenses of \$101,000 associated with the abandonment of a campus-wide generator project. Food Service costs increased from 2015 because of overtime wages due to staff turnover and the reclassification of employees from exempt to non-exempt status. Lastly, staff benefits increased as more employees participated in the health insurance plan. Total wages for the entire community increased from the prior year by \$278,000 (5.6%). Despite the variances from 2015, the 2016 total increase in net assets declined \$11,000 from the previous year.

Occupancy Information:	Capacity of Units	2016 Average occupancy	Percentage Occupancy
Independent Living	120	116.0	96.7%
Assisted Living	20	17.3	86.6%
Nursing	60	56.2	93.7%

Attachment 8 - Ancillary Fee Sheets

- Independent Living
- Assisted Living
- Skilled Nursing

**Kendal at Lexington
Ancillary Fees for Contract Residents
in Independent Living
Effective 1/1/2017**

*In-home Meal Delivery Charge	\$ 10.00 per day
Laundry Services:	
*Resident in-home laundry (wash & fold)	\$ 25.00 per load
Commercial load – bed linens	\$ 15.00 per load
Housekeeping Services:	
Change of bed linens	\$ 12.00
Beyond regular schedule	\$ 25 per hour, per housekeeper
PET (Personal Emergency Transmitter)	\$160.00 each
Maintenance Services	\$25.00 per hour, plus materials
Computer/IT Services:	
Initial investigation (less than 15 minutes)	No charge
General Service & troubleshooting	\$ 30 per half hour with \$30 minimum
Telephone & Internet	Through a local provider at the residents own discretion.
Beauty/Barbershop:	
Shampoo & Set	\$ 17.00
Cut	\$ 17.00
Perm (includes set)	\$ 65.00
Color (includes set)	\$ 50.00
Waxing	\$ 5.00
Beard Trim	\$ 5.00
Name Tag	\$8 gold/\$10 silver
Additional Keys	\$ 5.00 per key
Therapy:	
Physical/Occupational/Speech/Aquatic	Billed to Medicare, insurance or private
Medical Supplies	Based on individual charges

**In-home meal delivery and in-home laundry is only available when medically indicated by the Clinic Nurse or Director of Resident Services and is only for use as a short-term solution.*

Charges are subject to change with advance notification.

**Kendal at Lexington
Ancillary Fees for Contract Residents
in the Webster Assisted Living Center
Effective 1/1/2017**

Two additional meals per day for contract residents	\$ 10.00 per day
Personal Laundry	\$ 8.00 per load
Transportation Companion	\$ 20.00 per hour
Housekeeping - beyond regular schedule	\$ 25.00 per hour, per housekeeper
PET (Personal Emergency Transmitter)	\$160.00 each
Maintenance Services	\$ 25.00 per hours, plus materials
Computer/IT Services:	
Initial investigation (less than 15 minutes)	No charge
General Service & troubleshooting	\$ 30 per half hour with \$30 minimum
Telephone and Internet	Through a local provider at the residents own discretion.
Beauty/Barbershop:	
Shampoo & Set	\$ 17.00
Cut	\$ 17.00
Perm (includes set)	\$ 65.00
Color (includes set)	\$ 50.00
Waxing	\$ 5.00
Beard Trim	\$ 5.00
Name tag	\$ 8 gold/\$10 silver
Additional Keys	\$ 5.00 per key
Therapy:	
Physical/Occupational/Speech/Aquatic	Billed to Medicare, insurance or private
Medical Supplies	Based on individual charges

Charges are subject to change with advance notification.

**Kendal at Lexington
Ancillary Fees for Contract Residents
in the Benjamin Borden Health Center
Effective 1/1/2017**

Two additional meals per day for contract residents	\$ 10.00 per day
Personal Laundry	\$ 50.00 per month
Telephone & Internet	\$ 20.00
 Beauty/Barbershop:	
Shampoo & Set	\$ 17.00
Cut	\$ 17.00
Perm (includes set)	\$ 65.00
Color (includes set)	\$ 50.00
Waxing	\$ 5.00
Beard Trim	\$ 5.00
 Incontinent Supplies:	
High use	\$ 12.00 per day
Medium use	\$ 8.00 per day
Low use	\$ 4.00 per day
 Medical Supplies	 Based on individual usage
 Oxygen:	
High use (continuous)	\$ 70.00 per month
Low use (as needed)	\$ 28.00 per month
 Therapy:	
Physical/Occupational/Speech/Aquatic	Billed to Medicare, insurance or private
 Computer/IT Services:	
Initial investigation (less than 15 minutes)	No charge
General Service & troubleshooting	\$ 30 per half hour with \$30 minimum

Charges are subject to change with advance notification.