FINANCIAL STATEMENTS

NewBridge on the Charles, Inc.
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

NewBridge on the Charles, Inc.

Financial Statements

Years Ended September 30, 2010 and 2009

Contents

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Report of Independent Auditors

The Board of Directors
NewBridge on the Charles, Inc.

We have audited the accompanying statements of financial position of NewBridge on the Charles, Inc. (the Organization) as of September 30, 2010 and 2009, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NewBridge on the Charles, Inc. at September 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 23, 2011

NewBridge on the Charles, Inc.

Statements of Financial Position

	September 30 2010	2009
Assets		
Cash and cash equivalents	**$ 12,618,001**	$ 16,199,721
Monthly service fees receivable	**365,763**	308,711
Entrance fees receivable	**39,900**	4,769,270
Notes receivable from members	**293,600**	643,800
Interest income receivable	**61,548**	63,774
Deposits held in escrow *(Notes 2 and 3)*	**460,260**	500,000
Assets limited as to use *(Note 5)*	**39,367,365**	174,576,451
Property, plant, and equipment, net of depreciation *(Note 3)*	**387,788,292**	274,501,631
Project under development	**–**	93,109,109
Marketing costs	**6,511,141**	7,460,285
Debt issuance costs	**5,752,286**	5,906,830
Other assets	**2,512,832**	90,479
Total assets	**$ 455,770,988**	$ 578,130,061
Liabilities and net assets		
Accounts payable and accrued expenses	**$ 6,696,275**	$ 6,983,940
Accrued interest expense	**1,008,790**	1,282,825
Entrance fee deposits	**3,034,853**	6,774,995
Due to members	**95,000**	–
Due to affiliate *(Note 6)*	**2,316,454**	449,792
Deferred revenue from non-refundable entrance fees, net of accumulated amortization	**19,915,984**	15,601,832
Refundable entrance fees	**143,004,158**	95,386,580
Long-term debt *(Note 4)*	**307,140,000**	443,900,000
Interest rate swap *(Notes 4 and 7)*	**13,733,983**	10,185,077
Other liabilities	**556,933**	5,000
Total liabilities	**497,502,430**	580,570,041
Net assets (deficiency):		
Unrestricted net assets (deficiency)	**(41,731,442)**	(2,439,980)
Total liabilities and net assets	**$ 455,770,988**	$ 578,130,061

See accompanying notes.

NewBridge on the Charles, Inc.

Statements of Operations and Changes in Net Assets

	Year Ended September 30 2010	2009
Operating revenues:		
Earned entrance fees	**$ 2,196,384**	$ 741,155
Independent living	**8,896,104**	1,185,730
Assisted living	**5,133,373**	479,536
Skilled nursing	**4,090,702**	–
Health center lease	**717,706**	–
Rental income	**74,596**	75,624
Interest income	**798,844**	206,203
Other income	**414,882**	284,628
	22,322,591	2,972,876
Operating expenses:		
Marketing	**1,188,688**	477,218
Assisted living	**2,935,794**	542,157
Skilled nursing	**5,413,401**	–
Health center transition	**473,928**	894,906
Culinary	**3,662,743**	931,080
Community life	**753,376**	296,924
Fringe benefits	**2,650,730**	675,819
Plant and maintenance	**6,832,550**	2,613,071
General and administrative	**2,882,313**	1,781,080
Interest expense	**12,817,884**	3,510,907
Depreciation and amortization	**21,288,428**	3,261,361
	60,899,835	14,984,523
Deficiency of revenues over expenses	**(38,577,244)**	(12,011,647)
Change in value of interest rate swaps	**(3,548,906)**	(10,735,038)
Net assets transferred from Hebrew SeniorLife, Inc.	**2,834,688**	–
Decrease in unrestricted net assets	**(39,291,462)**	(22,746,685)
Net assets (deficiency) at beginning of year	**(2,439,980)**	20,306,705
Net assets (deficiency) at end of year	**$ (41,731,442)**	$ (2,439,980)

See accompanying notes.

NewBridge on the Charles, Inc.

Statements of Cash Flows

	Year Ended September 30 2010	2009
Operating activities		
Decrease in net assets	**$ (39,291,462)**	$ (22,746,685)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**21,288,428**	3,261,361
Entrance fee amortization	**(2,196,384)**	(741,155)
Change in value of interest rate swaps	**3,548,906**	10,735,038
Transfer from Hebrew SeniorLife, Inc.	**(2,834,688)**	–
Changes in operating assets and liabilities:		
Increase in monthly service fees receivable	**(57,052)**	(308,711)
Increase in other assets	**(26,676)**	(90,479)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	**264,268**	(1,031,512)
Decrease in accrued interest expense	**(274,035)**	(561,853)
Increase in amounts due to members	**95,000**	–
Increase (decrease) in amounts due to affiliate	**1,866,662**	(111,959)
Net cash used in operating activities	**(17,617,033)**	(11,595,955)
Investing activities		
Deposits held in escrow	**39,740**	3,661,128
Additions to property, plant, and equipment, and project under development	**(40,354,160)**	(158,775,127)
Accrued development costs	**–**	(5,246,324)
Owner Controlled Insurance Program Deposit	**(2,395,678)**	–
Marketing costs	**(8,132)**	(1,225,665)
Assets limited as to use	**135,211,312**	85,971,861
Net cash provided by (used in) investing activities	**92,493,082**	(75,614,127)
Financing activities		
Transfer from Hebrew SeniorLife, Inc.	**2,834,688**	–
Entrance fee deposits received, net of conversions/refunds	**(3,740,142)**	(10,196,170)
Refundable entrance fees received	**47,202,395**	95,801,764
Non-refundable entrance fees received	**6,925,720**	15,927,803
Entrance fees receivable	**4,729,370**	(4,769,270)
Notes receivable from members	**350,200**	(643,800)
Redemption of long-term bonds	**(136,760,000)**	(13,175,000)
Net cash (used in) provided by financing activities	**(78,457,769)**	82,945,327
Net decrease in cash and cash equivalents	**(3,581,720)**	(4,264,755)
Cash and cash equivalents at beginning of year	**16,199,721**	20,464,476
Cash and cash equivalents at end of year	**$ 12,618,001**	$ 16,199,721

See accompanying notes.

NewBridge on the Charles, Inc.

Notes to Financial Statements

September 30, 2010

1. Organization and Mission

NewBridge on the Charles, Inc. (NewBridge) is a not-for-profit corporation formed on April 15, 2004 to acquire land and develop, own, and operate a senior supportive housing community known as NewBridge on the Charles. The mission of NewBridge is to provide services that foster independence, health, and security for seniors so that they may realize their full potential.

NewBridge was formed at the initiative of the Board of Trustees and management of Hebrew SeniorLife, Inc. (HSL), its sole corporate member. HSL is a not-for-profit organization, and is the sole corporate member of Hebrew Rehabilitation Center (HRC), which operates a 725-licensed bed facility recognized for its commitment to serving seniors with the highest quality of life through care, research, and training. HSL is also the sole corporate member of other senior housing projects in the greater Boston Massachusetts area. The Directors of NewBridge are also Directors of HSL.

During April 2005, NewBridge purchased an approximately 160-acre parcel of land in the town of Dedham, Massachusetts for approximately $21 million as the site for NewBridge. During December 2007, NewBridge issued $457,075,000 of tax-exempt bonds to pay for project construction and other project-related costs. Development and construction of NewBridge was substantially completed by October 2009, and the first supportive housing and assisted living residents moved in during the summer of 2009. HRC has transferred 220 of its licensed beds to the NewBridge facility, and 176 HRC residents moved to NewBridge in November and December 2009. NewBridge is expected to be fully occupied by October 2011. NewBridge facilities consist of 256 supportive housing units, 91 assisted living suites, and a 268-bed health care center (the Project).

It is expected that $175,000,000 of the $457,075,000 tax-exempt debt will be repaid from the entrance fees received from the initial sale of the 256 supportive housing units. During 2010 NewBridge redeemed $136,760,000 of these bonds and since September 30, 2010, NewBridge has remitted $10,183,225 of entrance fee proceeds to the bond trustee that have been deposited to a sinking fund or used to redeem bonds (see Note 4).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include financial instruments with an original maturity of three months or less.

Deposits Held in Escrow

Deposit held in escrow in 2010 includes last month's rent deposits from Assisted Living. Deposit held in escrow in 2009 consists of a deposit on the sale of NewBridge on the Charles land (see Note 3).

Assets Limited as to Use

Assets limited as to use include assets held by trustees under long-term debt indentures and other arrangements (see Note 3). Assets limited as to use consist of U.S. treasury money market funds and a guaranteed investment contract that are carried at fair value. Realized gains and losses on investment sales are recorded on an average-cost basis.

Entrance Fees Receivable

Entrance fees are typically due at the time a Member takes occupancy of the residence. However, in certain circumstances, NewBridge allows a deferral for up to 30 days, with interest at 5% per annum, to those Members who have a signed purchase and sale agreement to sell their home and to use the proceeds from the sale to fund the entrance fee.

2. Summary of Significant Accounting Policies (continued)

Notes Receivable from Members

Notes receivable from Members are evidenced by notes (in an amount up to 20% of entrance fees receivables), bear interest payable monthly at the rate of 5% per annum for the first six months, 6% per annum for months seven through twelve, and 6-1/2% per annum thereafter, and are due two years from the occupancy date. The notes are secured by the entrance fee refund.

Debt Issuance Costs

Debt issuance costs are being amortized over the 40-year term of the debt, using the effective interest rate method.

Marketing Costs

Marketing and related costs incurred to acquire the initial continuing care contracts at NewBridge prior to the initial occupation of the independent and assisted living units have been capitalized. Marketing costs are being amortized over eight years, equivalent to the estimated average remaining life of the initial residents of NewBridge.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed on a straight-line method, utilizing a full month of depreciation for the month the fixed asset is placed in service, based on the following estimated useful lives:

Buildings	40 years
Major fixed equipment and site improvements	15 years
Furniture and fixtures	7 years
Capitalized interest	40 years
Vehicles/IT software equipment	5 years
Developer fee	40 years
Appliances and other equipment	7 years

2. Summary of Significant Accounting Policies (continued)

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Entrance Fee Deposits

Entrance fee deposits consist primarily of deposits received from prospective members, generally 10% of the expected entrance fee, who have entered into a residency agreement. Entrance fees received prior to occupancy are accounted for as refundable deposits in accordance with the terms of the residency agreement. These deposit amounts are held in escrow and interest is paid after move-in. The deposits are deducted from the entrance fee deposit which is payable upon possession of the unit.

Deferred Revenue from Non-Refundable Entrance Fees and Refundable Entrance Fees

Entrance fees are paid to NewBridge by occupants of the supportive housing units. A portion of the entrance fee is recorded as deferred revenue from non-refundable entrance fees, and the remainder is recorded as refundable entrance fees. The non-refundable amount is calculated at a rate of 1% of the entrance fee per month of occupancy up to a maximum percentage in accordance with the terms of the residency agreement. The non-refundable amount is amortized to revenue over the estimated remaining actuarial life expectancy of each member, with the life expectancy re-evaluated annually. The refundable amount is recorded as a liability as the repayment of fees is not contingent upon the receipt of reoccupancy proceeds.

Deficiency of Revenues Over Expenses

The statements of operations include the deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from the deficiency of revenues over expenses include change in value of interest rate swaps, and transfers from affiliates other than the receipt of goods or services.

Federal Income Taxes

NewBridge is a not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is exempt from federal income taxation on related income pursuant to Section 501(a) of the Code.

2. Summary of Significant Accounting Policies (continued)

Risks and Uncertainties

During 2009, NewBridge substantially completed the planned development for the site that includes the 256 units of senior supportive housing, a 91-unit assisted living facility, and a 268-bed health care center. As of September 30, 2009, the supportive housing and assisted living facilities had been opened. As of December 2009, NewBridge has obtained all occupancy permits necessary for the operation of the property.

NewBridge has obtained financing (Note 4) which, when combined with funds made available or required to be made available to NewBridge from HSL and HRC (pursuant to the terms of such financing), was projected to be sufficient for the construction and working capital required to complete the Project and achieve stabilized occupancy. Final construction was completed in 2010. Although NewBridge has achieved 91.3% occupancy as of September 30, 2010, further fill up of the supportive housing units is required to reduce debt to stabilized levels.

Entrance fee deposits were required on approximately 65% to 70% of the senior supportive housing units in order for NewBridge to obtain permanent tax-exempt financing for the Project. As of September 30, 2010, NewBridge had 222 occupied senior supportive housing units, and had received 10% deposits on 11 additional units. There can be no assurance that NewBridge can close on the sale of these units, nor sell the remaining units on such terms that NewBridge has established to make the Project viable.

3. Real Estate Held for Development and Placed in Service

NewBridge has obtained all necessary permits to construct more than 600 units, including senior supportive housing, assisted living units, and a health care center.

NewBridge has also entered into a purchase and sale agreement with a school, for the sale of approximately 17 of the 160 acres for the purpose of constructing a 450 student religious day school. The sale occurred in October 2008 for a purchase price of $4.6 million. As of September 30, 2009, $500,000 of the sales proceeds were being held in escrow until the build out of the schools' playing fields was complete. Escrow funds were released upon completion of the fields in 2010.

3. Real Estate Held for Development and Placed in Service (continued)

During 2009, NewBridge substantially completed construction, and placed the senior supportive housing, assisted living, and common spaces in service. In 2010, long-term care unit and skilled nursing facility (SNF) units were placed in service.

Property, plant, and equipment consist of the following:

	September 30	
	2010	**2010**
Property, plant and equipment:		
Land	**$ 18,158,924**	$ 17,308,924
Land improvements	**46,848,844**	33,352,140
Buildings	**231,579,365**	164,939,717
Furniture, fixtures and equipment	**114,294,157**	61,817,240
	410,881,290	277,418,021
Less accumulated depreciation	**(23,092,998)**	(2,916,390)
	$ 387,788,292	$ 274,501,631

The senior supportive housing and assisted living components of NewBridge became operational in June 2009 and July 2009, respectively. Buildings and those components with a total cost of $277,418,021 were placed in service and began to be depreciated at that time.

Project under development costs of $93,109,019 in 2009 represents the NewBridge HealthCare Center which was placed in service in November 2009. All buildings have been placed in service as of September 30, 2010.

	September 30	
	2010	**2009**
Construction	**$ –**	$ 70,443,941
Design costs	**–**	6,082,528
Financing costs	**–**	9,751,487
Other (including, permitting, legal, and other)	**–**	6,831,153
	$ –	$ 93,109,109

4. Debt and Interest Rate Swaps

During April 2005, NewBridge entered into a revolving loan agreement, subsequently amended, with Bank of America and Sovereign Bank (the Lenders) for the purchase of the land, and the preliminary development of NewBridge.

During December 2007, NewBridge issued $457,075,000 of tax-exempt bonds to pay for Project construction and other Project-related costs. Proceeds of the tax-exempt bonds were used to repay the $75 million loan from the Lenders, pay for certain issuance costs, pay for the portion of the HSL Development Fee, and establish certain funds, including the Project Fund and the Debt Service Fund. The tax-exempt bonds included the following:

> $378,905,000 of long-term variable rate, tax-exempt Series 2007B Long-Term Bonds issued by the Massachusetts Development Finance Agency; principal of $175,000,000 of the Series 2007B Long-Term Bonds is required to be repaid by December 2012 from anticipated initial entrance fee receipts from occupancy of the supportive housing units. Principal on the remaining $203,905,000 Series 2007B Long-Term Bonds is payable annually commencing January 2011, with a final maturity date of January 2048.
>
> $78,170,000 of long-term variable rate, tax-exempt Series 2007A Long-Term Bonds issued by the Massachusetts Health and Educational Facilities Authority. Principal on the $78,170,000 Series 2007A Long-Term Bonds is payable annually commencing January 2011, with a final maturity date of January 2048.
>
> NewBridge entered into a Direct Purchase Program with the Bank of America, N.A., known as the Issuer Edge Program. The Direct Purchase Program purchased all of the Series 2007 Bonds, and was conditioned upon Bank of America obtaining a secondary market letter of credit from a syndicate of banks. During 2010 and 2009, the spread for the letter of credit fees is 1.65%. Effective January 1, 2010, the spread for the letter of credit of fees has been reduced to 1.45%.

The variable rates of the bonds are based on the Securities Industry and Financial Markets Association Municipal Swap Index. The variable rate of interest at September 30, 2010 and 2009 was 1.72% and 2.05%, respectively. The bonds are secured by a collateral interest in the NewBridge property.

Interest capitalized by NewBridge was $15,674,861 in 2009. There was no interest capitalized in 2010.

4. Debt and Interest Rate Swaps (continued)

As of September 30, 2010, NewBridge had redeemed $149,935,000 of Series 2007B Bonds and had funded a sinking fund of $5,510,000 intended for the redemption of $1,595,000 on October 1, 2010 and additional $3,915,000 of Series 2007B Bonds on November 1, 2010. The amount of aggregated annual principal and mandatory sinking fund payment requirements for the next five years and thereafter are:

Year	Amount
2011	$ 12,789,000
2012	14,366,000
2013	2,350,000
2014	2,680,000
2015	2,820,000
Thereafter	272,135,000
	$ 307,140,000

Since September 30, 2010, NewBridge has remitted $10,183,225 of entrance fee proceeds to the bond trustee, which has been deposited to a sinking fund. Also, since September 30, 2010, $9,380,000 of the sinking fund has been used to redeem bonds, resulting in an outstanding balance of $297,760,000 at January 31, 2011.

Based upon borrowing rates available to HSL for debt with similar terms and average maturities, the market value of long-term debt at September 30, 2010 and 2009 approximates its carrying value.

4. Debt and Interest Rate Swaps (continued)

During November 2008, NewBridge entered into an interest rate swap agreement which became effective January 1, 2009 with Bank of America, N.A. (in such capacity, the Counterparty), with a notional amount of $282,075,000 and an interest rate of 4.16%, including letter of credit fees through December 19, 2012. This agreement cannot be terminated without a termination penalty by NewBridge. NewBridge pays a fixed rate on the notional amount, and in exchange, the Counterparty pays NewBridge a variable rate on the notional amount, based on the Securities Industry and Financial Markets Association Municipal Swap Index. This interest rate swap agreement meets the definition of a derivative instrument, and qualifies as an accounting hedge. Consequently, the fair value of this swap, a liability of $13,733,983 and $10,185,077 at September 30, 2010 and 2009, respectively, is reported in the accompanying statements of financial position, and the change in fair value of the swap of ($3,548,906) and ($10,735,038) for the years ended September 30, 2010 and 2009, respectively, is included in the statements of changes in net assets as a reduction in net assets. The net cash payments associated with the swap (the difference between the variable rate and the fixed rate) of $731,302 for the year ended September 30, 2010 is included in operating expenses. The net cash payments associated with the swap of $6,810,198 was capitalized and an additional $1,689,891 was included in operating expenses for the year ended September 30, 2009.

5. Assets Limited as to Use

Assets limited as to use consist of amounts required to be maintained under debt agreements as follows:

	September 30	
	2010	**2009**
Debt Service Reserve	**$ 17,598,684**	$ 17,723,838
Construction Fund	**287,032**	59,675,778
Sinking Fund	**2,440,339**	78,139,670
Master Facility Fund	**9,039,602**	9,036,604
Operating Reserve Fund	**10,001,708**	10,000,561
Total	**$ 39,367,365**	$ 174,576,451

6. Related Party Transactions

HSL has provided capital contributions to NewBridge totaling $22,834,688, of which $20,000,000 was received prior to 2009 and $2,834,688 was received during 2010.

6. Related Party Transactions (continued)

In conjunction with the tax-exempt bond financing during December 2007, HSL entered into a construction completion guaranty and support agreement. The guaranty and support agreement requires HSL to pay for costs of construction that exceed the amounts designated to be available from the financing proceeds. Additionally, the guaranty and support agreement provides for, upon certain conditions, operating cash from HSL to NewBridge in the form of equity or subordinated debt to pay debt service, its operating expenses, and its capital expenditures up to a maximum of $10,000,000. The construction completion guaranty terminates upon issuance of a certificate of occupancy for all components of the Project which occurred during December 2009. The support guaranty terminates upon stabilization of the Project.

In conjunction with the permanent tax-exempt bond financing, NewBridge also entered into the following agreements with HSL and HRC:

> NewBridge entered into a Management Agreement with HSL (the Management Agreement), under which HSL is to serve as manager of NewBridge. HSL is required to continue to perform oversight services with respect to the permitting, licensing, financing, design, and construction of NewBridge in all respects.
>
> Additionally, HSL shall provide management and oversight services necessary to manage the day-to-day operations of NewBridge. The Management Agreement commenced upon the closing of the bond financing for a term of ten years following the opening of NewBridge. As compensation for services rendered pursuant to the Management Agreement, NewBridge is expected to pay HSL:
>
> > Development/transition fees of $15,000,000 payable in the following installments: (i) $1,194,000 was paid prior to the closing of the bond financing; (ii) $3,806,000 was paid at the time of the closing of the bond financing; and (iii) the $10,000,000 balance was paid during December 2010, upon receipt of all certificates of occupancy.
> >
> > Pre-opening fees which represent an amount equal to reimbursement for all direct costs incurred by HSL, including staff costs, training, supplies, and other direct costs during the pre-opening period.

6. Related Party Transactions (continued)

Base management fees equal to 4% of gross revenues of the Project. After the Project has met certain conditions, incentive management fees equal to 2% of gross revenues of NewBridge; and affiliation management fees to the extent of 50% of NewBridge's cash flow after debt service in excess of the Incentive Management Fees, will be earned and paid each year. Any fees earned but unpaid are deferred until such time as the conditions for payment are met.

Pursuant to a Determination of Need, HRC moved 220 chronic hospital beds to a satellite facility at the Project during November and December 2009, and leased space for the satellite facility from NewBridge in the Health Center. The Lease Agreement provides for monthly rent payments from HRC equal to 100% of revenues from the operation of the leased space after payment of expenses of operations and of the leased space associated with those operations. HSL entered into a Management Agreement with HRC, under which HSL plans to manage the day-to-day operations of the 220 chronic hospital beds within the Health Center.

As of September 30, 2010 and 2009, NewBridge was indebted to HRC for $2,316,454 and $449,792, respectively, related to shared service payroll and other expenses, as well as SNF Margin and Long-Term Care Lease payments from HRC to NewBridge.

7. Fair Value of Financial Instruments

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels.

ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

7. Fair Value of Financial Instruments (continued)

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, NewBridge utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value.

Financial instruments carried at fair value are classified in the table below in one of the three categories described above:

	At September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 34,446,180**	**$ –**	**$ –**	**$ 34,446,180**
Fixed income	**17,539,186**	**–**	**–**	**17,539,186**
	$ 51,985,366	**$ –**	**$ –**	**$ 51,985,366**
Liabilities				
Interest rate swap	**$ –**	**$ 13,733,983**	**$ –**	**$ 13,733,983**

	At September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 173,236,986	$ –	$ –	$ 173,236,986
Fixed income	17,539,186	–	–	17,539,186
	$ 190,776,172	$ –	$ –	$ 190,776,172
Liabilities				
Interest rate swap	$ –	$ 10,185,077	$ –	$ 10,185,077

7. Fair Value of Financial Instruments (continued)

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Fair value for Level 2 liabilities is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields and credit spreads. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

8. Subsequent Events

NewBridge evaluated the impact of subsequent events through February 23, 2011, representing the date at which the financial statements were issued.