Financial Statements

NewBridge on the Charles, Inc.
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

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Financial Statements

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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. (NewBridge) as of September 30, 2011 and 2010, 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 NewBridge'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 NewBridge'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 NewBridge'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, 2011 and 2010, 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

December 16, 2011

NewBridge on the Charles, Inc.

Statements of Financial Position

	September 30 2011	September 30 2010
Assets		
Cash and cash equivalents	**$ 5,163,856**	$ 12,618,001
Monthly service fees receivable	**434,761**	365,763
Notes receivable from residents	–	293,600
Deposits held in escrow	**606,961**	460,260
Assets limited as to use	**38,628,366**	39,367,365
Property, plant and equipment, net of depreciation	**367,825,280**	387,788,292
Contract acquisition costs	**5,553,772**	6,511,141
Debt issuance costs	**5,602,228**	5,752,286
Other assets	**1,386,246**	2,614,280
Total assets	**$ 425,201,470**	$ 455,770,988
Liabilities and net assets		
Accounts payable and accrued expenses	**$ 2,543,897**	$ 6,696,275
Accrued interest expense	**969,688**	1,008,790
Entrance fee deposits	**2,390,525**	3,034,853
Due to residents	–	95,000
Due to affiliate	**3,614,850**	2,316,454
Deferred revenue from non-refundable entrance fees, net of accumulated amortization	**20,415,908**	19,915,984
Refundable entrance fees	**163,670,272**	143,004,158
Long-term debt	**281,060,000**	307,140,000
Interest rate swap	**8,454,600**	13,733,983
Other liabilities	**627,947**	556,933
Total liabilities	**483,747,687**	497,502,430
Net assets (deficiency):		
Unrestricted net deficiency	**(58,546,217)**	(41,731,442)
Total liabilities and net assets	**$ 425,201,470**	$ 455,770,988

See accompanying notes.

NewBridge on the Charles, Inc.

Statements of Operations and Changes in Net Assets

	Year Ended September 30 2011	2010
Operating revenues:		
Earned entrance fees	**$ 3,123,450**	$ 2,196,384
Independent living	**11,275,576**	8,896,104
Assisted living	**8,075,160**	5,133,373
Skilled nursing	**9,444,593**	4,090,702
Health center lease	**7,211,395**	717,706
Rental income	**75,008**	74,596
Interest income	**761,882**	798,844
Other income	**462,765**	414,882
	40,429,829	22,322,591
Operating expenses:		
Marketing	**1,358,396**	1,188,688
Assisted living	**3,800,046**	2,935,794
Skilled nursing	**8,967,814**	5,413,401
Health center transition	**–**	473,928
Culinary	**3,080,907**	3,662,743
Community life	**797,119**	753,376
Fringe benefits	**2,963,338**	2,650,730
Plant and maintenance	**6,414,712**	6,832,550
General and administrative	**2,968,559**	2,882,313
Interest expense	**11,913,109**	12,817,884
Depreciation and amortization	**19,341,114**	21,288,428
Total operating expenses	**61,605,114**	60,899,835
Operating loss	**(21,175,285)**	(38,577,244)
Impairment and disposal of property	**918,874**	–
Deficiency of revenues over expenses	**(22,094,159)**	(38,577,244)
Change in value of interest rate swap	**5,279,384**	(3,548,906)
Net assets transferred from Hebrew SeniorLife, Inc.	**–**	2,834,688
Decrease in unrestricted net assets	**(16,814,775)**	(39,291,462)
Net deficiency at beginning of year	**(41,731,442)**	(2,439,980)
Net deficiency at end of year	**$ (58,546,217)**	$ (41,731,442)

See accompanying notes.

NewBridge on the Charles, Inc.

Statements of Cash Flows

	Year Ended September 30 2011	2010
Operating activities		
Decrease in net assets	**$ (16,814,775)**	$ (39,291,462)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**19,341,114**	21,288,428
Entrance fee amortization	**(3,123,450)**	(2,196,384)
Impairment and disposal of property	**918,874**	–
Change in value of interest rate swaps	**(5,279,383)**	3,548,906
Transfer from Hebrew SeniorLife, Inc.	–	(2,834,688)
Changes in operating assets and liabilities:		
Increase in monthly service fees receivable	**(68,998)**	(57,052)
Increase in other assets	**(20,962)**	(26,676)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	**(4,103,029)**	264,268
Decrease in accrued interest expense	**(39,102)**	(274,035)
(Decrease) increase in amounts due to residents	**(95,000)**	95,000
Increase in amounts due to affiliate	**1,298,396**	1,866,662
Net cash used in operating activities	**(7,986,315)**	(17,617,033)
Investing activities		
Deposits held in escrow	**(146,701)**	39,740
Additions to property, plant and equipment	**(270,122)**	(40,354,160)
Proceeds from disposal of property	**1,085,199**	–
Owner controlled insurance program deposit	**1,213,432**	(2,395,678)
Contract acquisition costs	–	(8,132)
Assets limited as to use and related interest	**734,799**	135,211,312
Net cash provided by investing activities	**2,616,607**	92,493,082
Financing activities		
Transfer from Hebrew SeniorLife, Inc.	–	2,834,688
Entrance fee deposits received, net of refunds	**(644,328)**	(3,740,142)
Refundable entrance fees received	**20,666,114**	47,202,395
Non-refundable entrance fees received	**3,623,374**	6,925,720
Entrance fees receivable	**39,765**	4,729,370
Notes receivable from residents	**293,600**	350,200
Repayment of long-term bonds	**(26,080,000)**	(136,760,000)
Other	**21,663**	–
Bond issuance costs	**(4,625)**	–
Net cash used in financing activities	**(2,084,437)**	(78,457,769)
Net decrease in cash and cash equivalents	**(7,454,145)**	(3,581,720)
Cash and cash equivalents at beginning of year	**12,618,001**	16,199,721
Cash and cash equivalents at end of year	**$ 5,163,856**	$ 12,618,001

See accompanying notes.

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 independent living 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, Inc. (HRC), which operates a 725-licensed bed facility recognized for its commitment to providing 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. Certain of the Directors of NewBridge are also Directors of HSL.

During April 2005, NewBridge purchased land in the town of Dedham, Massachusetts for approximately $21,000,000 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. The first independent living and assisted living units were occupied by residents during June 2009, and development and construction of NewBridge was substantially completed by October 2009. NewBridge facilities consist of 256 independent living units, 91 assisted living suites and a 268-bed health care center that includes 220 chronic hospital beds (Note 6), and 48 skilled nursing beds.

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 accounting principles generally accepted 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.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain prior year balances on the statement of financial position have been reclassified to conform to the current presentation. These reclassifications did not have any effect on NewBridge's financial position at September 30, 2010.

Cash and Cash Equivalents

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

Entrance Fees From Independent Living Residents

Entrance fees are paid to NewBridge by residents of the independent living 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 of the entrance fee 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 resident, with the life expectancy re-evaluated annually. The refundable portion is recorded as a liability as the repayment of refundable entrance fees is not contingent upon the receipt of reoccupancy proceeds.

Entrance fees are typically due at the time a resident takes occupancy of an independent living unit. However, in certain circumstances, NewBridge allows for a deferral of payment for up to 30 days, with interest at 5% per annum, to those residents who have a signed purchase and sale agreement on their home so that the resident may complete the sale of their home, and use the proceeds from the sale to fund the entrance fee.

Entrance fee deposits consist primarily of deposits received from prospective independent living residents, generally 10% of the expected entrance fee, who have entered into a deposit agreement. Entrance fee deposits received prior to occupancy are included as a component of cash and cash equivalents on the accompanying balance sheets. The deposits are deducted from the entrance fee, which is payable upon occupancy of the independent living unit.

2. Summary of Significant Accounting Policies (continued)

Independent Living and Assisted Living Revenues

Independent living and assisted living revenues represent monthly service fees paid by residents of independent living units and assisted living suites.

Skilled Nursing Revenues

Skilled nursing revenues are derived from public and private sources, and are reported at the estimated net realizable amounts due from patients and third-party payors (primarily Medicare) for services rendered, including estimated adjustments from third-party payors. Revenue is recorded in the period services are provided in an amount estimated to be ultimately received from the patient or third-party payor, with adjustments to these estimates recorded as they become known.

Laws and regulations governing the Medicare program are complex and subject to interpretation. NewBridge believes that it is in compliance with all applicable laws and regulations, and it is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare program.

Accounts receivable related to skilled nursing revenues are maintained by HRC on behalf of NewBridge, and are represented as a component of the due to affiliate balance on the accompanying balance sheets.

Notes Receivable from Residents

Notes receivable from independent living residents are evidenced by notes (in an amount up to 20% of entrance fees receivable), 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 refundable portion of the entrance fee. All notes outstanding as of September 30, 2010 were repaid during the year ended September 30, 2011.

Deposits Held in Escrow

Deposits held in escrow at September 30, 2011 and 2010 represent last month's rent deposits from assisted living residents.

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include assets held by trustees under long-term debt indentures and other arrangements. Assets limited as to use consist of money market holdings and a guaranteed investment contract.

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
Building improvements	15 years
Major fixed equipment and site improvements	15 years
Furniture and fixtures	7 years
Vehicles and IT software and equipment	5 years
Appliances and other equipment	7 years

NewBridge reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The amount of impairment, if any, is measured based on fair value, which is determined by either a quoted market price or by a discounted cash flow technique, whichever is more appropriate under the circumstances.

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 as a component of deficiency of revenues over expenses. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

2. Summary of Significant Accounting Policies (continued)

Contract Acquisition Costs

Certain costs incurred to acquire the initial independent living contracts at NewBridge have been capitalized in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 954, *Health Care Entities*. Contract acquisition costs are being amortized over eight years, equivalent to the estimated average remaining life of the initial residents of NewBridge.

Debt Issuance Costs

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

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 in connection with 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.

3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30	
	2011	**2010**
Property, plant and equipment:		
Land	**$ 18,158,924**	$ 18,158,924
Land improvements	**47,331,314**	46,848,844
Buildings	**229,640,969**	231,579,365
Building improvements	**158,825**	–
Furniture, fixtures and equipment	**113,857,307**	114,294,157
	409,147,339	410,881,290
Less accumulated depreciation	**(41,322,059)**	(23,092,998)
	$ 367,825,280	$ 387,788,292

Depreciation expense for the years ended September 30, 2011 and 2010 was $18,229,062 and $20,199,206, respectively. During April, 2011, NewBridge entered into a purchase and sale agreement to dispose of a residence and related property located in Dedham, Massachusetts and reduced the carrying value of the residence and related property by $911,572 based on the expected proceeds to be received. The sale was completed in August, 2011, and at that time NewBridge recognized an additional loss of $7,302 based on the actual proceeds received from the sale.

4. Debt and Interest Rate Swap

During December 2007, NewBridge issued $457,075,000 of tax-exempt bonds to pay for construction and other project-related costs. Proceeds of the tax-exempt bonds were also used to pay for certain issuance costs, pay for a portion of the HSL Development Fee (Note 6) and establish certain funds, including a Debt Service Fund (Note 5). The tax-exempt bonds include 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 was repaid through September 2011, from initial entrance fee receipts from occupancy of the independent living units. Principal on the remaining $203,905,000 of the Series 2007B Long-Term Bonds is payable annually commencing January 2011, with a final maturity date of January 2048.

4. Debt and Interest Rate Swap (continued)

$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 Series 2007A Long-Term Bonds is payable annually commencing January 2011, with a final maturity date of January 2048.

Also during December, 2007, NewBridge entered into a Direct Purchase Program with Bank of America, N.A., (Bank of America). Pursuant to the Direct Purchase Program, Bank of America purchased all of the Series 2007A and Series 2007B Long-Term Bonds, and obtained a secondary market letter of credit from a syndicate of banks.

The variable rates of the Series 2007A and 2007B Long-Term Bonds are based on the Securities Industry and Financial Markets Association Municipal Swap Index, plus an applicable margin. Effective January 1, 2010, the applicable margin was reduced from 1.65% to 1.45%. The variable rate of interest, including the applicable margin, at September 30, 2011 and 2010 was 1.61% and 1.72%, respectively. The tax-exempt bonds are secured by a collateral interest in the NewBridge property, plant and equipment.

As of September 30, 2011, NewBridge has repaid $175,000,000 of the Series 2007B Long-Term Bonds from initial entrance fee receipts as required. On January 1, 2011, NewBridge repaid $835,000 in Series 2007B Long-Term Bond principal, and $180,000 of Series 2007A Long-Term Bond principal pursuant to scheduled maturities. The amount of aggregated annual principal and mandatory sinking fund payment requirements for the next five years and thereafter are:

Year	Amount
2012	$ 1,075,000
2013	2,350,000
2014	2,680,000
2015	2,820,000
2016	2,970,000
Thereafter	269,165,000
	$ 281,060,000

4. Debt and Interest Rate Swap (continued)

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, 2011 and 2010 approximates its carrying value.

Pursuant to a continuing covenants agreement between NewBridge and Bank of America, NewBridge is required to maintain certain financial covenants as follows: (i) beginning on September 30, 2011, and for each fiscal quarter thereafter, a minimum debt service coverage ratio; (ii) beginning on December 31, 2011, and at each successive six-month period thereafter, a minimum cash reserve ratio; and (iii) beginning on December 31, 2011, and at each successive six-month period thereafter, a minimum number of days cash on hand. NewBridge was in compliance with the minimum debt service coverage ratio at September 30, 2011.

During November 2008, NewBridge entered into an interest rate swap agreement, which became effective January 1, 2009, with Bank of America (in such capacity, the Counterparty), with a notional amount of $282,075,000 through December 19, 2012. This agreement cannot be terminated without a termination penalty by NewBridge. NewBridge pays a fixed rate on the notional amount of 2.71% 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 $8,454,600 and $13,733,983 at September 30, 2011 and 2010, respectively, is reported in the accompanying statements of financial position, and the change in the fair value of the swap of $5,279,384 and $(3,548,906) for the years ended September 30, 2011 and 2010, respectively, is included in the statements of changes in net assets. The net cash payments from NewBridge to Bank of America associated with the swap (the difference between the variable rate and the fixed rate), of $7,001,546 for the year ended September 30, 2011 and $6,912,929 for the year ended September 30, 2010, is included in operating expenses as a component of interest expense.

5. Assets Limited as to Use

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

	September 30 2011	2010
Debt service reserve fund	**$ 17,723,832**	$ 17,598,684
Construction fund	–	287,032
Sinking fund/Entrance fee fund	**1,861,366**	2,440,339
Master facility fund	**9,040,742**	9,039,602
Operating reserve fund	**10,002,426**	10,001,708
Total	**$ 38,628,366**	$ 39,367,365

A description of each fund follows:

Debt Service Reserve Fund: Funds held in trust for the purpose of covering any deficiencies in principal (including sinking fund payments) and interest payments on the Series 2007A and Series 2007B Long-Term Bonds.

Construction Fund: Funds held in trust for the purpose of reimbursement of project and development costs incurred by NewBridge. No further amounts will be deposited into the Construction Fund, as the development of NewBridge is complete.

Sinking Fund/Entrance Fee Fund: Pursuant to the terms of the debt indenture and other agreements, $175,000,000 of entrance fees received from supporting housing residents were required to be deposited in the Entrance Fee Fund for the purpose of repaying $175,000,000 of Series 2007B Long-Term Bond principal. Subsequent to meeting this repayment requirement in September 2011, this fund is used for monthly sinking fund payments. The cumulative annual sinking fund payments are used to fund scheduled principal repayments of Series 2007A and 2007B Long-Term Bond principal each January.

Master Facility Fund: Funds held in trust for the purpose of promoting proper completion of development and construction of NewBridge, or the operation of NewBridge and occupancy of the independent living units. Funds may be distributed to NewBridge upon the written consent of Bank of America. The Master Facility Fund may be closed, and the fund balance released

5. Assets Limited as to Use (continued)

from restriction upon the achievement of stabilization, as that term is defined in the debt indenture and other agreements. NewBridge expects to achieve stabilization during the fiscal quarter ending March 31, 2012.

Operating Reserve Fund: The first $10,000,000 of entrance fees from independent living residents were required to be deposited into this fund. The Operating Reserve Fund was established to cover working capital needs. Funds may be distributed to NewBridge upon the written consent of Bank of America. The Operating Reserve Fund may be closed, and the fund balance released from restriction upon the achievement of stabilization, as that term is defined in the debt indenture and other agreements. NewBridge expects to achieve stabilization during the fiscal quarter ending March 31, 2012.

6. Related Party Transactions

HSL has provided capital contributions to NewBridge totaling $22,834,688, of which $2,834,688 was received during the year ended September 30, 2010. No such amounts were received during the year ended September 30, 2011.

In conjunction with the tax-exempt bond financing during December 2007, HSL and NewBridge entered into a construction completion guaranty and support agreement (the guaranty and support agreement). The guaranty and support agreement required HSL to pay for costs of construction that exceed the amounts designated to be available from the tax-exempt bond financing proceeds. Additionally, the guaranty and support agreement provided for, upon certain conditions, HSL to provide NewBridge with funds in the form of equity or subordinated debt to pay debt service, operating expenses and capital expenditures up to a maximum of $10,000,000. The construction completion guaranty terminated during December 2009. The support guaranty will terminate upon achieving stabilization. NewBridge did not receive any amounts pursuant to the guaranty and support agreement.

Also in conjunction with the tax-exempt bond financing, NewBridge entered into a management agreement with HSL (the management agreement), under which HSL is to serve as manager of NewBridge, and provide management and oversight services necessary to manage the day-to-day

6. Related Party Transactions (continued)

operations of NewBridge. The management agreement commenced upon the closing of the tax-exempt bond financing for a term of ten years following the opening of NewBridge in June 2009. As compensation for services rendered pursuant to the management agreement, NewBridge has paid HSL:

> Development/transition fees of $15,000,000, paid as follows: (i) $1,194,000 was paid prior to the closing of the tax-exempt bond financing; (ii) $3,806,000 was paid at the time of the closing of the tax-exempt bond financing; and (iii) the $10,000,000 balance was paid during December 2010, upon receipt of all certificates of occupancy. These amounts were recorded as a reduction to the due to affiliate balance.
>
> Base management fees equal to 4% of certain operating revenues. Upon meeting certain conditions, NewBridge will also pay incentive management fees equal to 2% of certain operating revenues and affiliation management fees to the extent of 50% of NewBridge's cash flow after debt service in excess of the incentive management fees. For the years ended September 30, 2011 and 2010, NewBridge recorded base management fee expenses of $795,541 and $580,758, respectively. These amounts are included as a component of general and administrative expense in the accompanying statements of operations. Any fees earned but unpaid are deferred until such time as the conditions for payment are met. As of September 30, 2011 and 2010, no management fees have been deferred.

Pursuant to a Determination of Need, HRC transferred 220 chronic hospital beds to a facility located on the NewBridge property during November and December 2009, and leased space for the facility from NewBridge. 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 associated with those operations. Rent amounts pursuant to the lease agreement are included in the statement of operations as health center lease revenue.

As of September 30, 2011 and 2010, NewBridge was indebted to HSL/HRC for $3,614,850 and $2,316,454, respectively. The balance is generally increased by HSL shared service payroll and other HSL shared service expenses charged to NewBridge, the recording of management fees and cash collections on certain skilled nursing accounts receivable balances maintained by HRC on behalf of NewBridge. The balance is generally decreased by health center lease and skilled nursing revenues.

7. Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, 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:* Fair value for Level 1 assets is based on 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:* 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.
>
> *Level 3:* Fair value of Level 3 assets is determined based on unobservable inputs, and 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.

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.

7. Fair Value of Financial Instruments (continued)

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

	At September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents	**$ 21,089,180**	**$ –**	**$ –**	**$ 21,089,180**
Guaranteed investment contract	**17,539,186**	**–**	**–**	**17,539,186**
	$ 38,628,366	**$ –**	**$ –**	**$ 38,628,366**
Liabilities				
Interest rate swap	**$ –**	**$ 8,454,600**	**$ –**	**$ 8,454,600**

	At September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents	$ 21,828,179	$ –	$ –	$ 21,828,179
Guaranteed investment contract	17,539,186	–	–	17,539,186
	$ 39,367,365	$ –	$ –	$ 39,367,365
Liabilities				
Interest rate swap	$ –	$ 13,733,983	$ –	$ 13,733,983

Cash equivalents at September 30, 2011 represent money market holdings that consist primarily of U.S. Treasury obligations.

The guaranteed investment contract is maintained with a financial institution, and earns interest at an annual rate of 4.21%. The contract matures on January 1, 2013.

8. Subsequent Events

NewBridge evaluated the impact of subsequent events through December 16, 2011, representing the date at which the financial statements were issued.

On November 30, 2011, NewBridge entered into an amendment to the continuing covenants agreement to adjust the required cash reserve ratio. In exchange for the adjustment, the amendment increased the applicable margin described in Note 4 to 1.70% beginning on January 1, 2012, to 1.95% beginning on April 1, 2012, to 2.20% beginning on July 1, 2012 and to 2.45% beginning on October 1, 2012, and thereafter to the maturity date of the Series 2007A and Series 2007B Long-Term Bonds.

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