

SEVEN HILLS FOUNDATION AND AFFILIATES

***COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES***

YEAR ENDED JUNE 30, 2009

AND

INDEPENDENT AUDITOR'S REPORT

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2009

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report | 1 |
| Financial Statements: | |
| Combined Statement of Financial Position | 2 |
| Combined Statement of Activities | 3 |
| Combined Statement of Functional Expenses | 4 |
| Combined Statement of Cash Flows | 5 |
| Notes to Combined Financial Statements | 6 - 17 |
| Supplemental Schedules: | |
| Schedule 1 - Combining Statement of Activities | 18 |
| Schedule 2 - Explanation of Eliminations | 19 |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Seven Hills Foundation and Affiliates

We have audited the accompanying combined statement of financial position of Seven Hills Foundation and Affiliates (the "Foundation") as of June 30, 2009, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior years' summarized comparative information has been derived from the 2008 combined financial statements and, in our report, dated October 28, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit 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 combined financial statements are free of material misstatement. An audit includes 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 Foundation'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 combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Seven Hills Foundation and Affiliates as of June 30, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic combined financial statements taken as a whole.

Bollus Lynch, LLP

Worcester, Massachusetts
November 16, 2009

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINED STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2009
 (With Summarized Financial Information for 2008)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2009 | 2008 |
| Assets | | | | | |
| Current assets | | | | | |
| Cash | \$ 9,209,213 | \$ 474,578 | \$ 216,713 | \$ 9,900,504 | \$ 3,993,976 |
| Deposits with trustees | 2,775,304 | - | - | 2,775,304 | 2,740,356 |
| Accounts receivable, less allowance for doubtful accounts of \$512,397 | 12,827,296 | - | - | 12,827,296 | 8,590,135 |
| Pledges receivable | 207,795 | - | - | 207,795 | 12,796 |
| Prepaid expenses and other assets | 287,876 | - | - | 287,876 | 217,354 |
| Notes receivable | 202,747 | - | - | 202,747 | - |
| Total current assets | 25,510,231 | 474,578 | 216,713 | 26,201,522 | 15,554,617 |
| Investments | 9,711,947 | - | - | 9,711,947 | 11,683,812 |
| Investment in unconsolidated affiliates | 1,235,432 | - | - | 1,235,432 | 1,200,000 |
| Deposits with trustees, net | 4,969,206 | - | - | 4,969,206 | 3,207,381 |
| Loan acquisition costs, net | 3,010,531 | - | - | 3,010,531 | 2,579,828 |
| Deposits and other assets | 280,336 | - | - | 280,336 | 278,680 |
| Property, plant, and equipment, net | 78,057,969 | - | - | 78,057,969 | 71,319,687 |
| Cash value of life insurance | 604,208 | - | - | 604,208 | 545,761 |
| | <u>\$123,379,860</u> | <u>\$ 474,578</u> | <u>\$ 216,713</u> | <u>\$124,071,151</u> | <u>\$106,369,766</u> |
| Liabilities and Net Assets | | | | | |
| Current liabilities | | | | | |
| Notes payable, bank | \$ 1,280,627 | \$ - | \$ - | \$ 1,280,627 | \$ 4,645,654 |
| Current maturities of long-term debt | 1,733,459 | - | - | 1,733,459 | 1,358,408 |
| Accounts payable | 5,918,930 | - | - | 5,918,930 | 3,813,784 |
| Accrued and other liabilities | 6,387,313 | - | - | 6,387,313 | 5,258,413 |
| Total current liabilities | 15,320,329 | - | - | 15,320,329 | 15,076,259 |
| Advances from the State of Rhode Island | 1,115,304 | - | - | 1,115,304 | - |
| Long-term debt, less current maturities | 70,516,305 | - | - | 70,516,305 | 61,779,753 |
| Hedging instrument liability | 461,650 | - | - | 461,650 | - |
| Deferred compensation liability | 2,020,463 | - | - | 2,020,463 | 1,455,415 |
| | <u>89,434,051</u> | <u>-</u> | <u>-</u> | <u>89,434,051</u> | <u>78,311,427</u> |
| Net assets | | | | | |
| Unrestricted | | | | | |
| Undesignated | 24,889,327 | - | - | 24,889,327 | 16,574,383 |
| Designated for endowment | 9,056,482 | - | - | 9,056,482 | 11,069,945 |
| Temporarily restricted | - | 474,578 | - | 474,578 | 197,298 |
| Permanently restricted | - | - | 216,713 | 216,713 | 216,713 |
| | <u>33,945,809</u> | <u>474,578</u> | <u>216,713</u> | <u>34,637,100</u> | <u>28,058,339</u> |
| | <u>\$123,379,860</u> | <u>\$ 474,578</u> | <u>\$ 216,713</u> | <u>\$124,071,151</u> | <u>\$106,369,766</u> |

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009
(With Summarized Financial Information for 2008)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2009 | 2008 |
| Operating support and revenue: | | | | | |
| Government contracts and fees | \$ 120,959,052 | \$ - | \$ - | \$ 120,959,052 | \$ 104,038,451 |
| Government donated staff and transportation | 87,876 | - | - | 87,876 | 87,876 |
| H.U.D. rental subsidy | 667,168 | - | - | 667,168 | 697,102 |
| Private contracts and fees | 3,712,624 | - | - | 3,712,624 | 3,352,854 |
| Trainee production | 198,970 | - | - | 198,970 | 233,342 |
| Rent, vending, service fees | 3,512,304 | - | - | 3,512,304 | 3,002,946 |
| Interest income | 267,775 | - | - | 267,775 | 322,926 |
| Investment income | 588,816 | 15 | - | 588,831 | 877,875 |
| Net investment losses | (2,564,200) | - | - | (2,564,200) | (1,278,030) |
| Beano income | 1,759,389 | - | - | 1,759,389 | 1,657,943 |
| Capital campaign | 320,486 | - | - | 320,486 | 388,498 |
| Contributions | 4,600,044 | 501,112 | - | 5,101,156 | 1,002,034 |
| Cafeteria | 223,975 | - | - | 223,975 | 160,256 |
| Gain on sale of property, plant and equipment | 176,349 | - | - | 176,349 | 176,718 |
| Grants | 106,662 | - | - | 106,662 | 23,302 |
| Other | 825,655 | - | - | 825,655 | 984,000 |
| Net assets release from restrictions: | | | | | |
| Satisfactorin of purpose restrictions | 223,847 | (223,847) | - | - | - |
| Total support and revenue | <u>135,666,792</u> | <u>277,280</u> | <u>-</u> | <u>135,944,072</u> | <u>115,728,093</u> |
| Operating expenses: | | | | | |
| Program services | | | | | |
| Residential services | 35,757,572 | - | - | 35,757,572 | 34,881,858 |
| Family support | 13,467,721 | - | - | 13,467,721 | 13,035,522 |
| Vocational services | 7,863,459 | - | - | 7,863,459 | 7,786,024 |
| Nursing home services | 10,737,513 | - | - | 10,737,513 | 10,509,719 |
| Community services - Massachusetts | 8,573,986 | - | - | 8,573,986 | 8,032,324 |
| Community services - Rhode Island | 10,946,899 | - | - | 10,946,899 | - |
| Rental property operations | 391,128 | - | - | 391,128 | 555,239 |
| Child care services | 25,711,721 | - | - | 25,711,721 | 24,534,483 |
| Clinical services | 7,181,318 | - | - | 7,181,318 | 6,318,719 |
| | <u>120,631,317</u> | <u>-</u> | <u>-</u> | <u>120,631,317</u> | <u>105,653,888</u> |
| Supporting services | | | | | |
| Management and general | 8,272,344 | - | - | 8,272,344 | 8,064,237 |
| Total expenses | <u>128,903,661</u> | <u>-</u> | <u>-</u> | <u>128,903,661</u> | <u>113,718,125</u> |
| Change in net assets from operations | 6,763,131 | 277,280 | - | 7,040,411 | 2,009,968 |
| Non-operating expense: | | | | | |
| Unrealized loss on hedging instrument | (461,650) | - | - | (461,650) | - |
| Change in net assets | 6,301,481 | 277,280 | - | 6,578,761 | 2,009,968 |
| Net assets, beginning of year | <u>27,644,328</u> | <u>197,298</u> | <u>216,713</u> | <u>28,058,339</u> | <u>26,048,371</u> |
| Net assets, end of year | <u>\$ 33,945,809</u> | <u>\$ 474,578</u> | <u>\$ 216,713</u> | <u>\$ 34,637,100</u> | <u>\$ 28,058,339</u> |

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009
(With Summarized Financial Information for 2008)

| | Program Services | | | | | |
|-------------------------------|-------------------------|----------------------|------------------------|----------------------|----------------------------|----------------------------|
| | Residential Services | Family Support | Vocational Services | Nursing Home | Community Services - MA | Community Services - RI |
| Staff payroll | \$ 22,280,768 | \$ 3,241,585 | \$ 3,986,751 | \$ 6,466,881 | \$ 5,459,275 | \$ 6,856,527 |
| Trainee payroll | - | - | 273,366 | - | - | 130,886 |
| Payroll taxes | 1,961,969 | 292,450 | 357,665 | 473,502 | 482,447 | 616,953 |
| Employee benefits | 2,553,174 | 300,441 | 748,185 | 864,356 | 224,278 | 1,023,845 |
| Government staff | - | - | 87,876 | - | - | - |
| Occupancy | 2,213,947 | 131,933 | 478,196 | 710,477 | 561,556 | 551,923 |
| Telephone | 230,204 | 21,771 | 35,207 | 3,313 | 119,203 | 67,537 |
| General insurance | 149,961 | 27,383 | 37,223 | 131,795 | 67,175 | 177,024 |
| Office and operating supplies | 215,099 | 16,565 | 117,839 | 592,535 | 318,000 | 107,368 |
| Dues and subscriptions | - | - | - | - | 1,997 | 17,571 |
| Printing and postage | 7,433 | 930 | 3,699 | - | 18,683 | 18,033 |
| Advertising | 2,670 | - | - | - | 526 | 195 |
| Legal and audit | - | - | - | - | - | 92,868 |
| Client transportation | 1,374,014 | 206,931 | 333,094 | 10,540 | 160,521 | 148,103 |
| Specialized home care | 179,392 | 6,505,625 | - | - | - | - |
| Clinical consultants | 341,695 | - | 87,094 | 136,874 | 199,195 | 504,789 |
| Purchased services | - | - | - | 236,995 | - | 54,967 |
| Family support | 42,697 | 2,402,445 | - | - | 61,946 | 33,858 |
| TEACH program | - | - | - | - | - | - |
| Staff training | 1,194 | - | - | 2,405 | 18,404 | 12,498 |
| Fund raising | - | - | - | - | - | - |
| Cafeteria and food | 1,311,544 | 58,460 | 284,378 | 167,809 | 7,863 | 99,955 |
| Interest | 1,377,269 | 130,122 | 285,098 | 443,911 | 153,635 | 17,272 |
| Beano expenses | 538,224 | - | 422,269 | - | - | - |
| Other | 26,088 | 24,756 | 37,982 | 1,084 | 548,567 | 200,033 |
| Total before depreciation | 34,807,342 | 13,361,397 | 7,575,922 | 10,242,477 | 8,403,271 | 10,732,205 |
| Depreciation and amortization | 950,230 | 106,324 | 287,537 | 495,036 | 170,715 | 214,694 |
| | <u>\$ 35,757,572</u> | <u>\$ 13,467,721</u> | <u>\$ 7,863,459</u> | <u>\$ 10,737,513</u> | <u>\$ 8,573,986</u> | <u>\$ 10,946,899</u> |

| Rental Property Operations | Program Services | | | Management and General | Totals | |
|-------------------------------|------------------------|----------------------|-----------------------|------------------------------|-----------------------|-----------------------|
| | Child Care Services | Clinical Services | Total | | 2009 | 2008 |
| | \$ 899 | \$ 1,478,974 | \$ 4,562,942 | | \$ 54,334,602 | \$ 2,908,387 |
| - | - | - | 404,252 | - | 404,252 | 310,159 |
| 297 | 127,670 | 403,863 | 4,716,816 | 232,191 | 4,949,007 | 3,806,496 |
| - | 214,723 | 632,559 | 6,561,561 | 1,325,828 | 7,887,389 | 6,621,171 |
| - | - | - | 87,876 | - | 87,876 | 87,876 |
| 131,183 | 237,352 | 336,888 | 5,353,455 | 340,748 | 5,694,203 | 4,954,709 |
| 12,447 | 30,137 | 56,658 | 576,477 | 101,490 | 677,967 | 539,883 |
| 9,924 | 17,830 | 20,469 | 638,784 | 104,128 | 742,912 | 621,226 |
| 16,309 | 51,411 | 71,435 | 1,506,561 | 183,817 | 1,690,378 | 1,569,677 |
| 90 | 12,512 | 6,726 | 38,896 | 70,089 | 108,985 | 67,013 |
| 329 | 33,826 | 1,808 | 84,741 | 120,620 | 205,361 | 177,926 |
| - | 100 | 184 | 3,675 | 171,394 | 175,069 | 198,160 |
| - | - | - | 92,868 | 162,614 | 255,482 | 179,771 |
| - | 79,863 | 243,116 | 2,556,182 | 121,529 | 2,677,711 | 2,531,015 |
| - | - | - | 6,685,017 | - | 6,685,017 | 6,297,972 |
| 2,104 | 711,778 | 165,587 | 2,149,116 | 236,113 | 2,385,229 | 1,812,609 |
| - | - | - | 291,962 | 6,381 | 298,343 | 294,060 |
| - | 22,438,594 | - | 24,979,540 | - | 24,979,540 | 23,653,477 |
| - | - | 21,922 | 21,922 | - | 21,922 | 94,259 |
| - | 7,084 | 1,734 | 43,319 | 174,742 | 218,061 | 190,280 |
| - | - | - | - | 85,827 | 85,827 | 78,549 |
| - | 110,984 | 138,107 | 2,179,100 | - | 2,179,100 | 2,030,768 |
| 123,044 | 80,868 | 296,334 | 2,907,553 | 517,015 | 3,424,568 | 3,351,273 |
| - | - | - | 960,493 | 463,750 | 1,424,243 | 1,390,532 |
| 2,765 | 34,299 | 5,197 | 880,771 | 717,866 | 1,598,637 | 1,335,226 |
| 299,391 | 25,668,005 | 6,965,529 | 118,055,539 | 8,044,529 | 126,100,068 | 111,451,032 |
| 91,737 | 43,716 | 215,789 | 2,575,778 | 227,815 | 2,803,593 | 2,267,093 |
| <u>\$ 391,128</u> | <u>\$ 25,711,721</u> | <u>\$ 7,181,318</u> | <u>\$ 120,631,317</u> | <u>\$ 8,272,344</u> | <u>\$ 128,903,661</u> | <u>\$ 113,718,125</u> |

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(With Summarized Financial Information for 2008)

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 6,578,761 | \$ 2,009,968 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,803,593 | 2,267,093 |
| Equity in earnings of unconsolidated affiliates | (35,432) | - |
| Unrealized loss on hedging instrument | 461,650 | - |
| Amortization of bond interest purchased | - | (26,248) |
| Net investment losses | 2,564,200 | 1,278,030 |
| Gain on sale of property, plant, and equipment | (176,349) | (176,718) |
| Contributions received for capital improvements | (236,142) | (388,498) |
| Non-cash contributions | (4,622,984) | (447,080) |
| Deferred compensation expense | 565,048 | 535,812 |
| Decrease (increase) in operating assets: | | |
| Accounts receivable | (1,854,593) | (336,622) |
| Pledges receivable | (112,309) | 18,883 |
| Prepaid expenses and other assets | (70,522) | (134) |
| Notes receivable | (137,799) | - |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 2,441,356 | 49,492 |
| Accrued and other liabilities | (267,370) | 441,675 |
| | <u>1,322,347</u> | <u>3,215,685</u> |
| Net cash provided by operating activities | <u>7,901,108</u> | <u>5,225,653</u> |
| Cash flows from investing activities: | | |
| Payments for purchases of investments | (2,577,058) | (9,811,621) |
| Proceeds from sale and maturities of investments | 2,019,884 | 10,075,703 |
| Investments in unconsolidated affiliates | - | (1,200,000) |
| Change in assets deposited with trustees | (1,796,773) | 2,955,971 |
| Expenditures for loan acquisition costs | (552,177) | (850) |
| (Increase) decrease in deposits and other assets | (1,656) | 4,396 |
| Expenditures for property, plant, and equipment | (7,094,193) | (13,641,735) |
| Proceeds from sale of property, plant, and equipment | 664,023 | 315,569 |
| Increase in cash value of life insurance | (58,447) | (63,391) |
| Net cash used in investing activities | <u>(9,396,397)</u> | <u>(11,365,958)</u> |
| Cash flows from financing activities: | | |
| Net proceeds (repayments) on notes payable, bank | (3,886,991) | 4,310,122 |
| Proceeds from issuance of long-term debt | 17,500,000 | 2,600,280 |
| Principal payments of long-term debt | (9,109,192) | (4,001,437) |
| Contributions received for capital improvements | 236,142 | 388,498 |
| Net cash provided by financing activities | <u>4,739,959</u> | <u>3,297,463</u> |
| Net increase (decrease) in cash | 3,244,670 | (2,842,842) |
| Cash acquired through merger with Homestead Group | 2,661,858 | - |
| Cash, beginning of year | <u>3,993,976</u> | <u>6,836,818</u> |
| Cash, end of year | <u>\$ 9,900,504</u> | <u>\$ 3,993,976</u> |

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Seven Hills Foundation and Affiliates (the "Foundation") has contracts with the Commonwealth of Massachusetts to provide an array of health services and clinical support to children and adults challenged by emotional, behavioral, cognitive, physical or developmental disabilities.

The combined financial statements include the accounts of Seven Hills Foundation and the following affiliates which are under common control: Seven Hills Family Services, Inc.; Seven Hills Occupational & Rehabilitation Services, Inc.; Seven Hills Community Services, Inc.; Seven Hills Clinical Associates, Inc., Seaside Education Associates, Inc.; Seven Hills Disability Resources & Advocacy, Inc., Children's Aid & Family Service, Inc.; Seven Hills Pediatric Center (formerly known as 'Seven Hills Extended Care Center at Groton, Inc. '), Seven Hills Behavioral Health, Inc., Seven Hills Global Outreach, and The Homestead Group (hereinafter collectively referred to as the "Foundation"). All material intercompany balances and transactions have been eliminated in combination.

Merger

During 2008, the Board of Directors of the Foundation and the Board of Directors of Homestead Group voted to authorize a merger with the Foundation. The Foundation has assumed the contracts of Homestead Group and had continued the operations as a program under the name of The Homestead Group through June 30, 2009. Due to the nature of the transaction, the accompanying financial statements reflect the acquisition as if it had occurred January 1, 2009 and include the following financial information of Homestead Group:

| | |
|---|--------------|
| Assets | \$ 8,642,303 |
| Liabilities | 4,019,319 |
| Net assets | 4,622,984 |
| Unrestricted contribution revenue | 4,578,243 |
| Temporarily restricted contribution revenue | 44,741 |
| Operating support and revenue | 11,650,750 |
| Operating expenses | 10,946,899 |

Accounting estimates

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

Subsequent events

The Foundation has evaluated the financial statement impact of subsequent events occurring through November 16, 2009, the date that the financial statements were available to be issued.

Method of accounting

The combined financial statements have been prepared on the accrual method of accounting. Accordingly, assets are recorded when the Foundation obtains the rights of ownership or is entitled to claims for receipt, and liabilities are recorded when the obligation is incurred.

Financial statement presentation

The Foundation presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statement presentation (continued)

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments.

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Concentration of credit risk

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value.

Investment return, including income, gains and losses, is recorded in unrestricted assets unless its use is temporarily or permanently restricted by law or explicit donor stipulations.

Endowment funds

The Foundation's endowment consists of funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed or legal restrictions.

The Board of Directors has interpreted state law as allowing the utilization of appreciation on permanently restricted assets unless explicit donor stipulations specify how net appreciation must be used. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund 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 Foundation in a manner consistent with the standard of prudence prescribed by state law.

The Foundation has adopted investment and spending policies for its board-designated endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the Foundation's Investment Committee shall seek to invest the endowment funds in such a manner that the investments will provide a spendable return consistent with a long-term goal of preserving the funds in real terms. Actual returns in any given year may vary from this amount.

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation has invested in debt and equity securities that target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

On July 2, 2009, the Commonwealth of Massachusetts adopted the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) for endowment funds in existence on or established after June 30, 2009. The Foundation has not completed its interpretation of this new law, however it does not anticipate that the law will result in significant changes to its endowment accounting policies.

Pledges

Pledges are recorded as receivables in the year the pledge is made. Pledges for support of current operations are recorded as unrestricted support. Pledges for support of future operations, plant asset acquisitions, and endowment are recorded as temporarily restricted or permanently restricted support.

Loan acquisition costs

Loan acquisition costs represent fees and other costs associated with obtaining long-term financing. Such costs are being amortized over the term of the related debt obligation. The difference between straight line amortization and level of yield method of amortization is not material to the combined financial statements.

Investment in unconsolidated affiliates

The Foundation has non-controlling investments in Group 7 Design, Inc. and Sequest Holding Company, LLC which are accounted for by the equity method.

Property, plant, and equipment

Property, plant, and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method.

Derivative instruments

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended and interpreted by other related accounting literature, establishes accounting and reporting standards for derivative instruments. SFAS No. 133 requires organizations to record derivatives on their balance sheets as either assets or liabilities measured at their fair value. All changes in the fair value of derivatives are recognized currently in the statement of activities of not-for-profit organizations.

Rent, vending, service fees

Rental income represents amounts received from residents of residential homes. Vending income represents amounts received under the vocational services program. Service fees represents amounts received under the respite care, and various day programs.

Contributions, gifts, grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their estimated fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction.

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional expenses

Expenses are charged to each program based upon direct expenditures incurred. Expenditures not directly chargeable are allocated to each program based upon related payroll costs.

Impairment of long-lived assets and long-lived assets to be disposed of

The Foundation reviews the carrying values of certain long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Where indicated, the carrying value of such assets is reduced through a charge to operations. The adjusted carrying values represent management's estimate of the amount expected to be recovered from these assets in the future.

Contributed facilities

Three of the group homes and one program operated by The Homestead Group are located in buildings owned by the State of Rhode Island and are provided to The Homestead Group at no cost. The estimated value of this space (\$67,650 for the period ended June 30, 2009) has been recorded in the combined statement of activities as both a revenue and expense item.

Donated services

Certain employees of the Commonwealth of Massachusetts donate their services to the Foundation. Donated services amounting to \$87,876 in 2009 are reflected in the accompanying combined financial statements. The accompanying combined financial statements do not reflect other donated services since no objective basis is available to measure the value of such services.

Advertising and promotion

All costs associated with advertising and promoting the Foundation are expensed in the year incurred. Advertising expense was \$175,069 and \$198,160 in 2009 and 2008, respectively.

2 - DEPOSITS WITH TRUSTEES

Deposits with trustees are held in various escrow accounts and are available for the following purposes:

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| Current | | |
| Future debt service | \$ 2,775,304 | \$ 2,740,356 |
| Long-term | | |
| Future debt service | 3,215,103 | 3,207,381 |
| Property, plant and equipment acquisition | 1,754,103 | - |
| | <u>4,969,206</u> | <u>3,207,381</u> |
| | <u>\$ 7,744,510</u> | <u>\$ 5,947,737</u> |

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

2 - DEPOSITS WITH TRUSTEES (Continued)

Deposits with trustees are carried at cost, which approximates fair value, and are composed of the following:

| | <u>2009</u> | <u>2008</u> |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 6,653,755 | \$ 1,790,854 |
| Corporate bonds | <u>1,090,755</u> | <u>4,156,883</u> |
| | <u>\$ 7,744,510</u> | <u>\$ 5,947,737</u> |

3 - INVESTMENTS

Investments are included in the following classes of net assets:

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|---------------------|----------------------|
| Board-designated endowment funds | \$ 9,056,482 | \$ 11,069,945 |
| Unrestricted assets | <u>655,465</u> | <u>613,867</u> |
| | <u>\$ 9,711,947</u> | <u>\$ 11,683,812</u> |

Investments are composed of the following:

| | <u>2009</u> | | <u>2008</u> | |
|-----------------------|----------------------|---------------------|----------------------|----------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Bonds | \$ 2,690,001 | \$ 2,585,358 | \$ 2,600,397 | \$ 2,612,183 |
| Mutual funds | 9,373,866 | 6,428,856 | 8,314,028 | 7,501,043 |
| Common stock | 58,079 | 62,990 | 668,877 | 739,407 |
| Money market accounts | <u>634,743</u> | <u>634,743</u> | <u>831,179</u> | <u>831,179</u> |
| | <u>\$ 12,756,689</u> | <u>\$ 9,711,947</u> | <u>\$ 12,414,481</u> | <u>\$ 11,683,812</u> |

4 - ENDOWMENT ASSETS

Endowment assets include Board-designated investments. Changes in endowment assets for the year ended June 30, 2009 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment assets, beginning of year | <u>\$ 11,069,945</u> | <u>\$ -</u> | <u>\$ 216,713</u> | <u>\$ 11,286,658</u> |
| Investment return: | | | | |
| Investment income | 399,075 | - | - | 399,075 |
| Net depreciation (realized and unrealized) | <u>(2,412,538)</u> | <u>-</u> | <u>-</u> | <u>(2,412,538)</u> |
| Total investment return | <u>(2,013,463)</u> | <u>-</u> | <u>-</u> | <u>(2,013,463)</u> |
| Endowment assets, end of year | <u>\$ 9,056,482</u> | <u>\$ -</u> | <u>\$ 216,713</u> | <u>\$ 9,273,195</u> |

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment, together with estimated useful lives, consists of the following:

| | <u>Estimated Useful Lives</u> | <u>2009</u> | <u>2008</u> |
|---|-----------------------------------|----------------------|----------------------|
| Land | - | \$ 10,620,033 | \$ 10,304,436 |
| Buildings and improvements | 20 - 40 years | 74,221,615 | 63,658,599 |
| Furniture and equipment | 3 - 20 years | 8,713,130 | 7,690,149 |
| Motor vehicles | 5 years | 1,530,291 | 372,720 |
| Construction in progress | - | <u>5,730,786</u> | <u>5,293,735</u> |
| | | 100,815,855 | 87,319,639 |
| Less: Accumulated depreciation and amortization | | <u>22,757,886</u> | <u>15,999,952</u> |
| | | <u>\$ 78,057,969</u> | <u>\$ 71,319,687</u> |

Depreciation and amortization expense for property, plant, and equipment was \$2,692,253 and \$2,168,609 in 2009 and 2008, respectively.

6 - ADVANCES FROM THE STATE OF RHODE ISLAND

The Homestead Group has an agreement with the State of Rhode Island to operate residential facilities and day programs. Under this agreement, the State of Rhode Island advances The Homestead Group an amount equivalent to forty-five days funding per client at the agreed-upon per diem rate to provide cash flow for the programs. This advance has been classified as long-term debt as these funds are to be repaid to the State of Rhode Island at the termination of the agreement. However, it is anticipated that the programs will continue to operate and the State of Rhode Island will continue to provide these funds.

7 - NOTES PAYABLE, BANK

The Foundation has a \$7,000,000 (\$3,500,000 as of June 30, 2008) working capital line of credit with a bank secured by substantially all assets of the Foundation. Interest is charged at the U.S. prime rate. The line of credit is available through September, 2010, at which time the terms and conditions of the line of credit will be reviewed. The balance outstanding on this line of credit was \$1,280,627 and \$4,645,654 as of June 30, 2009 and 2008, respectively.

The Foundation had a \$5,000,000 non-revolving real estate line of credit with a bank secured by substantially all assets of the Foundation. Interest was charged at the U.S. prime rate. The line of credit was available through December, 2008. There was no balance outstanding on this line of credit as of June 30, 2009.

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

8 - LONG-TERM DEBT

Long-term debt consists of the following:

| | <u>2009</u> | <u>2008</u> |
|---|---------------|---------------|
| Bond notes payable, secured by real estate and cash flows from provider contracts: | | |
| Due in annual installments of principal through September 2028. Interest is due semi-annually at rates increasing from an initial 4.40% to 5.15% during the life of the obligation. | \$ 12,720,000 | \$ 13,130,000 |
| Due in annual installments of principal through September 2032. Interest is due semi-annually at rates increasing from an initial 4.00% to 5.50% during the life of the obligation. | 13,860,000 | 14,150,000 |
| Due in annual installments of principal through September 2035. Interest is due semi-annually at rates increasing from an initial 3.15% to 5.00% during the life of the obligation. | 24,078,475 | 24,558,609 |
| Due in annual installments of principal through September 2039. Interest is due monthly at variable rates during the life of the obligation and secured by a letter of credit. | 12,000,000 | - |
| Due in annual installments of principal through September 2039. Interest is due monthly at variable rates during the life of the obligation and secured by a letter of credit. | 5,500,000 | - |
| Mortgage notes payable, secured by real estate: | | |
| Due in monthly installments of \$1,435 including interest through September 2008. | - | 1,419 |
| Due in monthly installments ranging from \$2,312 through \$2,829 including interest at prime (5.00% at June 30, 2008) through January 2011. These notes were paid in full during 2009. | - | 672,017 |
| Due in monthly installments of \$1,475 including interest at 3.00% through April 2011 at which time the principal balance is due in full. | 29,244 | 44,244 |
| Due in monthly installments ranging from \$2,767 through \$4,356 including interest at prime (5.00% at June 30, 2008) through December 2011. These notes were paid in full during 2009. | - | 1,616,177 |
| Due in monthly installments ranging from \$1,987 through \$3,129 including interest at prime (5.00% at June 30, 2008) through February 2012. These notes were paid in full during 2009. | - | 635,555 |
| Due in monthly installments of interest at prime (5.00% at June 30, 2008) through December 2007, then \$27,737 including interest at prime through March 2012. These notes were paid in full during 2009. | - | 3,466,630 |
| Due in monthly installments ranging from \$2,039 through \$2,306 including interest at prime (5.00% at June 30, 2008) through March 2013. These notes were paid in full during 2009. | - | 1,117,347 |

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

8 - LONG-TERM DEBT (Continued)

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| Due in monthly installments ranging from \$1,987 through \$3,129 including interest at prime (5.00% at June 30, 2008) through May 2012. These notes were paid in full during 2009. | \$ - | \$ 322,168 |
| Due in monthly installments of \$532 including interest at 3.00% through March 2014 at which time the principal balance is due in full. | 27,999 | 32,980 |
| Due in monthly installments of \$7,174 including interest at 9.25% through June 2024 at which time the principal balance is due in full. | 697,100 | 717,667 |
| Borrowings under construction credit facility. Due in monthly installments of \$6,642 including interest at 9.00% through August 2032. | 774,678 | 784,194 |
| Due in monthly installments of \$6,116, including interest at 7.30% through November 2013 | 275,768 | - |
| Due in monthly installments of \$5,313 including interest at 7.25% through November 2017 | 378,800 | - |
| Due at varying maturities through June 2037. | 1,889,154 | 1,889,154 |
| Note payable, bank, due in monthly installments of \$614 including interest at 1.49% through December, 2011 | 18,543 | - |
| | <u>72,249,764</u> | <u>63,138,161</u> |
| Less: Current maturities of long-term debt | <u>1,733,459</u> | <u>1,358,408</u> |
| | <u>\$ 70,516,305</u> | <u>\$ 61,779,753</u> |

In connection with certain note payable agreement, the Foundation has agreed to various restrictive covenants.

Maturities of long-term debt in subsequent years are as follows:

| | |
|------------|----------------------|
| 2010 | \$ 1,733,459 |
| 2011 | 1,802,638 |
| 2012 | 1,861,895 |
| 2013 | 1,932,988 |
| 2014 | 1,983,459 |
| Thereafter | <u>62,935,325</u> |
| | <u>\$ 72,249,764</u> |

9 - HEDGING INSTRUMENT

The Foundation maintains an interest-rate risk-management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility.

The Foundation has entered into two interest rate swap agreements related to their long-term debt. The swaps are utilized to manage interest rate exposures and are designated as a highly effective cash flow hedges. The differential to be paid or received on the swap agreements is accrued as interest rates change and is recognized over the life of the agreement in interest expense. The swap agreements expire in September, 2013 and September 2018 and have a rate of 2.97% and 3.3925%, respectively. The notional amounts are \$5,500,000 and \$8,000,000. Included in statement of activities is an unrealized loss of \$461,650 relating to the fair value of the swap agreements as of June 30, 2009.

SEVEN HILLS FOUNDATION AND AFFILIATES
 NOTES TO COMBINED FINANCIAL STATEMENTS
 (Continued)

10 - RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2009 are available for the following purposes:

| | |
|----------------------|-------------------|
| Building renovation | \$ 162,800 |
| Direct care services | <u>311,778</u> |
| | <u>\$ 474,578</u> |

During 2009, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as specified by donors for building renovations of \$223,847.

Permanently restricted net assets of \$216,713 are restricted to investment in perpetuity, the income of which is expendable to support specified program activities of the Foundation.

11 - LEASES

The Foundation leases certain property, plant, and equipment under various lease agreements classified as operating leases for financial statement purposes.

Future minimum lease payments as of June 30, 2009 are as follows:

| | |
|------------|---------------------|
| 2010 | \$ 1,179,761 |
| 2011 | 1,011,102 |
| 2012 | 432,844 |
| 2013 | 188,865 |
| 2014 | 130,799 |
| Thereafter | <u>617,083</u> |
| | <u>\$ 3,560,454</u> |

12 - STATE SURPLUS REVENUE RETENTION

The Commonwealth of Massachusetts has regulations governing the excess of state revenue over expenses for not-for-profit organizations subject to the Division of Purchased Services' Authority. Such a surplus, up to 5% of current year state revenue, shall be retained by the organization for its charitable purposes. The sum of these annual surpluses may not exceed 20% of the organization's prior year state revenues. If an organization has a surplus in excess of the 5% or 20% rules, the Commonwealth may stipulate the use of such excess by the Agency, request the return of the surplus to the state, or reduce state funding in future years. Amounts within the 5% or 20% rules are included in net assets. Any amount in excess of these rules is owed to the Commonwealth.

Through June 30, 2009, the Foundation did not have surpluses in excess of the 5% or 20% rules. As of June 30, 2009, the Foundation's surplus revenue retention was \$(3,451,245) calculated as follows:

| | |
|--------------------------|-----------------------|
| Balance, June 30, 2008 | \$ (4,747,370) |
| Year ended June 30, 2009 | <u>1,296,125</u> |
| Balance, June 30, 2009 | <u>\$ (3,451,245)</u> |

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

13 - DEFERRED COMPENSATION LIABILITY AND LIFE INSURANCE

The Foundation has deferred compensation agreements providing benefits to certain key employees commencing at retirement. Deferred compensation expense related to these agreements was \$565,048 and \$535,813 in 2009 and 2008, respectively. These amounts are required to accrue the present value of benefits at retirement.

The Foundation is the owner and beneficiary of life insurance policies on the lives of certain management. The policies had an aggregate cash surrender value of \$604,208 and \$545,761 at June 30, 2009 and 2008, respectively.

14 - ECONOMIC DEPENDENCY

The Foundation receives a significant portion of its support and revenue from the Commonwealth of Massachusetts, Department of Developmental Services (DDS) and Office of Child Care Services (OCCS). Total support and revenue included approximately \$48,886,196 and \$22,506,883 from the DDS of OCCS, respectively, in 2009.

15 - STATEMENT OF CASH FLOWS

Supplemental disclosure of cash flows information is as follows:

| | <u>2009</u> | <u>2008</u> |
|--|--------------|--------------|
| Cash paid during the year for interest | \$ 3,513,236 | \$ 3,422,730 |

16 - COMMITMENTS AND CONTINGENCY

The Foundation has obtained two letters of credit in the amounts of \$12,180,000 and \$5,582,500 expiring in 2013 to secure certain bond notes payable. These letters of credit are secured by substantially all assets of the Foundation.

The Foundation has claims and pending legal proceedings. The proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the Foundation. In the opinion of management and the Foundation's outside legal counsel, such proceeding is not expected to have a material adverse effect on the Foundation's financial position, results of operations or cash flows.

The Foundation has signed non-interest bearing facilities consolidation promissory notes with the Community Economic Development Assistance Corporation that is secured by real estate. The terms of the agreements require the Foundation to hold the properties for a period of 30 years. In the event the Foundation disposes of these properties prior to the required timeframe, the entire principal balance(s) will become due.

The Homestead Group entered into a three-year employment agreement through September 30, 2010 with its Vice President. The terms of the agreement require the Foundation to pay compensation equal to salary and fringe benefits as severance pay if the board of directors terminates the Vice President without cause for the duration of the agreement.

As of year-end, the Foundation had approximately 210 employees who are represented by Local 5068, United Nurses & Allied Professionals. The labor contract is effective through December, 2009.

SEVEN HILLS FOUNDATION AND AFFILIATES
 NOTES TO COMBINED FINANCIAL STATEMENTS
 (Continued)

17 - TAX-EXEMPT STATUS

The Foundation qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is required.

The State of Rhode Island imposes a Health Care Provider Tax at a rate of 6% of Medicaid revenues. This tax is included in other expense on the combined statement of functional expenses. The amounts paid by the Foundation for this tax are reimbursed by Medicaid fund.

18 - RELATED PARTY TRANSACTIONS

The Foundation had the following balances and transactions with its unconsolidated affiliates:

| | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|
| Notes receivable | \$ 150,000 | \$ - |
| Expenditures for property, plant and equipment | 371,982 | - |

19 - FAIR VALUES OF FINANCIAL INSTRUMENTS

On July 1, 2008, the Foundation adopted the provisions of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of this Statement did not have a material impact on the Agencies' financial statements.

Determination of Fair Value

The Foundation use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with SFAS No. 157, the fair value of a financial instrument is 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. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair Value Hierarchy

In accordance with SFAS No. 157, the Foundation groups their financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

19 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Hierarchy (continued)

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Foundation's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2009 as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------|---------------------|----------------|----------------|---------------------|
| Investments | <u>\$ 9,711,947</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,711,947</u> |

The Foundation's financial liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2009 as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------|----------------|----------------|-------------------|-------------------|
| Hedging instrument | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 461,650</u> | <u>\$ 461,650</u> |

A reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) follows:

| | |
|---|---------------------|
| Beginning balance | \$ - |
| Total unrealized losses included in changes in net assets | <u>(461,650)</u> |
| Ending balance | <u>\$ (461,650)</u> |

SUPPLEMENTAL SCHEDULES

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINING STATEMENT OF UNRESTRICTED ACTIVITIES

YEAR ENDED JUNE 30, 2009

| | Seven Hills Foundation | Seven Hills Family Services, Inc. | Occupational & Rehabilitation Services, Inc. | Seven Hills Community Services, Inc. | Seven Hills Clinical Associates, Inc. |
|--|---------------------------|---|--|--|---|
| Operating support and revenue: | | | | | |
| Government contracts and fees | \$ - | \$ 15,741,123 | \$ 8,067,227 | \$ 34,714,340 | \$ 7,679,649 |
| Government donated staff and transportation | - | - | 87,876 | - | - |
| H.U.D. rental subsidy | - | - | - | 657,611 | - |
| Private contracts and fees | - | 18,210 | 112,739 | - | 20,898 |
| Trainee production | - | - | 163,415 | - | - |
| Rent, vending, service fees | - | 84,308 | 209,217 | 2,730,969 | - |
| Interest income | 238,353 | 2,679 | 1,863 | 5,845 | 748 |
| Investment income | 588,816 | - | - | - | - |
| Net investment gains (losses) | (2,564,200) | - | - | - | - |
| Beano income | - | - | 540,795 | 650,829 | - |
| Capital campaign | 320,486 | - | - | - | - |
| Contributions | 4,746,381 | 1,471 | 11,241 | 500 | - |
| Cafeteria | - | - | 157,663 | - | - |
| Gain on sale of property, plant, and equipment | 175,168 | - | - | - | - |
| Management fee | 6,977,616 | - | - | - | - |
| Grants | 3,458 | 855 | - | 29,167 | 12,154 |
| Other | 121,219 | 3,784 | 6,313 | 639,266 | 18,468 |
| Net assets release from restrictions: | | | | | |
| Satisfactoin of purpose restrictions | - | - | - | - | - |
| Total support and revenue | <u>10,607,297</u> | <u>15,852,430</u> | <u>9,358,349</u> | <u>39,428,527</u> | <u>7,731,917</u> |
| Operating expenses: | | | | | |
| Program services | | | | | |
| Residential services | - | - | - | 38,559,700 | - |
| Family support | - | 14,500,825 | - | - | - |
| Vocational services | - | - | 8,584,923 | - | - |
| Nursing home services | - | - | - | - | - |
| Community services | - | - | - | - | - |
| Facility maintenance | 59,443 | - | 178,450 | 164,959 | - |
| Child care services | - | - | - | - | - |
| Clinical services | - | - | - | - | 7,774,682 |
| | 59,443 | 14,500,825 | 8,763,373 | 38,724,659 | 7,774,682 |
| Supporting services | | | | | |
| Management and general | <u>6,008,536</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenses | <u>6,067,979</u> | <u>14,500,825</u> | <u>8,763,373</u> | <u>38,724,659</u> | <u>7,774,682</u> |
| Change in net assets from operations | 4,539,318 | 1,351,605 | 594,976 | 703,868 | (42,765) |
| Non operating expense: | | | | | |
| Unrealized loss on hedging instrument | <u>(461,650)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net assets | 4,077,668 | 1,351,605 | 594,976 | 703,868 | (42,765) |
| Net assets, beginning of year | <u>29,912,282</u> | <u>4,586,385</u> | <u>4,384,819</u> | <u>(3,452,887)</u> | <u>72,300</u> |
| Net assets, end of year | <u>\$ 33,989,950</u> | <u>\$ 5,937,990</u> | <u>\$ 4,979,795</u> | <u>\$ (2,749,019)</u> | <u>\$ 29,535</u> |

| Seaside Education Associates, Inc. | Disability Resources & Advocacy, Inc. | Childrens Aid & Family Service, Inc. | Seven Hills Extended Care at Groton, Inc. | Seven Hills Behavioral Health, Inc. | The Homestead Group | Eliminations | Total |
|--|---|--|---|---|---------------------------|-------------------------|----------------------|
| \$ - | \$ 58,498 | \$ 25,248,251 | \$ 11,497,597 | \$ 6,871,534 | \$ 11,080,833 | \$ - | \$ 120,959,052 |
| - | - | - | - | - | - | - | 87,876 |
| - | - | - | - | 9,557 | - | - | 667,168 |
| 750 | 48,356 | 600,828 | 6,720 | 2,904,123 | - | - | 3,712,624 |
| - | - | - | - | - | 35,555 | - | 198,970 |
| - | - | - | - | 7,975 | 479,835 | - | 3,512,304 |
| - | 387 | 9,335 | 3,439 | 1,535 | 3,591 | - | 267,775 |
| - | - | - | - | - | - | - | 588,816 |
| - | - | - | - | - | - | - | (2,564,200) |
| - | 567,765 | - | - | - | - | - | 1,759,389 |
| - | - | - | - | - | - | - | 320,486 |
| - | 5 | 64,829 | 15,365 | 10,701 | 14,521 | - | 4,865,014 |
| - | - | - | - | - | 66,312 | - | 223,975 |
| - | - | - | - | - | 1,181 | - | 176,349 |
| - | - | - | - | - | - | (b) (6,977,616) | - |
| - | 36,802 | 5,713 | 15,205 | - | 3,308 | - | 106,662 |
| - | 2,290 | (1,095) | 1,463 | 18,333 | 15,614 | - | 825,655 |
| - | - | 223,847 | - | - | - | - | 223,847 |
| <u>750</u> | <u>714,103</u> | <u>26,151,708</u> | <u>11,539,789</u> | <u>9,823,758</u> | <u>11,700,750</u> | <u>(6,977,616)</u> | <u>135,931,762</u> |
| - | - | - | - | - | - | (b) (2,802,128) | 35,757,572 |
| - | - | - | - | - | - | (b) (1,033,104) | 13,467,721 |
| - | - | - | - | - | - | (b) (721,464) | 7,863,459 |
| - | - | - | 11,540,889 | - | - | (b) (803,376) | 10,737,513 |
| - | - | - | - | 9,163,582 | 10,946,899 | (b) (589,596) | 19,520,885 |
| - | - | - | - | - | - | (b) (11,724) | 391,128 |
| - | - | 25,941,845 | - | - | - | (b) (230,124) | 25,711,721 |
| - | - | - | - | - | - | (b) (593,364) | 7,181,318 |
| - | - | 25,941,845 | 11,540,889 | 9,163,582 | 10,946,899 | (6,784,880) | 120,631,317 |
| <u>751,821</u> | <u>754,046</u> | <u>41,662</u> | <u>790,753</u> | <u>145,262</u> | <u>-</u> | (a,b) <u>(219,736)</u> | <u>8,272,344</u> |
| <u>751,821</u> | <u>754,046</u> | <u>25,983,507</u> | <u>12,331,642</u> | <u>9,308,844</u> | <u>10,946,899</u> | <u>(7,004,616)</u> | <u>128,903,661</u> |
| (751,071) | (39,943) | 168,201 | (791,853) | 514,914 | 753,851 | 27,000 | 7,028,101 |
| - | - | - | - | - | - | - | (461,650) |
| (751,071) | (39,943) | 168,201 | (791,853) | 514,914 | 753,851 | 27,000 | 6,566,451 |
| <u>(3,637,469)</u> | <u>(217,098)</u> | <u>386,250</u> | <u>(4,262,769)</u> | <u>97,515</u> | <u>-</u> | (a) <u>(225,000)</u> | <u>27,644,328</u> |
| <u>\$ (4,388,540)</u> | <u>\$ (257,041)</u> | <u>\$ 554,451</u> | <u>\$ (5,054,622)</u> | <u>\$ 612,429</u> | <u>\$ 753,851</u> | (a) <u>\$ (198,000)</u> | <u>\$ 34,210,779</u> |

SEVEN HILLS FOUNDATION
AND AFFILIATES

EXPLANATION OF ELIMINATIONS

YEAR ENDED JUNE 30, 2009

- (a) To eliminate effects of intercompany sale/leaseback of facility.
- (b) To eliminate intercompany management fees.