

SEVEN HILLS FOUNDATION AND AFFILIATES

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

YEAR ENDED JUNE 30, 2012

AND

INDEPENDENT AUDITOR'S REPORT

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2012

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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, 2012, 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 2011 combined financial statements and, in our report, dated November 8, 2011, 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, 2012 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 conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining and other supplementary information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Bollus Lynch, LLP

Worcester, Massachusetts
November 12, 2012

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINED STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2012
 (With Summarized Financial Information for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
Assets					
Current assets					
Cash	\$ 8,764,736	\$ 313,783	\$ 216,713	\$ 9,295,232	\$ 14,613,850
Deposits with trustees	2,283,642	-	-	2,283,642	2,017,845
Accounts receivable, less allowance for doubtful accounts of \$80,332	14,508,128	-	-	14,508,128	12,217,685
Pledges receivable	10,695	-	-	10,695	51,296
Prepaid expenses and other assets	562,175	-	-	562,175	377,325
Notes receivable	250,000	-	-	250,000	445,000
Total current assets	26,379,376	313,783	216,713	26,909,872	29,723,001
Investments	14,736,647	-	-	14,736,647	14,261,329
Investment in unconsolidated affiliates	662,031	-	-	662,031	1,087,433
Deposits with trustees, net	4,899,047	-	-	4,899,047	3,974,088
Loan acquisition costs, net	3,023,838	-	-	3,023,838	2,758,291
Deposits and other assets	292,955	-	-	292,955	288,546
Property, plant, and equipment, net	88,797,140	215,000	-	89,012,140	85,290,565
Cash value of life insurance	1,971,876	-	-	1,971,876	1,791,710
	<u>\$ 140,762,910</u>	<u>\$ 528,783</u>	<u>\$ 216,713</u>	<u>\$ 141,508,406</u>	<u>\$ 139,174,963</u>
Liabilities and Net Assets					
Current liabilities					
Notes payable, bank	\$ 889,879	\$ -	\$ -	\$ 889,879	\$ 6,299,917
Current maturities of long-term debt	2,015,357	-	-	2,015,357	1,871,238
Current portion of capital lease obligation	148,691	-	-	148,691	-
Accounts payable	3,359,277	-	-	3,359,277	3,793,963
Accrued and other liabilities	7,089,474	-	-	7,089,474	7,217,718
Total current liabilities	13,502,678	-	-	13,502,678	19,182,836
Advances from the State of Rhode Island	1,115,304	-	-	1,115,304	1,115,304
Long-term debt, less current maturities	76,492,276	-	-	76,492,276	68,046,875
Long-term capital lease obligation	615,077	-	-	615,077	-
Hedging instrument liability	1,482,875	-	-	1,482,875	978,254
Deferred compensation liability	3,650,898	-	-	3,650,898	3,277,619
	<u>96,859,108</u>	<u>-</u>	<u>-</u>	<u>96,859,108</u>	<u>92,600,888</u>
Net assets					
Unrestricted					
Undesignated	32,002,409	-	-	32,002,409	33,004,613
Designated for endowment	11,901,393	-	-	11,901,393	12,996,037
Temporarily restricted	-	528,783	-	528,783	356,712
Permanently restricted	-	-	216,713	216,713	216,713
	<u>43,903,802</u>	<u>528,783</u>	<u>216,713</u>	<u>44,649,298</u>	<u>46,574,075</u>
	<u>\$ 140,762,910</u>	<u>\$ 528,783</u>	<u>\$ 216,713</u>	<u>\$ 141,508,406</u>	<u>\$ 139,174,963</u>

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

(With Summarized Financial Information for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
Operating support and revenue:					
Government contracts and fees	\$ 128,781,069	\$ -	\$ -	\$ 128,781,069	\$ 130,687,704
Government donated staff and transportation	29,292	-	-	29,292	29,292
H.U.D. rental subsidy	629,420	-	-	629,420	635,389
Private contracts and fees	3,319,857	-	-	3,319,857	3,884,776
Trainee production	266,085	-	-	266,085	292,571
Rent, vending, service fees	4,242,326	-	-	4,242,326	4,278,683
Interest income	85,443	46	-	85,489	168,933
Investment income	298,090	-	-	298,090	202,443
Net investment gains (losses)	(492,374)	-	-	(492,374)	2,367,462
Beano income	1,603,215	-	-	1,603,215	1,662,451
Contributions	493,816	215,000	-	708,816	476,624
Grants	149,328	8,955	-	158,283	237,646
Cafeteria	350,665	-	-	350,665	294,390
Gain on sale of property, plant and equipment	65,900	-	-	65,900	128,589
Other	4,753,472	-	-	4,753,472	1,309,756
Net assets release from restrictions:					
Satisfaction of purpose restrictions	51,930	(51,930)	-	-	-
Total support and revenue	<u>144,627,534</u>	<u>172,071</u>	<u>-</u>	<u>144,799,605</u>	<u>146,656,709</u>
Operating expenses:					
Program services					
Residential services	43,038,308	-	-	43,038,308	40,290,065
Family support	13,678,173	-	-	13,678,173	12,761,927
Vocational services	8,102,723	-	-	8,102,723	7,620,819
Nursing home services	11,798,942	-	-	11,798,942	11,338,960
Community services - Massachusetts	10,114,255	-	-	10,114,255	9,261,734
Community services - Rhode Island	22,973,757	-	-	22,973,757	23,160,010
Rental property operations	266,508	-	-	266,508	323,822
Child care services	16,843,721	-	-	16,843,721	19,589,261
Clinical services	6,927,968	-	-	6,927,968	6,921,815
Global outreach	1,715,042	-	-	1,715,042	386,175
	<u>135,459,397</u>	<u>-</u>	<u>-</u>	<u>135,459,397</u>	<u>131,654,588</u>
Supporting services					
Management and general	9,633,901	-	-	9,633,901	9,635,047
Total expenses	<u>145,093,298</u>	<u>-</u>	<u>-</u>	<u>145,093,298</u>	<u>141,289,635</u>
Change in net assets from operations	(465,764)	172,071	-	(293,693)	5,367,074
Non-operating revenue (expense):					
Unrealized gain (loss) on hedging instruments	(504,621)	-	-	(504,621)	41,286
Impairment of goodwill	(1,126,463)	-	-	(1,126,463)	-
Change in net assets	(2,096,848)	172,071	-	(1,924,777)	5,408,360
Net assets, beginning of year	<u>46,000,650</u>	<u>356,712</u>	<u>216,713</u>	<u>46,574,075</u>	<u>41,165,715</u>
Net assets, end of year	<u>\$ 43,903,802</u>	<u>\$ 528,783</u>	<u>\$ 216,713</u>	<u>\$ 44,649,298</u>	<u>\$ 46,574,075</u>

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2012
 (With Summarized Financial Information for 2011)

	Program Services					
	Residential Services	Family Support	Vocational Services	Nursing Home	Community Services - MA	Community Services - RI
Staff payroll	\$ 27,016,515	\$ 3,541,386	\$ 4,032,893	\$ 7,002,393	\$ 6,364,762	\$ 14,645,926
Trainee payroll	-	-	264,156	-	-	118,221
Payroll taxes	2,341,832	330,501	361,353	513,752	539,383	1,401,709
Employee benefits	3,604,349	314,936	550,340	1,074,929	399,099	2,436,397
Government staff	-	-	29,292	-	-	-
Occupancy	2,860,353	214,870	604,532	738,992	625,705	1,012,176
Telephone	254,561	56,084	137,421	943	194,599	193,912
General insurance	87,214	41,905	60,747	152,514	116,433	140,169
Office and operating supplies	269,437	26,115	140,774	665,161	418,889	154,014
Dues and subscriptions	3,182	1,089	2,758	675	9,963	9,746
Printing and postage	7,916	4,795	10,614	-	14,974	43,444
Advertising	101	-	51	-	332	27,405
Legal and audit	554	-	50	-	-	83,634
Client transportation	1,556,592	217,201	356,506	27,273	224,814	521,808
Specialized home care	158,145	7,557,959	-	-	-	567,736
Clinical consultants	185,078	-	114,736	150,799	199,414	447,449
Purchased services	-	-	-	312,255	-	107,692
Family support	34,256	1,059,411	-	-	40,794	66,454
Staff training	17,091	6,522	971	3,334	8,247	6,907
Fund raising	-	-	-	-	-	-
Cafeteria and food	1,491,236	42,573	313,218	193,394	1,862	300,964
Interest	1,403,792	104,733	342,678	424,412	187,478	109,759
Beano expenses	499,445	-	384,665	-	-	-
Other	19,186	20,224	44,482	2,888	450,776	135,219
Total before depreciation	41,810,835	13,540,304	7,752,237	11,263,714	9,797,524	22,530,741
Depreciation and amortization	1,227,473	137,869	350,486	535,228	316,731	443,016
	<u>\$ 43,038,308</u>	<u>\$ 13,678,173</u>	<u>\$ 8,102,723</u>	<u>\$ 11,798,942</u>	<u>\$ 10,114,255</u>	<u>\$ 22,973,757</u>

Rental Property Operations	Child Care Services	Program Services			Total	Management and General	Totals	
		Clinical Services	Global Outreach				2012	2011
\$ 1,665	\$ 1,007,847	\$ 4,428,563	\$ 640,085	\$ 68,682,035	\$ 3,887,955	\$ 72,569,990	\$ 68,367,818	
-	-	-	-	382,377	-	382,377	516,887	
148	86,110	384,153	38,520	5,997,461	304,078	6,301,539	5,705,343	
576	141,052	673,519	51,412	9,246,609	1,013,914	10,260,523	9,238,427	
-	-	-	-	29,292	-	29,292	29,292	
81,645	143,385	361,773	218,886	6,862,317	443,671	7,305,988	7,315,358	
7,722	28,271	46,134	5,954	925,601	123,915	1,049,516	856,600	
7,875	21,643	35,208	527	664,235	44,759	708,994	636,197	
18,331	35,282	63,981	20,984	1,812,968	245,763	2,058,731	2,060,539	
-	8,018	16,039	736	52,206	140,874	193,080	90,456	
844	5,862	974	2,777	92,200	120,360	212,560	182,865	
-	-	327	1,565	29,781	195,946	225,727	253,854	
-	-	93	755	85,086	224,929	310,015	442,307	
-	113,926	221,662	150,484	3,390,266	136,603	3,526,869	3,287,728	
-	-	-	-	8,283,840	-	8,283,840	7,817,844	
-	630,764	84,396	363,077	2,175,713	351,737	2,527,450	2,375,423	
-	-	-	-	419,947	11,542	431,489	614,227	
-	14,253,510	-	-	15,454,425	-	15,454,425	18,312,239	
90	5,008	9,008	6,305	63,483	252,496	315,979	409,293	
-	-	-	-	-	69,032	69,032	62,350	
-	128,942	146,891	38	2,619,118	464	2,619,582	2,599,296	
75,353	86,894	251,617	10,441	2,997,157	406,851	3,404,008	3,323,295	
-	-	-	-	884,110	427,352	1,311,462	1,368,379	
26	978	6,635	198,337	878,751	1,035,328	1,914,079	2,036,934	
194,275	16,697,492	6,730,973	1,710,883	132,028,978	9,437,569	141,466,547	137,902,951	
72,233	146,229	196,995	4,159	3,430,419	196,332	3,626,751	3,386,684	
<u>\$ 266,508</u>	<u>\$ 16,843,721</u>	<u>\$ 6,927,968</u>	<u>\$ 1,715,042</u>	<u>\$ 135,459,397</u>	<u>\$ 9,633,901</u>	<u>\$ 145,093,298</u>	<u>\$ 141,289,635</u>	

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

(With Summarized Financial Information for 2010)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,924,777)	\$ 5,408,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	265,902	323,391
Depreciation and amortization	3,626,751	3,386,684
Impairment of goodwill	1,126,463	-
Equity in loss of unconsolidated affiliates	5,517	11,515
Unrealized (gain) loss on hedging instrument	504,621	(41,286)
Net investment (gains) losses	492,374	(2,367,462)
Gain on sale of property, plant, and equipment	(65,900)	(128,589)
Gain on sale of unconsolidated affiliate	(2,376,671)	-
Contributions received for capital improvements	-	(35,000)
Non-cash contributions	(215,000)	-
Deferred compensation expense	373,279	548,832
Decrease (increase) in operating assets:		
Accounts receivable	(1,056,345)	944,510
Pledges receivable	40,601	35,000
Prepaid expenses and other assets	(184,850)	75,916
Notes receivable	195,000	27,187
Increase (decrease) in operating liabilities:		
Accounts payable	(210,062)	616,382
Accrued and other liabilities	(128,244)	787,143
	<u>2,393,436</u>	<u>4,184,223</u>
Net cash provided by (used in) operating activities	<u>468,659</u>	<u>9,592,583</u>
Cash flows from investing activities:		
Payments for purchases of investments	(4,469,464)	(3,606,957)
Proceeds from sale and maturities of investments	3,501,772	3,288,219
Change in assets deposited with trustees	(1,190,756)	(82,030)
Expenditures for loan acquisition costs	(396,253)	-
Increase in deposits and other assets	(4,409)	(8,610)
Expenditures for property, plant, and equipment	(7,725,758)	(8,624,683)
Expenditures for business assets	(1,535,027)	-
Proceeds from sale of property, plant, and equipment	1,354,281	217,889
Proceeds from sale of unconsolidated affiliate	1,705,120	-
Increase in cash value of life insurance	(180,166)	(588,146)
	<u>(8,940,660)</u>	<u>(9,404,318)</u>
Net cash used in investing activities	<u>(8,940,660)</u>	<u>(9,404,318)</u>
Cash flows from financing activities:		
Net payments on notes payable, bank	(5,410,038)	3,869,472
Proceeds from issuance of long-term debt	11,606,000	27,200
Principal payments of long-term debt	(3,006,347)	(1,821,602)
Principal payments of capital lease obligation	(36,232)	-
Contributions received for capital improvements	-	35,000
	<u>3,153,383</u>	<u>2,110,070</u>
Net cash provided by financing activities	<u>3,153,383</u>	<u>2,110,070</u>
Net increase (decrease) in cash	(5,318,618)	2,298,335
Cash, beginning of year	<u>14,613,850</u>	<u>12,315,515</u>
Cash, end of year	<u>\$ 9,295,232</u>	<u>\$ 14,613,850</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 and the State of Rhode Island 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 Association, Inc., Seven Hills Seaside Education Association, Inc.; Seven Hills Disability Resources & Advocacy, Inc., Seven Hills Children’s Aid & Family Services, Inc.; Seven Hills Pediatric Center, Seven Hills Behavioral Health, Inc., Seven Hills Global Outreach, Seven Hills Rhode Island, I.F.S. Fiscal Intermediary, Individual & Family Support Centers, Inc., and Seven Hills WAARC Realty (hereinafter collectively referred to as the “Foundation”). All material intercompany balances and transactions have been eliminated in combination.

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 12, 2012, 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.

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.

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statement presentation (continued)

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, 2011, 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. Alternative investments which do not have readily determinable fair values are carried at estimated fair values using the net asset value per share of the investment as reported by the investment managers. The Foundation reviews and evaluates the net asset values reported by the investment managers and has determined that the net asset values are calculated in a manner consistent with the measurement principles of FASB ASC Topic 946 as of the balance sheet date. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Gains or losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income is recorded in unrestricted assets unless its use is temporarily or permanently restricted by 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.

In accordance with the Uniform Prudent Management of Institutional Funds Act, the Foundation may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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.

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.

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 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 Empirical Asset Management, LLC which are accounted for by the equity method. During 2012, the Foundation sold its non-controlling investment in Seaquest Holding Company, LLC.

Property, plant, and equipment

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

Derivative instruments

Derivative instruments, including interest rate swaps, are recorded on the 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.

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Contributions that the donor requires to be used to acquire long-lived assets (for example, land, buildings, furniture, fixtures, and equipment) are reported as temporarily restricted until the long-lived assets have been acquired, at which time the entity reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restrictions. 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.

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

Four residential programs and one day program operated by Seven Hills Rhode Island are located in buildings owned by the State of Rhode Island and are provided to Seven Hills Rhode Island at no cost. The estimated value of this space (\$386,400 for the period ended June 30, 2012) 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 \$29,292 in 2012 and 2011 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 \$225,727 and \$253,854 in 2012 and 2011, respectively.

Measure of operations

In its statement of activities, the Foundation includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. Changes in the Foundation's fair value of the interest rate swap agreement and impairment of long-term assets are recognized as non-operating activities.

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

2 - DEPOSITS WITH TRUSTEES

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

	2012	2011
Current		
Future debt service	\$ 2,283,642	\$ 2,017,845
Long-term		
Future debt service	3,797,438	3,974,085
Property, plant and equipment acquisition	1,101,609	3
	4,899,047	3,974,088
	\$ 7,182,689	\$ 5,991,933

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

	2012	2011
Cash and cash equivalents	\$ 6,091,933	\$ 4,901,177
Corporate bonds	1,090,756	1,090,756
	\$ 7,182,689	\$ 5,991,933

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	2012	2011
Board-designated endowment funds	\$ 11,901,393	\$ 12,996,037
Unrestricted assets	2,835,254	1,265,292
	\$ 14,736,647	\$ 14,261,329

Investments are composed of the following:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds	\$ 3,188,470	\$ 3,332,785	\$ 3,195,331	\$ 3,341,745
Mutual funds	9,050,967	8,788,207	8,473,033	8,695,184
Common stock	1,030,658	1,251,069	724,710	921,993
Money market accounts	657,633	657,633	1,302,407	1,302,407
Partnership – Hedge funds	734,677	706,953	-	-
	\$ 14,662,405	\$ 14,736,647	\$ 13,695,481	\$ 14,261,329

As discussed in Note 1, the Foundation's investments are reported at fair value. Market value in the investment markets has been volatile since June 30, 2012.

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

4 - ENDOWMENT ASSETS

Endowment assets include Board-designated investments. Changes in endowment assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 12,996,037	\$ -	\$ 216,713	\$ 13,212,750
Investment return:				
Investment income	233,316	-	-	233,316
Net depreciation (realized and unrealized)	(1,327,960)	-	-	(1,327,960)
Total investment return	(1,094,644)	-	-	(1,094,644)
Endowment assets, end of year	<u>\$ 11,901,393</u>	<u>\$ -</u>	<u>\$ 216,713</u>	<u>\$ 12,118,106</u>

5 - PROPERTY, PLANT, AND EQUIPMENT

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

	<u>Estimated Useful Lives</u>	<u>2012</u>	<u>2011</u>
Land	-	\$ 11,566,353	\$ 10,955,257
Buildings and improvements	20 - 40 years	91,057,435	84,705,783
Furniture and equipment	3 - 20 years	11,736,422	10,696,203
Motor vehicles	5 years	2,219,232	1,963,868
Construction in progress	-	2,763,954	5,716,838
		119,343,396	114,037,949
Less: Accumulated depreciation and amortization		30,331,256	28,747,384
		<u>\$ 89,012,140</u>	<u>\$ 85,290,565</u>

Depreciation and amortization expense for property, plant, and equipment was \$3,506,180 and \$3,270,667 in 2012 and 2011, respectively.

6 - ADVANCES FROM THE STATE OF RHODE ISLAND

Seven Hills Rhode Island 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 Seven Hills Rhode Island 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.

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

7 - NOTE PAYABLE, BANK

The Foundation has a \$7,000,000 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 November, 2012, at which time the terms and conditions of the line of credit will be reviewed. The balance outstanding on this line of credit was \$889,879 and \$6,299,917 as of June 30, 2012 and 2011, respectively.

8 - LONG-TERM DEBT

Long-term debt consists of the following:

	2012	2011
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.	\$ 11,375,000	\$ 11,840,000
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.	12,915,000	13,245,000
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.	22,538,074	23,068,208
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.	11,525,000	11,765,000
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.	5,265,000	5,385,000
Due in annual installments of principal commencing January, 2013 with lump sum due December 2041. Interest is due monthly at 76% of the 30-Day LIBOR rate plus 2.00% during the life of the obligation.	8,051,000	-
Due in annual installments of principal commencing May, 2013 through May 2042. Interest is due monthly at 76% of the 30-Day LIBOR rate plus 2.00% during the life of the obligation.	3,555,000	-
Mortgage notes payable, secured by real estate:		
Due in monthly installments of \$3,076 including interest at 5.81% through February 2015 at which time the principal balance is due in full. This note was paid in full during 2012.	-	419,887
Due in monthly installments of \$3,104 including interest at 5.81% through February 2015 at which time the principal balance is due in full. This note was paid in full during 2012.	-	423,739

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

8 - LONG-TERM DEBT (Continued)

	2012	2011
Due in monthly installments of \$532 including interest at 3.00% through March 2014 at which time the principal balance is due in full.	\$ 10,132	\$ 18,039
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.	622,700	649,833
Borrowings under construction credit facility. Due in monthly installments of \$6,642 including interest at 9.00% through August 2032.	740,435	752,886
Due in monthly installments of \$6,116, including interest at 7.30% through November 2013. This note was paid in full during 2012.	-	161,940
Due in monthly installments of \$5,313 including interest at 7.25% through November 2017. This note was paid in full during 2012.	-	270,588
Due at varying maturities through June 2037.	1,889,155	1,889,154
Note payable, bank, due in monthly installments of \$614 including interest at 1.49% through December, 2011.	-	3,085
Note payable, leasing company, secured by motor vehicle due in monthly installments of \$569 including interest at 9.36% through March, 2017	21,137	25,754
	78,507,633	69,918,113
Less: Current maturities of long-term debt	2,015,357	1,871,238
	\$ 76,492,276	\$ 68,046,875

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:

2013	\$ 2,015,357
2014	2,127,660
2015	2,228,785
2016	2,319,195
2017	2,417,533
Thereafter	67,399,103
	\$ 78,507,633

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 three interest rate swap agreements related to its 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, December, 2016, and September, 2018 and have rates of 2.97%, 2.605%, and 3.3925%, respectively. The notional amounts are \$5,500,000, \$7,000,000, and \$8,000,000, respectively. Included in statement of activities is an unrealized gain (loss) of (\$504,621) and \$41,286 relating to the change in fair value of the swap agreements for the years ended June 30, 2012 and 2011, respectively.

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

10 - RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2012 are available for the following purposes:

Capital expenditures	\$	215,000
Building renovation		62,800
Direct care services		250,983
	<u>\$</u>	<u>528,783</u>

During 2012, temporarily restricted net assets of \$51,930 were released from donor restrictions by incurring expenses satisfying the restricted purposes as specified by donors for direct care services.

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 - BUSINESS ASSETS AND UNCONSOLIDATED AFFILIATES

During 2012, the Foundation sold its interest in an unconsolidated affiliate and recorded a gain of \$2,376,671 which is included in other operating support and revenue in the combined statement of activities.

During 2012, the Foundation acquired an entity and performed an evaluation of the ongoing value of goodwill associated with this acquisition. Based on the evaluation, the Foundation determined that assets with a carrying value of \$1,126,463 were impaired. No future cash flows were expected to be generated by this entity and accordingly, the assets were written off in 2012.

12 - LEASES

The Foundation leases office equipment, motor vehicles and certain property, plant, and equipment under various lease agreements classified as either capital or operating leases for financial statement purposes.

Property, plant and equipment includes the following equipment acquired under capital lease agreements:

	2012	2011
Furniture and equipment	\$ 800,000	\$ -
Less: Accumulated depreciation	26,667	-
	<u>\$ 773,333</u>	<u>\$ -</u>

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

12 - LEASES (Continued)

Future minimum lease payments under these capital leases, together with the present value of future minimum lease payments as of June 30, 2012 are as follows:

Year Ending	<u>Capital</u>	<u>Operating</u>
2013	\$ 177,262	\$ 739,169
2014	177,262	665,746
2015	177,262	599,187
2016	177,262	526,362
2017	147,718	305,068
Thereafter	-	294,256
Total minimum lease payments	856,766	<u>\$ 3,129,788</u>
Less: Amount representing interest	<u>92,998</u>	
Present value of minimum lease payments	<u>\$ 763,768</u>	

13 - 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, 2012, the Foundation did not have surpluses in excess of the 5% or 20% rules. As of June 30, 2012, the Foundation's surplus revenue retention was \$(763,376) calculated as follows:

Balance, June 30, 2011	\$ 182,954
Year ended June 30, 2012	<u>(946,330)</u>
Balance, June 30, 2012	<u>\$ (763,376)</u>

14 - 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 \$177,656 and \$403,192 in 2012 and 2011, 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 \$1,971,876 and \$1,791,710 at June 30, 2012 and 2011, respectively.

15 - ECONOMIC DEPENDENCY

The Foundation receives a significant portion of its support and revenue from the Commonwealth of Massachusetts, Department of Developmental Services (DDS) and Department of Early Education and Care (EEC). Total support and revenue included approximately \$47,969,055 and \$16,644,122 from the DDS and EEC, respectively, in 2012.

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

16 - STATEMENT OF CASH FLOWS

Supplemental disclosure of cash flows information is as follows:

	<u>2012</u>	<u>2011</u>
Cash paid during the year for interest	\$ 3,407,017	\$ 3,339,539

17 - COMMITMENTS AND CONTINGENCY

The Foundation has obtained two letters of credit in the amounts of \$11,697,875 and \$5,343,975 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.

As of year-end, the Foundation had approximately 178 employees who are represented by Local 5068, United Nurses & Allied Professionals. The Foundation has negotiated a two year contract extension through June, 2014.

The contracts with the states have been expended according to their respective terms contained in the agreements and are subject to possible final audit determination by certain governmental agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined financial position of the Foundation as of June 30, 2012, or on the changes in net assets for the year then ended.

18 - RETIREMENT PLAN

The Foundation has a 403(b) retirement plan covering substantially all employees. The Foundation made matching contributions to the plan in the amount of \$863,303 and \$1,007,283 in 2012 and 2011, respectively.

19 - TAX-EXEMPT STATUS

The Foundation qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is required.

Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that the Foundation has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate upon the Foundation's statements of financial position, or the related statements of activities, or cash flows.

The Foundation files income tax returns in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

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

19 - TAX-EXEMPT STATUS (Continued)

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 funds.

20 - RELATED PARTY TRANSACTIONS

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

	2012	2011
Notes receivable	\$ 250,000	\$ 445,000
Accounts payable	13,590	56,688
Expenditures for property, plant and equipment	307,952	187,711

The Foundation has a 5% ownership in an unconsolidated affiliate which is the investment advisor of certain investments in the amount of \$211,452.

21 - FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820) which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

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.

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 asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 and 2011.

Equities, U.S. government securities, money market funds and corporate debt securities: Valued at the closing price reported on the active market on which the individual securities are traded.

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

21 - FAIR VALUE MEASUREMENTS (Continued)

Privately managed partnership - hedge funds: The Foundation, as a practical expedient, estimates the fair value of its alternative investments based on the net asset value (or its equivalent) as reported by the fund manager. The Foundation has evaluated the audited financial statements of its holdings as of the balance sheet date and believe that reported net asset value (or its equivalent) is calculated consistent with the guidance of ASC 820-10-35-59. Classification within the fair value hierarchy is based on the existence of restrictions on the Foundation's ability to access its holdings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation 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 fair value measurement at the reporting date.

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, 2012 as follows:

	Level 1	Level 2	Level 3	Total
Bonds	\$ 3,332,785	\$ -	\$ -	\$ 3,332,785
Mutual funds	8,788,207	-	-	8,788,207
Common stock	1,251,069	-	-	1,251,069
Money market	657,633	-	-	657,633
Partnership – Hedge funds	-	-	706,953	706,953
Total investments	<u>\$ 14,029,694</u>	<u>\$ -</u>	<u>\$ 706,953</u>	<u>\$ 14,736,647</u>

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

Balance, June 30, 2011	\$ -
Purchases, issuances, settlements	750,000
Total unrealized loss included in changes in net assets	<u>(43,047)</u>
Balance, June 30, 2012	<u>\$ 706,953</u>

As disclosed in footnote 1 to the financial statements, the Foundation estimates the fair value of its investments in certain entities using the net asset value per share of the investment. Further information about these investments is presented below.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Partnership – Hedge funds (a)	\$ 706,953	\$ -	monthly	30 days

(a) This privately managed partnership fund seeks to exploit fundamental flaws in valuation in order to provide investors with certain advantages that are not usually provided by most hedge funds including, but not limited to, low trading costs and favorable tax treatment. Gains will be provided by equities held long term while the equities that create losses will generally be held for less than one year. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

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

21 - FAIR VALUE MEASUREMENTS (Continued)

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, 2012 as follows:

	Level 1	Level 2	Level 3	Total
Hedging instruments	\$ -	\$ -	\$ 1,482,875	\$ 1,482,875

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

Beginning balance	\$ (978,254)
Total unrealized loss included in changes in net assets	(504,621)
Ending balance	\$ (1,482,875)

SUPPLEMENTAL SCHEDULES

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINING STATEMENT OF UNRESTRICTED ACTIVITIES
 YEAR ENDED JUNE 30, 2012

	Seven Hills Foundation	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.
Operating support and revenue:						
Government contracts and fees	\$ -	\$ 15,854,679	\$ 7,855,841	\$ 40,838,727	\$ 7,337,474	\$ -
Government donated staff and transportation	-	-	29,292	-	-	-
H.U.D. rental subsidy	-	3,633	-	625,787	-	-
Private contracts and fees	-	72,785	94,724	-	(45)	-
Trainee production	-	-	176,571	-	-	-
Rent, vending, service fees	-	67,944	127,130	3,154,260	-	-
Interest income	78,437	-	-	151	-	-
Investment income	295,867	-	-	-	-	-
Net investment gains	(505,331)	-	-	-	-	-
Beano income	-	-	483,239	606,350	-	-
Contributions	390,235	13,497	17,557	-	1,000	-
Grants	863	2,917	8,250	-	15,000	-
Cafeteria	-	-	221,044	-	-	-
Gain on sale of property, plant, and equipment	(43,465)	-	-	-	-	-
Management fee	6,334,539	-	-	-	-	-
Other	2,839,764	10,658	880	687,376	1,775	-
Net assets release from restrictions:						
Satisfaction of purpose restrictions	-	-	-	-	-	-
Total support and revenue	<u>9,390,909</u>	<u>16,026,113</u>	<u>9,014,528</u>	<u>45,912,651</u>	<u>7,355,204</u>	<u>-</u>
Operating expenses:						
Program services:						
Residential services	-	-	-	45,595,649	-	-
Family support	-	14,462,421	-	-	-	-
Vocational services	-	-	8,692,562	-	-	-
Nursing home services	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Facility maintenance	52,155	-	89,547	133,962	-	-
Child care services	-	-	-	-	-	-
Clinical services	-	-	-	-	7,350,520	-
Global outreach	-	-	-	-	-	-
	<u>52,155</u>	<u>14,462,421</u>	<u>8,782,109</u>	<u>45,729,611</u>	<u>7,350,520</u>	<u>-</u>
Supporting services:						
Management and general	<u>7,655,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>7,707,190</u>	<u>14,462,421</u>	<u>8,782,109</u>	<u>45,729,611</u>	<u>7,350,520</u>	<u>-</u>
Change in net assets from operations	1,683,719	1,563,692	232,419	183,040	4,684	-
Non operating revenue (expense):						
Unrealized loss on hedging instruments	(504,621)	-	-	-	-	-
Impairment of goodwill	<u>(1,126,463)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	52,635	1,563,692	232,419	183,040	4,684	-
Net assets, beginning of year	<u>37,734,453</u>	<u>9,144,117</u>	<u>5,695,075</u>	<u>316,256</u>	<u>527,171</u>	<u>(6,037,961)</u>
Net assets, end of year	<u>\$ 37,787,088</u>	<u>\$ 10,707,809</u>	<u>\$ 5,927,494</u>	<u>\$ 499,296</u>	<u>\$ 531,855</u>	<u>\$ (6,037,961)</u>

Seven Hills Disability Resources & Advocacy, Inc.	Childrens Aid & Family Service, Inc.	Seven Hills Extended Care at Groton, Inc.	Seven Hills Behavioral Health, Inc.	Seven Hills Rhode Island	Seven Hills Global Outreach	Eliminations	Total
\$ -	\$ 16,827,772	\$ 13,570,088	\$ 5,842,507	\$ 20,653,981	\$ -	\$ -	128,781,069
-	-	-	-	-	-	-	29,292
-	-	-	-	-	-	-	629,420
-	157,945	4,512	2,940,840	49,096	-	-	3,319,857
-	-	-	-	89,514	-	-	266,085
-	-	-	38,400	854,592	-	-	4,242,326
-	6,725	-	22	45	63	-	85,443
-	-	-	-	2,223	-	-	298,090
-	-	-	-	12,957	-	-	(492,374)
513,626	-	-	-	-	-	-	1,603,215
-	1,828	4,133	-	6,547	59,019	-	493,816
-	20,000	-	-	102,298	-	-	149,328
-	-	-	-	129,621	-	-	350,665
-	-	-	-	114,848	(5,483)	-	65,900
-	-	-	-	-	-	(b) (6,334,539)	-
-	935	-	16,742	194,731	1,000,611	-	4,753,472
-	-	-	-	51,930	-	-	51,930
<u>513,626</u>	<u>17,015,205</u>	<u>13,578,733</u>	<u>8,838,511</u>	<u>22,262,383</u>	<u>1,054,210</u>	<u>(6,334,539)</u>	<u>144,627,534</u>
-	-	-	-	-	-	(b) (2,557,341)	43,038,308
-	-	-	-	-	-	(b) (784,248)	13,678,173
-	-	-	-	-	-	(b) (589,839)	8,102,723
-	-	12,551,906	-	-	-	(b) (752,964)	11,798,942
-	-	-	10,723,447	23,212,040	-	(b) (847,475)	33,088,012
-	-	-	-	-	-	(b) (9,156)	266,508
-	16,994,297	-	-	-	-	(b) (150,576)	16,843,721
-	-	-	-	-	-	(b) (422,552)	6,927,968
-	-	-	-	-	1,817,402	(b) (102,360)	1,715,042
-	16,994,297	12,551,906	10,723,447	23,212,040	1,817,402	(6,216,511)	135,459,397
<u>439,240</u>	<u>-</u>	<u>1,517,063</u>	<u>167,591</u>	<u>-</u>	<u>-</u>	<u>(a,b) (145,028)</u>	<u>9,633,901</u>
<u>439,240</u>	<u>16,994,297</u>	<u>14,068,969</u>	<u>10,891,038</u>	<u>23,212,040</u>	<u>1,817,402</u>	<u>(6,361,539)</u>	<u>145,093,298</u>
74,386	20,908	(490,236)	(2,052,527)	(949,657)	(763,192)	27,000	(465,764)
-	-	-	-	-	-	-	(504,621)
-	-	-	-	-	-	-	(1,126,463)
74,386	20,908	(490,236)	(2,052,527)	(949,657)	(763,192)	27,000	(2,096,848)
<u>(66,620)</u>	<u>436,726</u>	<u>(5,612,206)</u>	<u>835,254</u>	<u>3,525,304</u>	<u>(352,919)</u>	<u>(a) (144,000)</u>	<u>46,000,650</u>
<u>\$ 7,766</u>	<u>\$ 457,634</u>	<u>\$ (6,102,442)</u>	<u>\$ (1,217,273)</u>	<u>\$ 2,575,647</u>	<u>\$ (1,116,111)</u>	<u>(a) \$ (117,000)</u>	<u>\$ 43,903,802</u>

SEVEN HILLS FOUNDATION
AND AFFILIATES

EXPLANATION OF ELIMINATIONS

YEAR ENDED JUNE 30, 2012

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