

SEVEN HILLS FOUNDATION AND AFFILIATES
COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015
AND
INDEPENDENT AUDITOR'S REPORT

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7 - 23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Seven Hills Foundation and Affiliates
Worcester, Massachusetts

Report on the Financial Statements

We have audited the accompanying combined financial statements of Seven Hills Foundation and Affiliates which comprise the combined statement of financial position as of June 30, 2015, the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Report on Summarized Comparative Information

We have previously audited Seven Hills Foundation and Affiliates' 2014 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Ballus Lynch, LLP

Worcester, Massachusetts
November 10, 2015

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINED STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2015
 (With Summarized Financial Information for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2015	2014
Assets					
Current assets					
Cash	\$ 8,788,753	\$ 322,828	\$ 216,713	\$ 9,328,294	\$ 5,508,187
Deposits with trustees	22,183,191	-	-	22,183,191	2,246,606
Accounts receivable, less allowance for doubtful accounts of \$169,357	19,571,885	-	-	19,571,885	18,468,276
Contributions receivable	220,000	-	-	220,000	217,635
Prepaid expenses and other assets	593,932	-	-	593,932	400,812
Total current assets	51,357,761	322,828	216,713	51,897,302	26,841,516
Contributions receivable	55,000	-	-	55,000	190,000
Investments	20,802,470	3,614,822	355,263	24,772,555	24,679,571
Investment in unconsolidated affiliates	1,141,927	-	-	1,141,927	785,916
Deposits with trustees	4,456,102	-	-	4,456,102	4,167,833
Loan acquisition costs, net	3,167,859	-	-	3,167,859	2,903,354
Deposits and other assets	277,197	-	-	277,197	279,193
Property, plant, and equipment, net	114,473,009	-	-	114,473,009	106,360,874
Cash value of life insurance	3,386,686	-	-	3,386,686	2,957,557
	\$ 199,118,011	\$ 3,937,650	\$ 571,976	\$ 203,627,637	\$ 169,165,814
Liabilities and Net Assets					
Current liabilities					
Notes payable, bank	\$ 2,850,114	\$ -	\$ -	\$ 2,850,114	\$ 2,868,522
Current maturities of long-term debt	23,803,275	-	-	23,803,275	3,049,723
Current portion of capital lease obligation	168,117	-	-	168,117	161,375
Accounts payable	4,727,742	-	-	4,727,742	4,383,945
Accrued and other liabilities	9,713,151	-	-	9,713,151	10,007,877
Total current liabilities	41,262,399	-	-	41,262,399	20,471,442
Advances from the State of Rhode Island	1,061,048	-	-	1,061,048	1,061,048
Long-term debt, less current maturities	94,402,426	-	-	94,402,426	85,254,193
Long-term capital lease obligation	130,610	-	-	130,610	298,751
Hedging instrument liability	824,351	-	-	824,351	1,048,844
Deferred compensation liability	5,228,293	-	-	5,228,293	4,836,348
	142,909,127	-	-	142,909,127	112,970,626
Net assets					
Unrestricted					
Undesignated	40,219,466	-	-	40,219,466	35,700,009
Designated for endowment	15,989,418	-	-	15,989,418	15,758,803
Temporarily restricted	-	3,937,650	-	3,937,650	4,164,400
Permanently restricted	-	-	571,976	571,976	571,976
	56,208,884	3,937,650	571,976	60,718,510	56,195,188
	\$ 199,118,011	\$ 3,937,650	\$ 571,976	\$ 203,627,637	\$ 169,165,814

See accompanying independent auditor's report and notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

(With Summarized Financial Information for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2015	2014
Operating support and revenue:					
Government contracts and fees	\$ 171,204,882	\$ 5,000	\$ -	\$ 171,209,882	\$ 156,956,296
Government donated staff and transportation	29,292	-	-	29,292	29,292
H.U.D. rental subsidy	542,115	-	-	542,115	577,470
Private contracts and fees	5,134,240	-	-	5,134,240	4,769,212
Trainee production	160,383	-	-	160,383	185,333
Rent, vending, service fees	5,007,103	-	-	5,007,103	4,641,719
Interest income	120,307	36	-	120,343	149,150
Investment income	486,699	87,209	-	573,908	460,362
Net investment gains (losses)	(417,361)	(20,365)	-	(437,726)	3,138,746
Beano income	1,583,061	-	-	1,583,061	1,555,774
Contributions	668,412	-	-	668,412	985,522
Grants	1,305,757	-	-	1,305,757	1,161,512
Cafeteria	357,546	-	-	357,546	335,041
Other	1,396,881	-	-	1,396,881	1,588,350
Net assets release from restrictions:					
Satisfaction of purpose restrictions	370,292	(370,292)	-	-	-
Total support and revenue	<u>187,949,609</u>	<u>(298,412)</u>	<u>-</u>	<u>187,651,197</u>	<u>176,533,779</u>
Operating expenses:					
Program services					
Residential services	56,176,398	-	-	56,176,398	49,743,579
Family support	16,937,322	-	-	16,937,322	15,527,176
Vocational services	9,655,567	-	-	9,655,567	8,877,871
Nursing home services	12,935,893	-	-	12,935,893	11,578,177
Community services - Massachusetts	9,728,423	-	-	9,728,423	10,168,778
Community services - Rhode Island	23,415,638	-	-	23,415,638	22,934,503
Rental property operations	446,549	-	-	446,549	328,825
Child care services	27,946,873	-	-	27,946,873	24,650,306
Clinical services	1,217,147	-	-	1,217,147	6,154,936
School services	12,942,464	-	-	12,942,464	10,942,137
Global outreach	297,253	-	-	297,253	327,379
VSA - Massachusetts	406,482	-	-	406,482	-
	<u>172,106,009</u>	<u>-</u>	<u>-</u>	<u>172,106,009</u>	<u>161,233,667</u>
Supporting services					
Management and general	11,612,799	-	-	11,612,799	10,632,880
Total expenses	<u>183,718,808</u>	<u>-</u>	<u>-</u>	<u>183,718,808</u>	<u>171,866,547</u>
Change in net assets from operations	4,230,801	(298,412)	-	3,932,389	4,667,232
Non-operating revenue:					
Contributions associated with merger activity	294,778	71,662	-	366,440	-
Unrealized gain on hedging instruments	224,493	-	-	224,493	335,622
Change in net assets	4,750,072	(226,750)	-	4,523,322	5,002,854
Net assets, beginning of year	<u>51,458,812</u>	<u>4,164,400</u>	<u>571,976</u>	<u>56,195,188</u>	<u>51,192,334</u>
Net assets, end of year	<u>\$ 56,208,884</u>	<u>\$ 3,937,650</u>	<u>\$ 571,976</u>	<u>\$ 60,718,510</u>	<u>\$ 56,195,188</u>

See accompanying independent auditor's report and notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2015
 (With Summarized Financial Information for 2014)

	Program Services						
	Residential Services	Family Support	Vocational Services	Nursing Home	Community Services - MA	Community Services - RI	Rental Property Operations
Staff payroll	\$ 36,632,878	\$ 5,273,512	\$ 5,249,903	\$ 7,680,712	\$ 5,755,412	\$ 14,577,411	\$ 553
Trainee payroll	-	-	206,344	-	-	72,465	-
Payroll taxes	2,968,063	452,573	431,080	564,346	444,478	1,174,938	48
Employee benefits	4,534,528	449,467	572,493	961,782	648,419	2,642,838	179
Government staff	-	-	29,292	-	-	-	-
Occupancy	3,779,025	247,613	710,834	935,957	566,502	667,119	164,319
Telephone	310,693	75,397	180,609	14,095	161,713	350,777	15,648
General insurance	105,367	71,359	102,087	91,715	239,238	117,339	13,229
Office and operating supplies	329,504	35,330	129,491	879,950	462,946	214,140	23,935
Dues and subscriptions	5,584	3,256	8,001	620	32,792	22,314	267
Printing and postage	6,436	7,093	13,709	-	11,295	12,509	94
Advertising	1,488	-	-	337	-	436	-
Legal and audit	-	-	-	-	-	10,325	-
Client transportation	1,652,162	244,557	382,332	49,556	180,147	510,013	3
Specialized home care	109,221	8,874,334	-	-	-	588,567	-
Clinical consultants	345,484	-	116,708	176,193	147,336	291,472	2,239
Purchased services	-	-	-	267,453	-	1,114,002	-
Family support	51,855	835,305	-	-	32,100	72,232	-
Staff training	19,451	7,135	1,785	3,991	13,887	34,488	-
Fund raising	-	-	-	-	-	-	-
Cafeteria and food	1,721,276	45,993	305,485	209,278	3,587	306,621	56
Interest	1,566,464	95,553	324,753	525,729	182,009	99,700	97,757
Beano expenses	474,262	-	374,544	-	-	-	-
Other	14,780	42,970	26,650	2,697	585,359	59,927	281
Total before depreciation	54,628,521	16,761,447	9,166,100	12,364,411	9,467,220	22,939,633	318,608
Depreciation and amortization	1,547,877	175,875	489,467	571,482	261,203	476,005	127,941
	<u>\$ 56,176,398</u>	<u>\$ 16,937,322</u>	<u>\$ 9,655,567</u>	<u>\$ 12,935,893</u>	<u>\$ 9,728,423</u>	<u>\$ 23,415,638</u>	<u>\$ 446,549</u>

	Program Services						Management and General	Totals	
	Child Care Services	Clinical Services	School Services	Global Outreach	VSA - Massachusetts	Total		2015	2014
	\$	1,365,855	\$ 476,376	\$ 8,205,993	\$ 81,901	\$ 271,393		\$ 85,571,899	\$ 4,492,178
	-	-	-	-	-	278,809	-	278,809	294,085
	111,311	166,331	609,224	5,686	23,746	6,951,824	322,814	7,274,638	6,961,993
	181,620	92,948	1,067,183	6,060	16,228	11,173,745	1,315,023	12,488,768	11,937,424
	-	-	-	-	-	29,292	-	29,292	29,292
	199,006	150,440	913,038	11,489	30,325	8,375,667	527,892	8,903,559	7,917,085
	29,067	13,692	77,416	3,445	2,464	1,235,016	147,000	1,382,016	1,234,124
	33,096	10,630	157,118	4,142	5,231	950,551	60,176	1,010,727	863,841
	42,545	3,041	177,326	3,727	6,604	2,308,539	205,839	2,514,378	2,477,612
	10,983	117	23,987	3,482	912	112,315	148,539	260,854	158,146
	9,531	292	7,985	2,186	2,088	73,218	148,513	221,731	219,169
	-	-	3,599	150	-	6,010	369,981	375,991	316,829
	-	115	-	-	-	10,440	256,165	266,605	352,673
	111,691	21,337	124,662	23,058	3,121	3,302,639	102,630	3,405,269	3,583,851
	-	-	-	-	-	9,572,122	-	9,572,122	8,889,681
	607,284	1,700	451,949	3,318	37,648	2,181,331	488,724	2,670,055	2,368,404
	-	-	4,158	-	-	1,385,613	38,508	1,424,121	1,070,355
	24,892,988	-	24,086	-	-	25,908,566	-	25,908,566	22,862,414
	2,732	-	14,806	3,425	2,251	103,951	381,188	485,139	434,586
	-	-	-	-	-	-	78,486	78,486	76,198
	129,752	9,296	344,915	-	2,679	3,078,938	2,841	3,081,779	2,910,046
	82,689	145,932	346,748	4,776	-	3,472,110	559,815	4,031,925	3,756,944
	-	-	-	-	-	848,806	419,989	1,268,795	1,285,037
	5,925	(30)	119,018	135,207	778	993,562	1,226,993	2,220,555	2,140,160
	27,816,075	1,092,217	12,673,211	292,052	405,468	167,924,963	11,293,294	179,218,257	167,489,252
	130,798	124,930	269,253	5,201	1,014	4,181,046	319,505	4,500,551	4,377,295
<u>\$</u>	<u>27,946,873</u>	<u>\$ 1,217,147</u>	<u>\$ 12,942,464</u>	<u>\$ 297,253</u>	<u>\$ 406,482</u>	<u>\$ 172,106,009</u>	<u>\$ 11,612,799</u>	<u>\$ 183,718,808</u>	<u>\$ 171,866,547</u>

See accompanying independent auditor's report and notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

(With Summarized Financial Information for 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,523,322	\$ 5,002,854
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	100,099	65,221
Depreciation and amortization	4,500,551	4,377,295
Equity in earnings of unconsolidated affiliates	(71,333)	(39,955)
Unrealized gain on hedging instrument	(224,493)	(335,622)
Net investment (gains) losses	437,726	(3,138,746)
(Gain) loss on sale of property, plant, and equipment	165,715	(15,779)
Contributions and gifts for long-term investment	(158,310)	(500,750)
Non-cash contributions	(366,440)	-
Deferred compensation expense	391,945	616,599
Decrease (increase) in operating assets:		
Accounts receivable	(1,091,078)	(4,485,433)
Contributions receivable	-	5,000
Prepaid expenses and other assets	(179,151)	21,859
Note receivable	-	160,000
Increase (decrease) in operating liabilities:		
Accounts payable	(6,926)	110,026
Accrued and other liabilities	(372,646)	1,719,708
	<u>3,125,659</u>	<u>(1,440,577)</u>
Net cash provided by operating activities	<u>7,648,981</u>	<u>3,562,277</u>
Cash flows from investing activities:		
Payments for purchases of investments	(12,875,160)	(18,297,845)
Proceeds from sale and maturities of investments	12,483,204	18,805,090
Net investment in unconsolidated affiliate	(284,678)	14,833
Change in assets deposited with trustees	(20,224,854)	723,901
Expenditures for loan acquisition costs	(415,896)	(48,407)
(Increase) decrease in deposits and other assets	(2,795)	(2,440)
Expenditures for property, plant, and equipment	(13,294,657)	(9,650,004)
Proceeds from sale of property, plant, and equipment	1,005,528	137,514
Increase in cash value of life insurance	(429,129)	(556,820)
	<u>(34,038,437)</u>	<u>(8,874,178)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Net proceeds (payments) from note payable, bank	(18,408)	1,570,737
Proceeds from issuance of long-term debt	58,798,907	4,894,938
Principal payments of long-term debt	(28,886,989)	(2,841,563)
Principal payments of capital lease obligation	(161,399)	(154,927)
Contributions received for long-term investment	290,945	246,613
	<u>30,023,056</u>	<u>3,715,798</u>
Net cash provided by financing activities		
Net increase (decrease) in cash	3,633,600	(1,596,103)
Cash acquired through merger with VSA, Inc. and ICW, Inc.	186,507	-
Cash, beginning of year	<u>5,508,187</u>	<u>7,104,290</u>
Cash, end of year	<u>\$ 9,328,294</u>	<u>\$ 5,508,187</u>

See accompanying independent auditor's report and 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 Holding Corp; 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; Seven Hills Neurocare, Inc.; Individual & Family Support Centers, Inc.; Stetson School, Inc.; Stetson Home, Inc.; Seven Hills WAARC Realty; Seven Hills New Jersey, Inc.; International Center of Worcester, Inc.; and VSA, Inc. (hereinafter collectively referred to as the “Foundation”). All material intercompany balances and transactions have been eliminated in combination.

Mergers

During 2015, the Board of Directors of the Foundation and the Board of Directors of Very Special Arts (VSA) (the “Organization”) voted to authorize a merger with the Foundation. The Foundation has assumed the contracts of the Organization and continued its operations. Due to the nature of the transaction, the accompanying financial statements reflect the acquisition as of October 31, 2014 and the 2015 statements include the following financial information of the Organization:

Assets	\$	388,667
Liabilities		50,071
Net assets		338,596

During 2015, the Board of Directors of the Foundation and the Board of the International Center of Worcester (ICW) (the “Organization”) voted to authorize a merger with the Foundation. The Foundation has assumed the contracts of the Organization and continued its operations. Due to the nature of the transaction, the accompanying financial statements reflect the acquisition as of December 31, 2014 and the 2015 statements include the following financial information of the Organization:

Assets	\$	65,562
Liabilities		37,718
Net assets		27,844

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 10, 2015, the date that the financial statements were available to be issued.

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2014, 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.

Accounts receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. The reserve for uncollectible accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected within one year are reported at their net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. Such discounts were not material to the financial statements as of June 30, 2015 and 2014. The allowance for uncollectable contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

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 both donor restricted endowment funds and 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. Endowment funds include invested gifts.

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.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor imposed restrictions require the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2015.

Loan acquisition costs

Loan acquisition costs represent fees and other costs associated with obtaining long-term financing. Such costs are being amortized on a straight-line basis, which approximates the level yield method, over the terms of the related debt obligations. 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 varying levels of investments in Group 7 Design, Inc., Empirical Asset Management, LLC, and Honeydrop, Inc. which are accounted for by the equity method.

Property, plant, and equipment

All acquisitions of property, plant, and equipment in excess of \$5,000 are capitalized. 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 imposed 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 fair value on the date of the gift. Gifts of long-lived assets are reported as unrestricted support, unless specifically restricted by the donor. Time restrictions on gifts of long-lived assets, if any, expire when the assets are placed in service. 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, 2015) 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 2015 and 2014 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 \$375,991 and \$316,829 in 2015 and 2014, 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 contributions associated with mergers and fair values of interest rate swap agreements 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:

	2015	2014
Current		
Future debt service	\$ 886,135	\$ 2,246,606
Cost of issuance	216,790	-
Bond refunding trust	21,080,266	-
	22,183,191	2,246,606
Long-term		
Future debt service	4,456,102	4,166,767
Property, plant and equipment acquisition	-	1,066
	4,456,102	4,167,833
	\$ 26,639,293	\$ 6,414,439

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

	2015	2014
Cash and cash equivalents	\$ 5,559,706	\$ 5,323,683
Corporate bonds	21,079,587	1,090,756
	\$ 26,639,293	\$ 6,414,439

3 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable as of June 30, 2015 are expected to be received as follows:

2016	\$ 220,000
2017	40,000
2018	10,000
2019	5,000
	\$ 275,000

4 - INVESTMENTS

Investments are included in the following classes of net assets:

	2015	2014
Donor-restricted endowment funds		
Temporarily restricted	\$ 3,614,822	\$ 3,841,770
Permanently restricted	355,263	355,263
Board-designated endowment funds	15,989,418	15,758,803
Unrestricted assets	4,813,052	4,723,735
	\$ 24,772,555	\$ 24,679,571

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

4 - INVESTMENTS (Continued)

Investments are composed of the following:

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds	\$ 2,300,942	\$ 2,262,712	\$ 4,630,275	\$ 4,703,896
Mutual funds	19,978,384	21,104,579	15,053,531	17,236,208
Common stock	10,029	12,271	520,715	649,270
Money market accounts	534,062	534,062	941,111	941,111
Partnership - Hedge funds	512,858	858,931	612,771	1,149,086
	<u>\$ 23,336,275</u>	<u>\$ 24,772,555</u>	<u>\$ 21,758,403</u>	<u>\$ 24,679,571</u>

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, 2015.

Investment management fees of \$67,715 and \$70,164 in 2015 and 2014, respectively, were automatically deducted from the investment income by the investment management companies.

5 - ENDOWMENT ASSETS

Endowment assets include Board-designated investments. Changes in endowment assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 15,758,803	\$ 3,841,770	\$ 571,976	\$ 20,172,549
Investment return				
Investment income	311,371	87,209	-	398,580
Net depreciation (realized and unrealized)	(72,713)	(20,365)	-	(93,078)
Total investment return	238,658	66,844	-	305,502
Appropriation for expenditure	(8,043)	(293,792)	-	(301,835)
Endowment assets, end of year	<u>\$ 15,989,418</u>	<u>\$ 3,614,822</u>	<u>\$ 571,976</u>	<u>\$ 20,176,216</u>

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

6 - PROPERTY, PLANT, AND EQUIPMENT

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

	Estimated Useful Lives	2015	2014
Land	-	\$ 14,114,920	\$ 13,111,122
Buildings and improvements	20 - 40 years	123,146,603	113,728,526
Furniture and equipment	3 - 20 years	13,901,020	13,293,295
Motor vehicles	5 years	1,819,711	1,886,342
Construction in progress	-	<u>2,583,270</u>	<u>1,670,823</u>
		155,565,524	143,690,108
Less: Accumulated depreciation and amortization		<u>41,092,515</u>	<u>37,329,234</u>
		<u>\$ 114,473,009</u>	<u>\$ 106,360,874</u>

Depreciation and amortization expense for property, plant, and equipment was \$4,354,503 and \$4,238,014 in 2015 and 2014, respectively.

7 - 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.

8 - 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 (3.25% as of June 30, 2015). The line of credit is available through November, 2015, at which time the terms and conditions of the line of credit will be reviewed. The balance outstanding on this line of credit was \$2,850,114 and \$2,868,522 as of June 30, 2015 and 2014, respectively.

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

9 - LONG-TERM DEBT

Long-term debt consists of the following:

	2015	2014
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. This bond was paid in full during 2015.	\$ -	\$ 10,380,000
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. This bond was paid in full during 2015.	-	12,065,000
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. This bond was paid in full subsequent to year-end upon its first available call date.	20,620,000	21,205,000
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.	10,735,000	11,010,000
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.	4,875,000	5,010,000
Due in annual installments of principal commencing January, 2013 with lump sum due December 2041. Interest is due monthly at 76% of the sum of the 30-Day LIBOR rate plus 2.00% (1.66% as of June 30, 2015) during the life of the obligation.	7,509,393	7,694,883
Due in monthly payments of \$42,694, plus interest at variable rates through October 2024. Principal payments increase by approximately 5.5% annually through October 2024.	7,026,363	7,584,510
Due in annual installments of principal commencing May, 2013 through May 2042. Interest is due monthly at 76% of the sum of the 30-Day LIBOR rate plus 2.00% (1.66% as of June 30, 2015) during the life of the obligation.	3,415,000	3,475,000
Due in annual installments of principal commencing July, 2014 through June, 2043. Interest is due monthly at 76% of the sum of the 30-Day LIBOR rate plus 2.00% (1.66% as of June 30, 2015) during the life of the obligation.	1,544,666	1,599,833
Due in annual installments of principal through September 2045. Interest is due semi-annually at rates increasing from 3.039% to 5.00% during the life of the obligation.	47,485,000	-
Due in annual installments of principal through September 2045. Interest is due semi-annually at rates increasing from 3.039% to 5.00% during the life of the obligation and secured by substantially all assets of the Foundation.	8,350,000	-

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

9 - LONG-TERM DEBT (Continued)

	2015	2014
Mortgage notes payable, secured by real estate:		
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.	\$ 524,591	\$ 560,364
Borrowings under construction credit facility. Due in monthly installments of \$6,642 including interest at 9.00% through August 2032.	695,612	711,917
Non-interest bearing contingent loans from various sources to assist in development of housing projects, generally not required to be repaid unless the project fails to comply with the conditions of the loan. It is the intention of the Board of Directors and management to maintain the property as required. Loans are due at varying maturities through June 2037.	2,254,093	2,254,093
Due in monthly principal payments of \$18,875, together with interest thereon charged at the 30-Day LIBOR rate plus 2.00% (2.19% as of June 30, 2015) through June 30, 2019, at which time the principal balance is due in full. This note was paid in full during 2015.	-	4,530,000
Note payable, leasing company, secured by motor vehicle due in monthly installments of \$569 including interest at 9.36% through March, 2017	4,402	10,509
Unamortized bond premiums	115,039,120	88,091,109
	3,166,581	212,807
	118,205,701	88,303,916
Less: Current maturities of long-term debt	23,803,275	3,049,723
	\$ 94,402,426	\$ 85,254,193

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

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

2016	\$ 23,803,275
2017	3,194,221
2018	3,292,040
2019	3,449,486
2020	3,570,721
Thereafter	77,729,377
	115,039,120
Unamortized bond premiums	3,166,581
	\$ 118,205,701

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

10 - 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 are as follows:

Notional Amount	Interest Rate	Expiration Date	Value
\$ 6,529,096	2.6050%	December, 2016	\$ 60,827
7,805,000	3.3925%	September, 2018	652,951
5,500,000	1.3050%	September, 2018	110,573
			<u>\$ 824,351</u>

Included in statement of activities is an unrealized gain of \$224,493 and \$335,622 relating to the change in fair value of the swap agreements for the years ended June 30, 2015 and 2014, respectively.

11 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Building renovation	\$ 210,850	\$ 210,850
Direct care services	102,974	102,959
Academic and residential program support	3,614,984	3,841,770
Scholarships	4,824	3,997
Other	4,018	4,824
	<u>\$ 3,937,650</u>	<u>\$ 4,164,400</u>

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

Investment return appropriated for current operations	\$ 293,792
Academic and residential program support	<u>76,500</u>
	<u>\$ 370,292</u>

Permanently restricted net assets are restricted to:

	<u>2015</u>	<u>2014</u>
Investment in perpetuity, the income and appreciation from which is expendable to support:		
Children's Aid and Family Services operating activities	\$ 216,713	\$ 216,713
Academic and residential program support	<u>355,263</u>	<u>355,263</u>
	<u>\$ 571,976</u>	<u>\$ 571,976</u>

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

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:

	2015	2014
Furniture and equipment	\$ 800,000	\$ 800,000
Less: Accumulated depreciation	320,000	240,000
	\$ 480,000	\$ 560,000

Future minimum lease payments under these capital leases, together with the present value of future minimum lease payments as of June 30, 2015 are as follows:

Year Ending	Capital	Operating
2016	\$ 177,262	\$ 1,077,071
2017	147,718	830,213
2018	-	480,899
2019	-	245,295
2020	-	114,273
Thereafter	-	148,911
Total minimum lease payments	324,980	\$ 2,896,662
Less: Amount representing interest	26,253	
Present value of minimum lease payments	\$ 298,727	

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, 2015, the Foundation did not have surpluses in excess of the 5% or 20% rules. As of June 30, 2015, the Foundation's surplus revenue retention was \$(1,964,682) calculated as follows:

Balance, June 30, 2014	\$ (5,954,874)
Year ended June 30, 2015	3,990,192
Balance, June 30, 2015	\$ (1,964,682)

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

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 \$396,301 and \$194,004 in 2015 and 2014, 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 \$3,386,686 and \$2,957,557 at June 30, 2015 and 2014, respectively.

15 - CONCENTRATION

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 \$74,487,505 and \$25,043,299 from the DDS and EEC, respectively, in 2015.

16 - STATEMENT OF CASH FLOWS

Supplemental disclosure of cash flows information is as follows:

	2015	2014
Cash paid during the year for interest	\$ 3,936,417	\$ 3,777,873

17 - COMMITMENTS AND CONTINGENCY

The Foundation has obtained two letters of credit in the amounts of \$10,896,025 and \$4,948,125 expiring in 2019 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 six month contract extension through December 2015.

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, 2015, or on the changes in net assets for the year then ended.

The Foundation has construction in process for significant capital projects. Remaining commitments on construction contracts were \$563,953 at June 30, 2015.

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

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 \$559,083 and \$543,156 in 2015 and 2014, 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 2012.

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:

	2015	2014
Accounts payable	\$ 15,521	\$ 48,895
Expenditures for property, plant and equipment	375,000	495,925

The Foundation has a 6% ownership in an unconsolidated affiliate which is the investment advisor of certain investments in the amount of \$634,887.

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.

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

21 - FAIR VALUE MEASUREMENTS (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 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, 2015 and 2014.

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.

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, 2015 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Bonds	\$ 2,262,712	\$ -	\$ -	\$ 2,262,712
Mutual funds	21,104,579	-	-	21,104,579
Common stock	12,271	-	-	12,271
Money market	534,062	-	-	534,062
Partnership - Hedge funds	-	-	858,931	858,931
Total investments	<u>23,913,624</u>	<u>-</u>	<u>858,931</u>	<u>24,772,555</u>
Deposits with trustees				
Cash and cash equivalents	5,559,706	-	-	5,559,706
Corporate bonds	21,079,587	-	-	21,079,587
Total deposits with trustees	<u>26,639,293</u>	<u>-</u>	<u>-</u>	<u>26,639,293</u>
Total assets	<u>\$ 50,552,917</u>	<u>\$ -</u>	<u>\$ 858,931</u>	<u>\$ 51,411,848</u>

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

21 - FAIR VALUE MEASUREMENTS (Continued)

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, 2014 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Bonds	\$ 4,703,896	\$ -	\$ -	\$ 4,703,896
Mutual funds	17,236,208	-	-	17,236,208
Common stock	649,270	-	-	649,270
Money market	941,111	-	-	941,111
Partnership - Hedge funds	-	-	1,149,086	1,149,086
Total investments	<u>23,530,485</u>	<u>-</u>	<u>1,149,086</u>	<u>24,679,571</u>
Deposits with trustees				
Cash and cash equivalents	5,323,683	-	-	5,323,683
Corporate bonds	1,090,756	-	-	1,090,756
Total deposits with trustees	<u>6,414,439</u>	<u>-</u>	<u>-</u>	<u>6,414,439</u>
Total assets	<u>\$ 29,944,924</u>	<u>\$ -</u>	<u>\$ 1,149,086</u>	<u>\$ 31,094,010</u>

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

Balance, June 30, 2014	\$ 1,149,086
Total unrealized loss included in changes in net assets	<u>(290,155)</u>
Balance, June 30, 2015	<u>\$ 858,931</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.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Partnership - Hedge funds (a)	\$ 858,931	\$ -	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.

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, 2015 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 824,351</u>	<u>\$ 824,351</u>

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, 2014 as follows:

	Level 1	Level 2	Level 3	Total
Hedging instruments	\$ -	\$ -	\$ 1,048,844	\$ 1,048,844

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

Beginning balance	\$ 1,048,844
Total unrealized gain included in changes in net assets	(224,493)
Ending balance	\$ 824,351

22 - RECLASSIFICATIONS

Certain amounts in the 2014 comparative information have been reclassified to conform with the 2015 presentation. Such reclassifications had no effect on the change in net assets as previously reported.