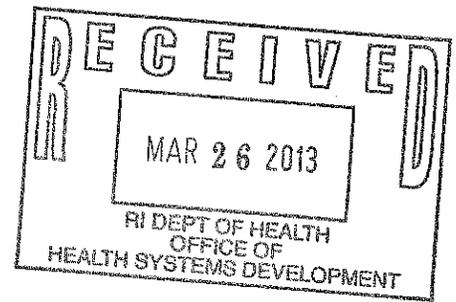


INITIAL LICENSURE APPLICATION



Name of Applicant: Seven Hills Rhode Island
Name of Facility: Living Rite Center
Date Application Submitted: 3/18/13
Amount of Fee: \$1,690.00

All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true."

David A. Jordan, DHA, President 3/12/13
signed and dated by the President or Chief Executive Officer

Nancy A. Davis
signed and dated by Notary Public

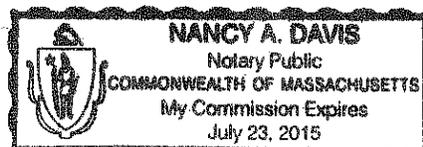


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1. Requested Facility License (select only 1 per application):

	Freestanding Emergency Care Facility (R23-17-FECF)
	(Outpatient) Kidney Treatment Center (R23-17-DIAL)
x	Organized Ambulatory Care Facility (R23-17-OACF)
	(Outpatient) Birth Center (R23-17-BC)

2. Please provide an executive summary describing the nature and scope of the proposal which should at least include the following: (1) identification of all parties and their track record and experience, (2) the types of services to be offered, (3) operational information about the proposed facility (hours of operation, whether the site is leased or owned, geographic area to be served, estimated date of when service will start being offered, if approved), (4) whether the applicant will seek professional accreditation from a nationally recognized accrediting agency (eg. CHAP, JACHO, etc.).

Over the three-year grant period, URI will implement "Living Rite-A Disruptive Solution for Management of Chronic Care Disease (a focus on adults with disabilities: intellectual and developmental diagnoses (IDD) and Alzheimer's dementia patients with 2 or more chronic conditions)." The project's goals are: (1) address the concerns of the Cross Disability Coalition with our guiding principle that "a patient is an individual to be cared for, not a medical condition to be treated;" (2) provide a more holistic approach to care by improving quality, comprehensiveness and coordination; (3) provide fully accessible preventive medical care in Living Rite Centers (Centers); (4) improve self-management of chronic conditions by increasing knowledge and understanding of how to change behaviors, (5) ensure financing method developed produces good health outcomes, (6) improve workforce development needs of persons with disabilities (PWD) while actively coordinating training, job recruitment and placement services across existing agencies.

Living Rite is a new business model for the treatment of chronic disease that draws from Clayton Christensen's book "*The Innovator's Prescription: Disruptive Solution for Health Care.*" Rather than treating chronic disease in a physician's office or hospital, which were designed to treat acute disease, we are co-locating Living Rite Centers into IDD and senior adult day centers. This requires designing, with our initial sites, the means to integrate new technology and care processes into their current business structure. By focusing our initial two sites and our PWD workforce development activities on IDD and Alzheimer's dementia patients with 2 or more chronic conditions, we anticipate a three-year cost savings of \$15,526,726. If our initial efforts are successful and our projected savings prove attainable we look forward to working with CMS to expand our program to include additional Living Rite Centers and more clients.

During our next period of planning, design, and implementation we will focus effort on the creation of a program monitoring and evaluation plan. This plan will include exploration of currently available data sources, gaps in data availability, and strategies for closing those data gaps. Potential data sources include linking existing secondary data systems (e.g., Medicare and Medicaid claims, Part D, EMRs, PHRs, etc.) and, potentially, primary data collection (e.g., patient and provider experience measures). A repository integrating these primary and secondary data sources will serve as the source for all program monitoring analytics and measurement. Our plan will include exploration and detailing of desirable health care utilization, quality, cost, and provider and patient experience measures (relying predominately on standardized measure sets for measure technical specification) to ensure that all intended measures and analytics are supportable through available data; to the extent that data gaps exist, we will include plans to address those gaps.

The Living Rite Integrated Care Center would be a freestanding ambulatory care center offering care coordination and primary care services. Enrollees would be individuals with multiple chronic diseases,

developmental disabilities and elders across Rhode Island. Primary focus will be providing services to individuals with Medicaid and Medicare who often have decreased access to care. Center will provide fully accessible services to ensure support to the most vulnerable patients who might have significant physical and cognitive disabilities. Treatment will be delivered by a multidisciplinary team who will focus on preventative care and routine ongoing treatment for chronic illness. The use of telehealth and telemedicine will assist Center staff to reach patients in their community. Additionally, the Centers will be structured to be responsive to urgent care needs. The Center will be located in a building owned by Seven Hills RI. Hours will be mostly day and evening and some weekends. SHRI does not have immediate plans to seek JCAHO certification although would consider in the future.

3. Legal name and address of the applicant (i.e the proposed licensee):

Name: Seven Hills Rhode Island	Telephone: 401-229-9761
Address: 30 Cumberland Street, Woonsocket, RI	Zip Code: 02895

4. Information of the President or Chief Executive Officer of the applicant:

Name: Dr. David Jordan, President	Telephone: Tel 508.755.2340
Address: 81 Hope Ave, Worcester, MA	Zip Code: 01603
E-Mail: djordan@sevenhills.org	Fax: Fax 508.849.3882

5. Information for the person to contact regarding this proposal (only if different from the President/CEO in Question 4):

Name: Christine Gadbois	Telephone: 401-229-9761
Address: 30 Cumberland St, Woonsocket, RI	Zip Code: 02895
E-Mail: cgadbois@sevenhills.org	Fax: 401-597-6706

6. Applicant's legal status: Sole Proprietorship Partnership
 Corporation Limited Liability Corporation
 Applicant's tax status: For-Profit Not-For-Profit

7. Name of the proposed facility administrator, please also attach a job description for the position and a resume (with professional references & phone numbers) for this individual: **Christine Gadbois-see attached.**

8. Will the facility be operated under management agreement with an outside party? Yes No

If response to Question 8 is "Yes", please provide copies of that agreement.

9. Will the facility offer healthcare services provided under contract with an outside party? Yes No

- If response to Question 9 is "Yes", please identify and describe those services to be contracted out.

Will likely be contracting for Occupational, Physical and Speech Therapies, as well as for Consulting Pharmacists.

10. Will the facility, as proposed, be in full compliance with all applicable rules and regulations (and not require any variances)? Yes No

- If the response to Question 10 is 'No', please explain.

11. Please provide an organizational chart identifying all "parent" legal entities with direct or indirect ownership in or control of the applicant, all "sister" legal entities also owned or controlled by the parent(s), and all "subsidiary" legal entities owned or controlled by the applicant. **Seven Hills RI along with the Seven Hills Foundation and its other affiliates are all "not for profit corporations". We have an interlocking Board of Directors who are the governing Board of Directors for SHRI and all other affiliates. There are no shareholders, personal owners or corporate owners in any of the affiliates including SHRI. Dr David Jordan is the President/CEO of SHRI and all the not for profit corporations.**

12. For all entities identified in response to Question 11, please provide a brief narrative clearly explaining the relationship of these entities to each other and to the applicant, including ownership. **Please see above**

13. Does the entity seeking licensure plan to participate in Medicare or Medicaid (Titles XVIII or XIX of the Social Security Act)?

MEDICARE: Yes No

MEDICAID: Yes No

- If response to Question 12, for either Medicare and/or Medicaid is 'No', please explain.

14. If the proposed owner, operator or director of the proposed health care facility owned, operated or directed a health care facility (both within and outside Rhode Island) within the past five years, please demonstrate the record of that person(s) with respect to access of traditionally underserved populations to its health care facilities. **SHRI operates a licensed Adult Day Health program where 100% of our participants are Medicaid recipients and 100% of participants have either a severe, persistent mental illness or intellectual/developmental disability.**

15. Please provide a copy of proposed charity care policies and procedures and charity care application form.

16. Please identify the proposed immediate and long-term plans of the applicant to ensure adequate and appropriate access to the program and health care services to be provided by the proposed health care facility to traditionally underserved populations.

The primary focus of the Center will be to serve individuals with Intellectual/Developmental Disabilities, Cognitive Disabilities including Alzheimer's. The Center facility will be fully accessible as per ADA. Additionally, the Center will grant preference to Medicaid and Medicare recipients. The interdisciplinary team will reach out to patients in their homes and communities both in person and via telehealth and telemedicine

applications. Center will reach out to primary care providers in the community in order to improve access to primary care for all Center members.

17. Will the facility provide healthcare services (for which it is seeking licensure) to patients without discrimination, including the patients' ability to pay for services? Yes x No
- If response to Question 17 is "No", please explain.
18. Please identify any state or federal licensure or certification citations and/or enforcement actions taken against the applicant and their affiliates within the past 3 years and the status or disposition of each. N/A
19. Please provide a list of pending or adjudicated citations, violations or charges against the applicant and their affiliates brought by any governmental agency or accrediting agency within the past 3 years and the status or disposition of each. N/A
20. Please provide a list of any investigations by federal, state or municipal agencies against the applicant and their affiliates within the past 3 years and the status or disposition of each. N/A
21. Please identify any planned actions of the applicant to reduce, limit, or contain health care costs and improve the efficiency with which health care services are delivered to the citizens of this state. **Please see executive summary which describes mission of this Center to restrain Medicare and Medicaid costs while improving health care outcomes.**
22. Please provide a copy of the Quality Assurance Policies (for the proposed services) and a detailed explanation of how quality assurance for patient services will be implemented at the proposed facility. **Please see attached.**
23. Please provide a detailed description about the amount and source of the equity and debt commitment for this transaction. (NOTE: If debt is contemplated as part of the financing, please complete Appendix C). Additionally, please demonstrate the following: **Total equity is \$156,592 - \$60,000 from cash on hand for the clinic renovation, \$96,592 from the CMS grant money for medical equipment, furniture, fixtures and supplies.**
- A. The immediate and long-term financial feasibility of the proposed financing plan;
- We are working to insure the Center's long term sustainability via expanding third party billing (esp. Medicaid) as the 3 year grant funding expires.**
- B. The relative availability of funds for capital and operating needs; and
- Centers will be located within existing facilities that have been operating continuously for 50+ years.**
- C. The applicant's financial capability;

The organization has been operating a budget of over 10 million dollars for over a decade.

24. Please provide legally binding evidence of site control (e.g., deed, lease, option, etc.) sufficient to enable the applicant to have use and possession of the subject property.

Please **See Attachment**

25. Please identify any zoning approvals that may be required in order to implement this proposal and the applicant's actions taken to date to obtain such approvals.

According to current zoning regulations site operates within proper zoned areas.

26. Please provide pictures and schematics of the proposed facility in sufficient detail to show use and dimensions of the space.

Please **See Attachment**

27. Please provide each of the following documents applicable to the applicant's legal status:

- Certificate and Articles of Incorporation and By-Laws (for corporations)
- Certificate of Partnership and Partnership Agreement (for partnerships)
- Certificate of Organization and Operating Agreement (for limited liability corporations)

28. If the applicant or one of its parent companies (or ultimate parent) is not a publicly traded corporation, please provide the audited financial statements for the most recent three years, if applicable.

Please see attached.

29. If the applicant or one of its parent companies (or ultimate parent) is a publicly traded corporation, please provide copies of its most recent SEC 10K filing.

30. All applicants please complete Appendixes A, D, and E.

Appendix A

1. Please indicate the financing mix for the capital cost of this proposal, if applicable. **NOTE:** the Health Services Council's policy requires a minimum 20 percent equity investment.

Source	Amount	Percent	Interest Rate	Terms (Yrs.)
Equity*	\$ 156,592	100%		
Debt**	\$	%	%	
Lease	\$	%	%	
TOTAL	\$156,592	100%		

* Equity means non-debt funds contributed towards the capital cost related to a change in owner or change in operator of a healthcare facility which funds are free and clear of any repayment or liens against the assets of the proposed owner and/or licensee and that result in a like reduction in the portion of the capital cost that is required to be financed or mortgaged.

** If debt financing is indicated, please complete Appendix C.

2. Please identify the total number of FTEs (full time equivalents) and the associated payroll expense (with fringe benefits) required to staff this proposal. **Budget including all personnel detail is attached.**

Personnel	RAMP UP YEAR 2013		FIRST FULL FISCAL YEAR 2014	
	Number of FTEs	Payroll W/Fringes	Number of FTEs	Payroll W/Fringes
Medical Director	#	\$	#	\$
Physicians/Health Care Provider	#	\$	#	\$
Administrator	#	\$	#	\$
Director of Nursing / Clinic Dir	#	\$	#	\$
RNs	#	\$	#	\$
LPNs	#	\$	#	\$
Nursing Aides	#	\$	#	\$
PTs	#	\$	#	\$
OTs	#	\$	#	\$
Speech Therapists	#	\$	#	\$
Clerical	#	\$	#	\$
Housekeeping	#	\$	#	\$
Other: ()	#	\$	#	\$
()	#	\$	#	\$
TOTAL:	#	\$	#	\$

Appendix A (cont.)

3. All applicants must complete Table A. Please include the data for the ramp up year and first full year after implementation. Please provide both the amounts and percentages for each category.

Table A (All Applicants)

PAYOR SOURCE	RAMP UP YEAR 20 13				FIRST FULL FISCAL YEAR 20 14			
	Units of Service (specify _____)		NET PATIENT REVENUE		Units of Service (specify _____)		NET PATIENT REVENUE	
	#	%	\$	%	#	%	\$	%
Medicare	#520	50%	\$20,800	50%	#780	50%	\$31,200	50%
Medicaid	#520	50%	\$20,800	50%	#780	50%	\$31,200	50%
Blue Cross	#	%	\$	%	#	%	\$	%
Commercial	#	%	\$	%	#	%	\$	%
HMOs	#	%	\$	%	#	%	\$	%
Workers' Comp.	#	%	\$	%	#	%	\$	%
Self-Pay	#	%	\$	%	#	%	\$	%
Other: (_____)	#	%	\$	%	#	%	\$	%
TOTAL:	#1040	100%	\$41,600	100%	#1560	100%	\$62,400	100%
Charity Care*	#	%	\$0	0%	#	%	\$0	0%

* Charity care does not include bad debt and is based on costs (not charges).

Appendix A (cont.)

4. Please complete the following projected income statements for the first three years after implementation. Round all amounts to the nearest dollar. **Please see attached three year budget.**

PRO-FORMA FOR PROPOSED FACILITY			
	Ramp up Year 20	First Full Fiscal Year 20	Second Full Fiscal Year 20
REVENUES:			
Net Patient Revenue	\$	\$	\$
Other: ()	\$	\$	\$
Total Revenue	\$	\$	\$
EXPENSES:	\$	\$	\$
Payroll w/Fringes	\$	\$	\$
Bad Debt	\$	\$	\$
Supplies	\$	\$	\$
Office Expenses	\$	\$	\$
Utilities	\$	\$	\$
Insurance	\$	\$	\$
Interest	\$	\$	\$
Depreciation/Amortization	\$	\$	\$
Leasehold Expenses	\$	\$	\$
Other: ()	\$	\$	\$
Other: ()	\$	\$	\$
Total Expenses	\$	\$	\$
OPERATING PROFIT:	\$	\$	\$

Three year budget attached

Number of Patients:	200	350	600
Number of Visits:	800	1400	2400

(TO BE COMPLETED BY THE APROPRIATE STATE AGENCY)

Appendix B

Rhode Island Department of Health
Office of Health Systems Development

Compliance Report

(Name of Applicant) _____ has applied for licensure as a healthcare facility in Rhode Island. As part of the regulatory requirements to determine the character, competence and other quality related information of the applicant, the Office of Health Systems Development is requesting the following information regarding the health care facilities operated by or affiliated with the applicant, as listed on the attached sheet.

Please answer the following questions.

1. Are the agencies/facilities currently licensed and in substantial compliance with all applicable codes, rules and regulations? Yes ___ No ___

If the answer to #1 is "NO", please identify the facility(ies) and briefly explain the licensure status.

2. Has there been any enforcement actions against these agencies/facilities in the past five years? Yes ___ No ___

If the answer to #2 is "YES", please identify the facility(ies) and include any information relevant to those enforcement actions (reason for action, stipulation, fine, etc.). In addition, please furnish a brief description of the outcome of the most recent survey, including any deficiencies cited. Additional pages may be attached, if needed.

Reviewer's Name: _____ Title: _____
Department: _____ State: _____
Telephone _____ E-mail _____
Reviewer's Signature: _____ Date: _____

If you have any questions, please contact Michael Dexter at (401) 222-2788 or e-mail, Michael.Dexter@health.ri.gov Please return the completed form within 15 days to the address below:

Rhode Island Department of Health
Office of Health Systems Development
3 Capitol Hill, Room 404
Providence, Rhode Island 02908

Thank you.

Attachment

Appendix C

Debt Financing

All applicants proposing debt financing must complete this Appendix.

Applicants contemplating the incurrence of a financial obligation for full or partial funding of the proposal must complete and submit this appendix.

1. Please describe the proposed debt by completing the following:
 - a.) type of debt contemplated _____
 - b.) term (months or years) _____
 - c.) principal amount borrowed _____
 - d.) probable interest rate _____
 - e.) points, discounts, origination fees _____
 - f.) compensating balance or reserved fund _____
 - g.) likely security _____
 - h.) disposition of property (if a lease is revoked) _____
 - i.) prepayment penalties or call features _____
 - j.) front end costs (e.g. underwriting spread, feasibility study, legal and printing expense, points etc.) _____
 - k.) debt service reserve fund _____

2. If this proposal involves refinancing of existing debt, please indicate the original principal, the current balance, the interest rate, the years remaining on the debt and a justification for the refinancing contemplated.

3. Please present a debt service schedule for the chosen method of financing, which clearly indicates the total amount borrowed and the total amount repaid per year. Of the amount repaid per year, the total dollars applied to principal and total dollars applied to interest must be shown.

Appendix D

Disclosure of Ownership and Control Interest

All applicants must complete this Appendix

Please answer the following questions by checking either 'Yes' or 'No'. If any of the questions are answered 'Yes', please list the names and addresses of individuals or corporations.

1. Will there be any individuals (or organizations) having a direct (or indirect) ownership or control interest of 5 percent or more in the applicant, that have been convicted of a criminal offense related to the involvement of such persons or organizations in any of the programs established by Titles XVIII, XIX of the Social Security Act? Yes ___ No X
2. Will there be any directors, officers, agents, or managers of the applicant (or facility) who have ever been convicted of a criminal offense related to their involvement in such programs established by Titles XVIII, XIX of the Social Security Act? Yes ___ No X
3. Are there (or will there be) any individuals employed by the applicant (or facility) in a managerial, accounting, auditing, or similar capacity who were employed by the applicant's fiscal intermediary within the past 12 months (Title XVIII providers only)? Yes ___ No X
4. Will there be any individuals (or organizations) having direct (or indirect) ownership interests, separately (or in combination), of 5 percent or more in the applicant (or facility)? (Indirect ownership interest is ownership in any entity higher in a pyramid than the applicant) Yes ___ No X (Note, if the applicant is a subsidiary of a "parent" corporation, the response is 'Yes')
5. Will there be any individuals (or organizations) having ownership interest (equal to at least 5 percent of the facility's assets) in a mortgage or other obligation secured by the facility? Yes ___ No X
6. Will there be any individuals (or organizations) that have an ownership or control interest of 5 percent or more in a subcontractor in which the applicant (or facility) has a direct or indirect ownership interest of 5 percent or more. (Also, please identify those subcontractors.) Yes ___ No X
7. Will there be any individuals (or organizations) having a direct (or indirect) ownership or control interest of 5 percent or more in the applicant (or facility), who have been direct (or indirect) owners or employees of a health care facility against which sanctions (of any kind) were imposed by any governmental agency? Yes ___ No X
8. Will there be any directors, officers, agents, or managing employees of the applicant (or facility) who have been direct (or indirect) owners or employees of a health care facility against which any sanctions were imposed by any governmental agency? Yes ___ No X

Appendix E

Ownership Information

All applicants must complete this Appendix

1. List all officers, members of the board of directors, and trustees of the applicant and/or ultimate parent entity. For each individual, provide their home and business address, principal occupation, position with respect to the applicant and/or ultimate parent entity, and amount, if any, of the percentage of stock, share of partnership, or other equity interest that they hold. **See Attached.**

2. For each individual listed in response to Question 1 above, list all (if any) other health care facilities or entities within or outside Rhode Island in which he or she is an officer, director, trustee, shareholder, partner, or in which he or she owns any equity or otherwise controlling interest. For each individual, please identify: A) the relationship to the facility and amount of interest held, B) the type of facility license held (e.g. nursing facility, etc.), C) the address of the facility, D) the state license #, E) Medicare provider #, F) any professional accreditation (e.g. JACHO, CHAP, etc.), and G) complete Appendix B 'Compliance Report' and submit it to the appropriate state agency (not applicable for Rhode Island facilities). **There are no board of directors that are an officer, director, trustee, shareholder, partner of any other health care facilities or entities within or outside of Rhode Island.**

3. If any individual listed in response to Question 1 above, has any business relationship with the applicant, including but not limited to: supply company, mortgage company, or other lending institution, insurance or professional services, please identify each such individual and the nature of each relationship. **There are no board of directors that have a business relationship with the Seven Hills.**

4. Have any individuals listed in response to Question 1 above been convicted of any state or federal criminal violation within the past 20 years? Yes ___ No X_.
 - If response to Question 4 is 'Yes', please identify each person involved, the date and nature of each offense and the legal outcome of each incident.

5. Please list all licensed healthcare facilities (in Rhode Island or elsewhere) owned, operated or controlled by any of the entities identified in response to Question 12 of the application. For each facility, please identify: A) the entity, applicant or principal involved, B) the type of facility license held (e.g. nursing facility, etc.), C) the address of the facility, D) the state license #, E) Medicare provider #, F) any professional accreditation (e.g. JACHO, CHAP, etc.), and G) complete Appendix B 'Compliance Report' and submit it to the appropriate state agency (not applicable for Rhode Island facilities).

6. Have any of the facilities owned, operated or managed by the applicant and/or any of the entities identified in Question 5 above during the last 5-years had bankruptcies and/or were placed in receiverships? Yes ___ No X_.
 - If response to Question 6 is 'Yes', please identify the facility and its current status.

Christine Gadbois MSN, RN-BC, CDDN, PHCNS-BC

155 Davis St.

Seekonk, MA. 02771

508-639-9321 cell 401-749-3221

gadboisc@comcast.net

RI license: RN28015

MA license: 12065

ANCC certification: 163700-03 Board Certified Psychiatric Mental Health Nurse

ANCC certification: 2010012501 Board Certified Public Health Clinical Nurse Specialist

Certification as Developmental Disabilities Nurse

Capabilities:

- Ability to effectively triage, prioritize and problem solve
- Knowledge of third party payer, managed care and state funding systems
- Initiative with promoting collaboration amongst disciplines, within and amongst agencies
- Skilled at community needs assessment and program planning and development
- Proven ability to develop and manage a leadership team and strategic plan in an environment of organizational change and fiscal challenges

Experience:

- Twenty five years as a registered nurse/ advanced practice nurse in medical and human service settings
- Significant behavioral health experience including program development in number of settings
- Planning and delivery of numerous educational programs for practicing professionals
- Over twenty years experience in management with progressively increasing responsibilities
- Extensive work with interdisciplinary, multi-agency teams to promote improved community health thru initiatives such as creating integrated service delivery options
- Successful development of new programs to improve community health and assist vulnerable populations to remain in their communities

July 2012 thru present: Vice President

October 2011 thru July 2012: Interim Vice President

Seven Hills Rhode Island. 30 Cumberland St. Woonsocket, RI, 02895. 401-597-6700.

Responsible for agency supporting over 1200 adults, children and seniors with over 1000 staff and budget of \$25 million. During this period the agency experienced significant funding and regulatory changes which necessitated complete restructure of the adult division including changes to service delivery, billing and staff resources.

Worked closely with SHRI leadership team and the senior leadership team at Seven Hills Foundation to minimize disruption to participants and programs while advocating at state level for restoration of funding and needed changes to regulations.

August 2009 thru present:

Assistant Vice President, Administrator for Adult Services

Seven Hills Rhode Island.

Responsible for a division supporting over 300 individuals with disabilities, and seniors in residential, community, vocational and day habilitation program settings, including clinical supervision of professional staff, all aspects of policy and personnel management, preparation and oversight of budget, liaison with state funders and regulatory bodies including RIDBHDDH and RIEOHHS. Responsible for development of new programs to expand services to community and diversify funding stream.

December 2007 thru August 2009:

Assistant Administrator for Adult Services

The Homestead Group/ Seven Hills Foundation.

Responsible for integration of multiple programs/service departments to improve quality and streamline costs.

September 2001 thru December 2007:

Director of Health Services

The Homestead Group.

Responsible for all aspects of healthcare delivery for agency serving individuals with disabilities, including clinical supervision, training, development of new program services, and regulatory compliance.

June 1996 to September 2001:

Nurse Supervisor and Charge Clinician

Butler Hospital, 345 Blackstone Blvd., Providence, RI, 02905. 401-455-6400

Responsible for off shift management of 110 bed acute care psychiatric hospital, including clinical and administrative supervision for all clinical staff. Responsible for management of emergency assessment area, including triage, clinical evaluations, dispositions, and utilization reviews.

August 1992 to June 1996:

Clinical Supervisor, Evenings

Community Visiting Nurse Agency. 141 Park Ave., Attleboro, MA, 02703.

Responsible for development of new evening program. Responsible for clinical and administrative supervision of all acute and hospice teams to ensure continuity of quality care during evening hours.

August 1991 to August 1992:

Patient Care Manager

Managed Psychiatric Care. 1115 Wampanoag Trail, East Providence, RI, 02915.

Responsible for case management and utilization review for behavioral healthcare.

January 1988 to August 1991:

Assistant Nurse Manager Adolescent Psychiatric Unit

Fuller Memorial Hospital. 231 Washington St., South Attleboro, MA, 02703.

Responsible for development of multidisciplinary evening team for new inpatient unit.

May 1987 to January 1988:

Staff Nurse Neurosurgical Unit

Rhode Island Hospital. 593 Eddy St., Providence, RI, 02903.

Education:

2012 thru present: Doctoral Candidate for Doctorate in Nursing Practice – University of Massachusetts

2010 – Masters of Science Degree in Community Health Nursing - University of Massachusetts

2000 - Bachelors of Science in Nursing, Summa Cum Laude – Rhode Island College

1991 - Associate Degree in General Studies with Honors – Community College of RI

1987 - Associate Degree in Nursing with Honors – Community College of RI

Accreditation:

2011 thru present: American Nurses Board Certification as Public Health Clinical Nurse Specialist

2010 thru present: Certification as Developmental Disabilities Nurse

1991 thru present: American Nurses Board Certification as Psychiatric & Mental Health Nurse

Professional Memberships:

2003 thru present: National Developmental Disabilities Nurses Association

2002 thru present: Rhode Island Developmental Disabilities Nurses Association

(2003 thru 2005: Education Committee and 2005 thru 2011: Chair)

1999 thru present: Sigma Theta Tau Honor Society of Nursing

1991 thru present: Rhode Island State Nurses Association – currently President

Professional committees:

2012 thru present: RI Medicaid Medical Care Advisory Committee
2011 thru present: Alliance of Nurses for Healthy Environment
2010 thru present: Collaborative on Health and the Environment
2010 thru present: RI Global Waiver Task Force Workgroups on Assessment, Disabilities, Long Term Care
2008 thru present: RI State Nurses' Association Environmental Affairs Council
2008 thru 2011: RI State Nurses' Cabinet on Nursing Practice
2008 thru 2011: RI Coalition for Responsible Medicaid Reform
2007 thru 2010: NADD Environmental Health Committee
2006 thru 2008: RI DHS Real Choice/ Perry Sullivan Systems Transformation Project
2006 thru 2008: RI MHRH Director's Partnership Council

Professional presentations:

Annual NADD Conference, October, 2006, San Diego, CA: Interagency Collaboration to Create Behavioral Supports for Adults with Disabilities
Developmental Disabilities Nurses Association Annual Conference, May, 2011, Hartford, CT: Nurses as Advocates for Environmental Health and Environmental Justice
28th Annual NADD Conference, November, 2011, Nashville, TN: Organizational Collaboration to Better Serve Populations with ID/D and Behavioral Health Needs
RI Developmental Disabilities Nurses Association, Annual Conference, June, 2012, Providence, RI: Environmental Factors and Autism
29th Annual NADD Conference, October, 2012, Denver, CO: Physical/Mental Wellness Integrated Treatment Model
RI Developmental Disabilities Nurses Association, November, 2012, Middletown, RI: Physical/Mental Wellness Integrated Treatment

Volunteer:

2011 thru present: Murray Unitarian Universalist Church Finance Committee
2010 thru present: Board of Directors, Blackstone Valley Mental Health Realty Corporation
2009 thru present: Massachusetts Medical Reserve Corp
2009 thru 2011: Murray Unitarian Universalist Church Deacon
2007 thru 2010: Board of Directors, RI Council of Community Mental Health Organizations
2007 thru 2009: Program Planning Board, NRI Community Services
2007 thru present: Massachusetts System Advance Registration - Volunteer Health Professionals, Mass EOHHS
2005 thru present: Parent Advisory Council, Seekonk High School
2005 thru 2009: Board of Directors, Community Staffing Resources
2003 thru present: State of RI MHRH Behavioral Health Response Team
2003 thru 2007: PTO Executive Board, Seekonk Middle School
1997 thru 2006: Town of Seekonk School Building Committee
2000 to 2006: PTO Executive Board, North Seekonk Elementary School
1993 to 1999: PTO Executive Board, Seekonk Martin Elementary School
Feb 1995 to Feb 1996: Health Educator, Blackstone Shelter for Women and Children



JOB DESCRIPTION#

TITLE: Vice President of Seven Hills Rhode Island

JOB CATEGORY: Senior Leadership

REPORTS TO: Senior Vice President/Chief Program Officer of Seven Hills Foundation

BASIC FUNCTIONS: The Vice President has clinical, fiscal, regulatory, human resource and marketing responsibility for all programs integrated into Seven Hills Rhode Island. This includes the adult services, children's services, and the behavioral health program. The Vice President serves as a member of the Seven Hills Foundation Senior Leadership team.

QUALIFICATIONS: Master's degree in related field required; Ph.D. degree preferred with 10+ years progressive executive management leadership experience in a related field, or substantially equivalent combination of education and experience. Must possess a thorough knowledge of Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) regulations that pertain to adult services; Department of Human Services (DHS), and CEDDAR Family Center regulations that pertain to children's services.

RESPONSIBILITIES AND OBJECTIVES:

- Manages the financial areas within the facility, along with the foundation business team to optimize revenue and manage expenses.
- Oversees the clinical practice within the facility and creates an environment to support interdisciplinary clinical care.
- Must ensure that all clinical departments follow the accepted standards of practice in each of their disciplines and comply with the BHDDH, DHS regulations.
- Has a sound understanding of Medicaid, BHDDH, and DHS reimbursement regulations.
- Supports and facilitates effective family collaboration and communication to achieve defined goals for each individual supported.
- Ensures compliance with state, federal and local standards and regulations.
- Maintains a working relationship with the BHDDH, DHS for participant referrals.
- Ensures that establishing positive relationships with referral sources maximizes the affiliate census.
- Assists with the preparation, implementation, and monitoring of the annual budget.
- Responsible for the completion of and adherence to the affiliate Policy and Procedure Manuals.
- Must be able to successfully complete the annual licensing surveys and maintain the facilities license in good standing.

- Directs the Performance Improvement Committee to ensure quality care throughout the facility.
- Overall responsibility for adequate staffing in the facility, and the direct responsibility for hiring of the senior leadership staff within Seven Hills Rhode Island.
- Promotes the facility to all applicable stakeholders by establishing positive relationships.
- Works with other likeminded facilities in Rhode Island, as well as nationally to advocate for the needs of the individuals supported by Seven Hills Rhode Island.

EXPECTATIONS:

- Participates as an active member of the Senior Leadership Team and Foundation activities as required.
- Participates in professional meetings and educational conferences to maintain and enhance professional competence.
- Incorporates knowledge about current issues in the activities of a not-for-profit organization into the professional practice environment.
- Assumes responsibility for engaging in the process of self-evaluation and mutual evaluation with the Seven Hills Foundation President.
- Utilizes resources for the assessment and realization of personal career goals.

WORKING CONDITIONS /PHYSICAL REQUIREMENTS:

- Works in a busy area in a high stress atmosphere.
- Works in a resident care environment where there is some exposure to communicable disease.

STATUS: Exempt

General sign-off: Employees are expected to adhere to all company policies and to act as a role model in the adherence of policies. This document does not constitute a contract and does not supersede the *employment-at-will* condition.

I have read and understand my job description.

Employee Printed Name

Employee Signature

Date

Supervisor Signature

Date

Seven Hills Rhode Island
Living Rite Center

Subject: **Charity Care**

PURPOSE:

The LIVING RITE CENTER is a not-for-profit healthcare clinic that provides healthy living strategies and urgent care services. The LIVING RITE CENTER is committed to providing high quality, coordinated healthcare for individuals who seek services, including those individuals in the LIVING RITE CENTER community who lack the means to pay for such services. This policy sets forth the policy, process, and guidelines by which such individuals can access Charity Care.

POLICY and SCOPE:

To fulfill its mission of providing compassionate, high quality coordinated healthcare to the individuals it serves, the LIVING RITE CENTER must provide such services in a financially responsible manner. Therefore, it is the policy of the LIVING RITE CENTER to maintain a system for proper identification of individuals eligible for Charity Care. This policy covers medically necessary health care services provided by the LIVING RITE CENTER and does not include any services provided by outside vendors, including, but not limited to, non-employed physicians.

It is the policy of the LIVING RITE CENTER to differentiate between uninsured individuals who are unable to pay from those who are unwilling to pay for all or part of their care. The LIVING RITE CENTER will provide Charity Care to those uninsured individuals who are unable to pay based upon the eligibility criteria set forth herein.

In order to conserve scarce healthcare resources, the LIVING RITE CENTER will seek payment from uninsured individuals who do not qualify for Charity Care. While qualification for Charity Care is ideally determined at the time of service, the LIVING RITE CENTER will continue to review such determinations as potential insurers or other financial resources are discovered during the billing and collection process.

This policy does not apply to individuals who are "underinsured" as opposed to uninsured. For example, it is not the intent of this policy to provide free or discounted care to individuals who have health insurance with deductibles and/or coinsurance.

This policy does not apply to those individuals seeking care who reside outside of the the POINT LIVING RITE CENTER immediate service area unless the individual has received ongoing care with the LIVING RITE CENTER in the year prior to the date of service.

Services provided by non-employed physicians and other services provided by outside vendors are not covered by this policy and individuals seeking a discount for such services should be directed to call the physician or outside vendor directly.

DEFINITIONS:

1. **Financial Counselor.** An individual trained to assist individuals in identifying sources of healthcare coverage, determining eligibility for such coverage, and assisting in completing necessary applications. Financial counselors may either be employees of the LIVING RITE CENTER or a third party engaged by the LIVING RITE CENTER to assist in its billing and collections processes.

2. **Charity Care.** Charity Care is free care provided to individuals who are uninsured for the relevant, medically necessary service and who are ineligible for governmental or other insurance coverage. A patient will be eligible for Charity Care if the patient's family income does not exceed 200% of the Federal Poverty Level. In the case of those individuals who are treated and released from the emergency room and do not complete a Charity Care application, the LIVING RITE CENTER may assume the patient qualifies for Charity Care if the patient resides in a zip code where the average household income does not exceed 200% of the Federal Poverty Level. All expenses incurred as a result of providing healthcare services to those who qualify for Charity Care are absorbed by THE LIVING RITE CENTER, except for personal charges incurred by the patient such as telephone, television, and other services incidental to their health care services.

3. **Immediate Service Area.** For the purposes of this policy, the LIVING RITE CENTER's immediate service area is defined as the state of Rhode Island

4. **Self-Pay Patient.** Those individuals who are uninsured individuals (as defined below) and who are not eligible for Charity Care. Self-pay individuals are eligible for financial assistance at a discounted rate, in accordance with the LIVING RITE CENTER's Uninsured Discount Policy, which sets forth a discounted Self-Pay Fee Schedule.

5. **Uninsured Patient.** A patient who does not have any third party health care coverage by either (a) a third party insurer, (b) an ERISA plan, (c) A federal health care program (including without limitation Medicare, Medicaid, SCHIP, and TRICARE), (d) Workers' Compensation, Medical Savings Account, or other coverage for all or any part of the bill, including claims against third parties covered by insurance to which the LIVING RITE CENTER entity is subrogated, but only if payment is actually made by such insurance company.

6. **Governmental Health Care Coverage.** Any health care program operated or financed at least in part by the federal, state or local government.

PROCEDURE:

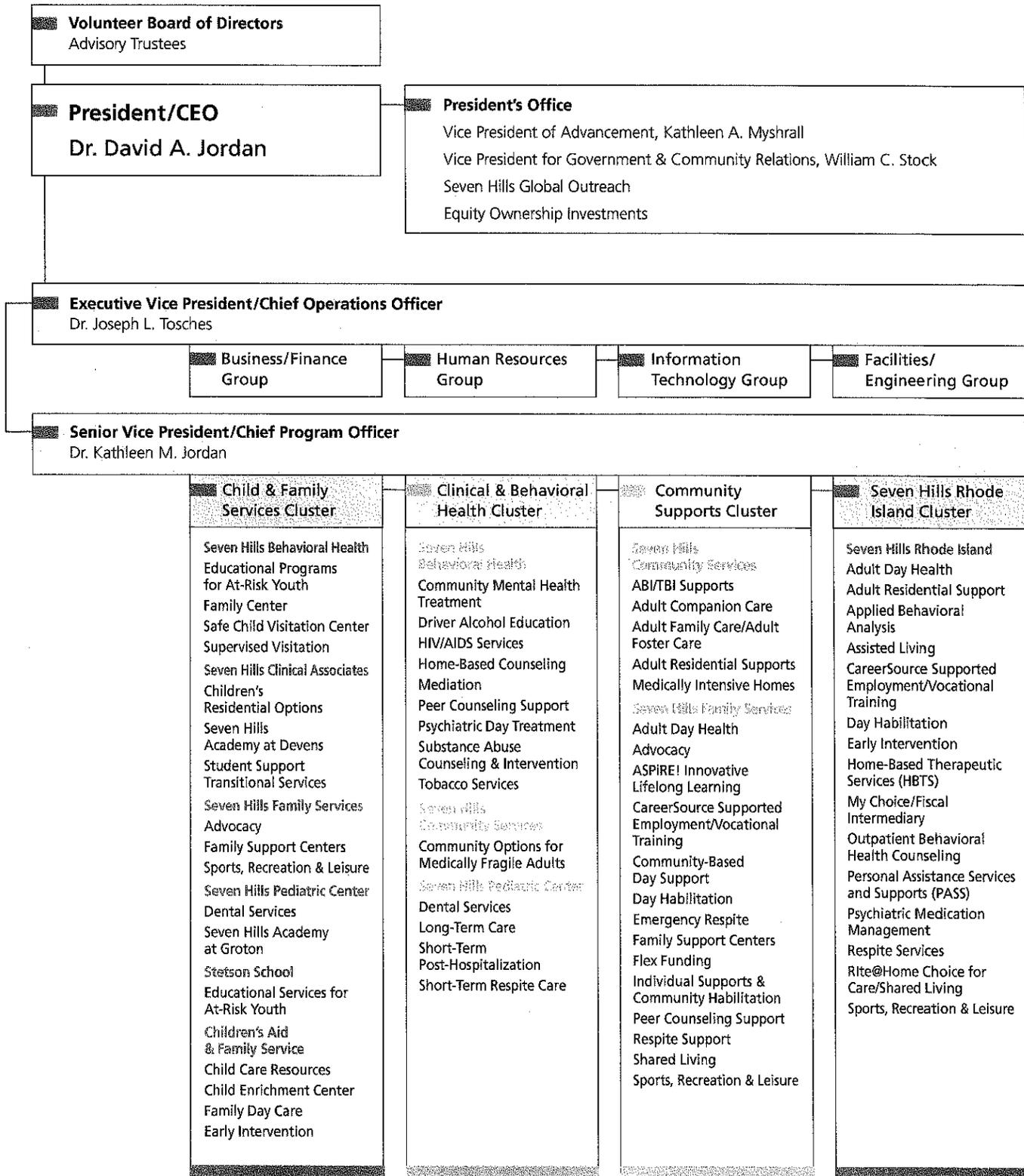
The financial counselor/ care manager will determine a patient's eligibility for Charity Care using a Charity Care Worksheet. Individuals whose family incomes are below 200% of the Federal Poverty Level (according to appropriate family size) will qualify for Charity Care. The financial counselor will assist uninsured individuals in obtaining health insurance coverage through Medical Assistance, Children's Health Insurance Program, Special Care, COBRA, or other Governmental Health Care Coverage. The financial counselor will give the patient a brochure on Billing Guidelines and be directed to the sections on Charity Care and No Insurance. Individuals who do not provide the requested information necessary to completely and accurately

assess their financial situation or who do not cooperate with efforts to secure Governmental Health Care Coverage will not be eligible for Charity Care or other financial assistance. Once a patient has been approved for Charity Care, the patient must disclose any change in financial or family situation that may affect eligibility for Charity Care. The patient will be asked periodically to disclose any change in status or to update the financial and family information and may be asked to reapply for Charity Care.

7. Continuing Treatments.

Self-pay individuals may receive continuing outpatient treatment after the initial outpatient visit or admission only if the treating physician advises the Financial Counselor that such treatment is medically necessary and the patient qualifies for Charity Care or the patient has made all payments in accordance with arrangements made under the LIVING RITE CENTER 's Self-Pay Policy. To monitor this policy, Management will produce Charity Care reports on a periodic basis that identify Charity Care activity by clinical service, geographic area, and other measures

Seven Hills Foundation Organizational Chart



President's Cabinet: Dr. David A. Jordan, Dr. Joseph Tosches, Dr. Kathleen M. Jordan, William C. Stock, Kathleen A. Myshrall

Senior Leadership: Dr. Katharine A. Cleary; Lee Dalphonse, CAGS, LMHC, LCDS, ICCDP-D; Christine Gadbois, MSN, RN-BC, CDDN, PHCNS-BC; Holly Jarek, MS, NHA; Marilyn Lopez-Haddad, JD; Kathleen Lovenbury, MA; Richard G. Neckes

SEVEN HILLS FOUNDATION
ADMINISTRATIVE POLICY #109

Effective: July 1, 1996; Rev. 3/99; 11/00; 2/03;
2/04; 8/06; 8/07; 8/08; 9/09; 8/10; 9/11;
9/12

Functional Responsibility: Director of Quality Assurance/Program
Improvement

Cross Reference(s):

TOPIC: Continuous Quality Improvement

POLICY:

Seven Hills Foundation and its operating affiliates recognize the need to integrate and coordinate the ongoing continuous quality improvement activities of the Foundation. The Foundation has chosen to address this need with a comprehensive program directed toward assuring a high quality, cost effective organization that is consistent with the aims and philosophies of the Foundation.

PURPOSE OF PLAN:

The purpose of the program is to coordinate and monitor service activities, thereby assuring the governing body and administration that the agency functions at a level of quality that is optimal for the organization. The services of the Seven Hills Foundation are designed to assist each person supported to realize their potential, and to become an active member of their community.

OBJECTIVES:

1. Establish a system of continuous evaluation and monitoring, using objective information, which identifies trends in quality and can be used to resolve issues.
2. Document and periodically review the steps taken to meet the quality outcomes identified by the Foundation and its affiliates.

RESPONSIBILITY AND AUTHORITY:

The Board of Directors and Foundation administration have accepted the responsibility for an ongoing quality enhancement program which will:

- Meet or exceed the quality assurance expectations identified by regulatory agencies (e.g. Massachusetts Departments of Developmental Services, Education, Public Health; CARF; and Rhode Island Division of Developmental Disabilities);
- Provide effective mechanisms for monitoring Foundation-wide quality assurance activities;
- Give full recognition to the necessity for maintaining strict confidentiality; and

- Implement recommended changes.

The Seven Hills Foundation Board of Directors has the responsibility of providing fiscally responsible quality services/supports, and delegating specific functions to the Foundation administration including the authority to implement various quality enhancement activities. The Board will periodically review the quality of the services provided through the mechanisms outlined below (and any other means deemed appropriate by the Board).

COMPONENTS:

The Seven Hills Foundation Continuous Quality Improvement Program encompasses all services of the Foundation and its affiliates.

The components of the Foundation-wide Continuous Quality Improvement Program are:

- Foundation Clinical Practice Team
- Quality Council

A description of the functioning and methodology of each component follows.

I. Foundation Clinical Practice Team:

Meets: Monthly with 4 meetings per year designated for Quality Enhancement/Quality Improvement

Members are: Senior Vice-President/CPO
Representatives of each Operating Affiliate
Director of Quality Assurance/Program Improvement (*for quarterly QE meetings*)
Other staff identified by the President of the Foundation

The Foundation Clinical Practice Team operates in the manner specified by the policies of the Seven Hills Foundation and is composed of representatives from the operating affiliates and support departments.

Quarterly, the Clinical Practice Team is responsible for reviewing quality assurance data collected throughout the agency (see below of a list of possible data sources) and making recommendations to the Quality Council. Areas of possible recommendation include the means of collecting quality enhancement information, the training of staff relating to quality enhancement and possible actions to address identified issues. Specific functions of the Foundation Clinical Practice Team:

- Review the results and action plans related to external evaluations (e.g., Survey and Certification, CARF) and internal evaluations (e.g., Balanced Scorecard).
- Review data as presented to the Quality Council.
- Review results of Satisfaction Surveys.

D. Review Outcome Reports.

E. Conduct any other activities requested by the Quality Council.

The Director of Quality Assurance/Program Improvement will prepare minutes of the Quarterly Clinical Practice Team meetings which focus on quality enhancement and outcomes. These will be submitted to the Quality Council.

II. Quality Council:

Meets: 4 times per year

Members: Foundation President, Chairman

Sr. Vice President

Vice Presidents of Operating Affiliates & Support Units

Director of Quality Assurance/Program Improvement

Quality Council's Functions:

A. Review issues, which are referred by the Director of Quality Assurance/Program Improvement.

B. Suggest methods and approaches for resolving identified issues that impact the quality of the services being provided.

C. Provide recommendations to expedite cross-affiliate resolutions.

D. Review the effectiveness of each resolution through an established system of ongoing data collection and monitoring.

E. Report ongoing Council activities to the agency staff and governing board.

At each Quality Council meeting the Director of Quality Assurance/Program Improvement provides a report of the quality enhancement activities conducted during the prior quarter and a summary of the findings. The purpose of this report is to provide information to the Senior Leadership on organization-wide patterns that have been identified through a comprehensive analysis of existing data.

REAPPRAISAL:

There shall be an annual re-evaluation of the Seven Hills Foundation's quality enhancement activities to assure that they are:

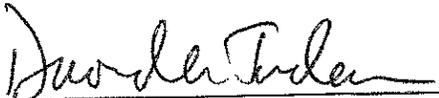
- Ongoing in nature;
- Effective in maintaining the high standard of service for persons supported;
- Efficient in operation with resultant cost effectiveness; and
- Current by virtue of indicated changes or revisions as reflected in the annual update of the Foundation's Quality Enhancement Plan.

The Director of Quality Assurance/Program Improvement will conduct an annual review of the Foundation's quality enhancement activities, draft recommended changes and present proposed revisions to the Quality Council for review. The Foundation President and the Quality Council must approve any revisions before they are incorporated into the Foundation's Quality Enhancement Plan.

DATA SOURCES

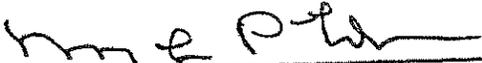
The data sources for establishing outcomes and/or identifying issues, include, but are not limited to, the following:

- Balanced Score Card Reports
- Affiliate Outcome Review Reports
- DPPC/DSS/QA/Elder Affairs Reports
- Family/Guardian Satisfaction Surveys
- Compliance Hotline Reports
- Motorist Observation Reports
- Employee Surveys
- Financial Reports
- Incident Reports
- Human Resource Reports (e.g., Exit Interviews, Employee Accident Reports)
- Clinical Practice Team Minutes
- Satisfaction Surveys of Persons Supported
- External Evaluation Reports (e.g., CARF, DPH)
- Third-Party Funder Surveys
- Verbal or Written Communication from Staff



David A. Jordan, DHA, President

Authorized by the SHF Board of Directors this 4th day of September 2012.



Clerk of the Board

SEVEN HILLS RHODE ISLAND
PROGRAM SPECIFIC GUIDELINES #225.2

Effective: 3/13
Area: Adult Services; Child & Family Services
Functional Responsibility:
Cross Reference(s):

TOPIC : Incident Review Committee (IRC)

POLICY:

It is the policy of Seven Hills Rhode Island to maintain an Incident Review Committee (IRC) which will work under the direction of the Assistant Vice-President for Adult Services and the Assistant Vice-President for Children's Services in order to decrease organization-wide incidents and to continuously improve overall program quality. The IRC will ensure compliance with all regulatory agencies and funding sources. The multi-disciplinary committee will be comprised of a cross-section of clinicians, supervisors and other agency personnel who are qualified to review and render opinions about how each incident was handled. The IRC will meet monthly to review all incidents occurring within the agency for the previous month, as well as any unauthorized/unapproved therapeutic holds. Minutes will be kept of each meeting, along with recommendations to the agency's Human Rights Chairperson and the AVPs for both Adult and Children's Services. Programs to be reviewed as part of the incident review process include:

Child and Family Services
HBTS/ABA
PASS
Respite
Early Intervention

Adult Services
Adult Day Habilitation & Vocational
Adult Day Health
Residential (including DHS & BHDDH SL)

Behavioral Health

PROCEDURE:

The Incident Review Team shall be co-chaired by two staff from the three primary program areas to be reviewed: Adult Services, Children's Services and Behavioral Health. Appointments to co-chair the committee will be made annually by the AVPs of Adult and Children's Services. Individuals filling the co-chair position will be in agency leadership positions and will possess quality improvement experience and have the authority to make recommendations regarding how to decrease/eliminate further such incidents from occurring again.

All incidents and unauthorized/unapproved therapeutic holds occurring in Adult Services, Children's Services and in the Behavioral Health programs will be forwarded

to one of the IRC co-chairs within three business days of the actual incident. The co-chairs will ensure that the incidents are placed on the agenda for review at the next IRC meeting. All incidents will be entered into the agency incident tracking database.

In addition to the IRC co-chairs, the committee will be comprised of a cross-section of agency professionals from the three major service departments with the knowledge, experience and authority to conduct a thorough review of the incident(s) in question. In addition to the IRC co-chairs and committee members, staff with first-hand knowledge of incidents being reviewed may be required to attend to answer questions about these incidents. Similarly, management/leadership from the various programs may be asked/required to attend as well.

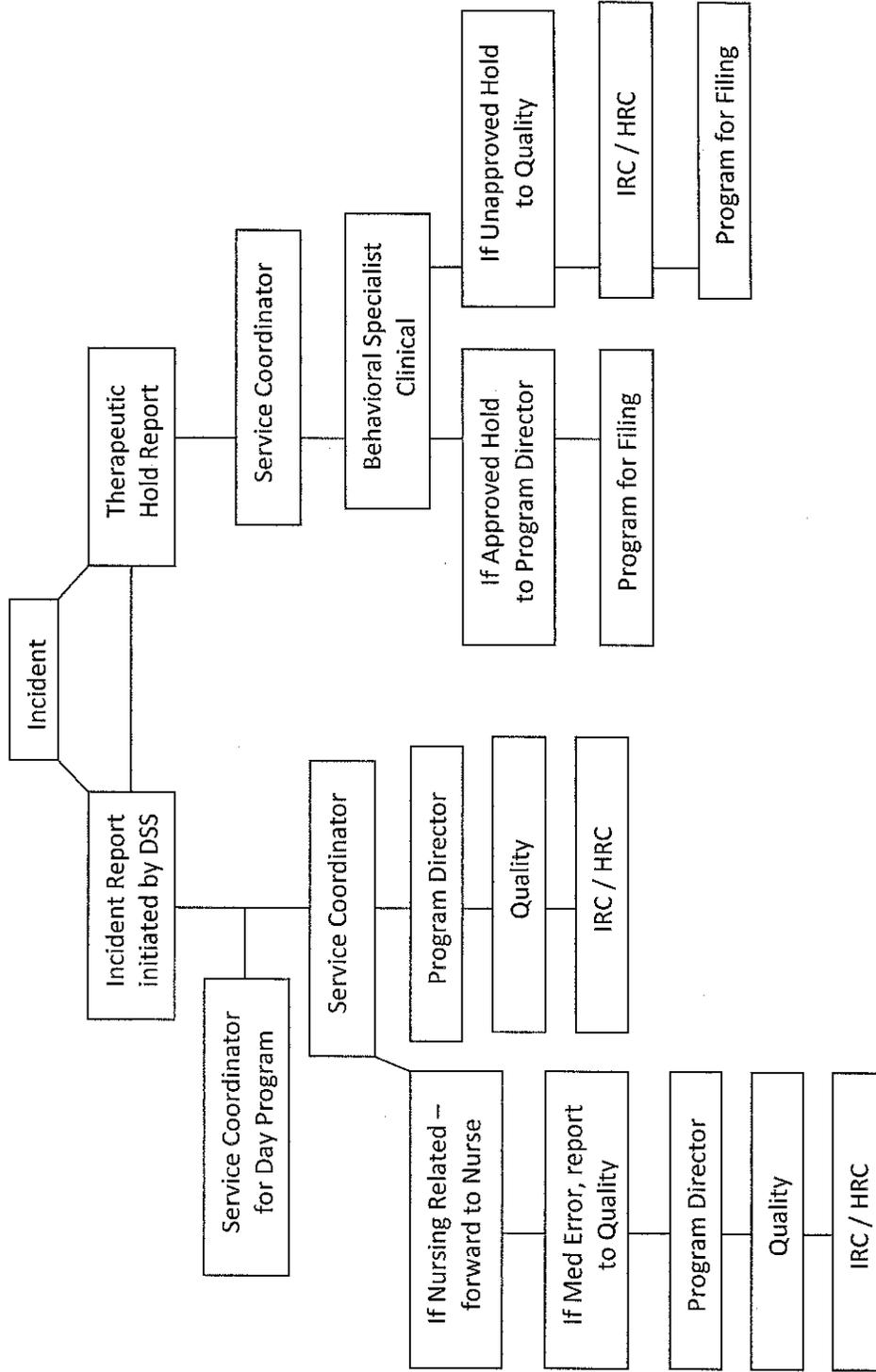
Following a thorough review of each incident, the IRC will either opt to close-out an incident without recommendation, close-out with recommendations or ask for more information/specifics regarding a particular incident, carrying it over to the next scheduled meeting of the IRC. Only upon satisfactory explanation of an incident it shall be closed-out by the IRC.

Minutes of the meeting that include a review of each incident along with its status shall be presented to the agency Human Rights Committee for review and follow-up. It shall be the purview of the HRC to require additional information on any incident before this committee considers the matter closed. In addition, the AVPs of both Adult and Children's services shall receive a copy of the meeting minutes for follow-up as appropriate.

Dual Relationships: It should be noted that on occasion, the IRC might be reviewing incidents either involving and/or that fall under the supervision of an IRC committee member or co-chair. In these situations, it will be the responsibility of the staff to make the dual relationship known to the committee co-chairs and to recuse themselves from the review and discussion of that particular incident, should it be deemed a conflict of interest.



Incident Report / Therapeutic Hold Report Routing Map
February 20, 2013



- If a reportable incident, the Incident Report must be received in Quality within 24 hours.
- Building Manager must forward Incident Report / Therapeutic Hold Report to the person's Service Coordinator.

SEVEN HILLS RHODE ISLAND
PROGRAM SPECIFIC GUIDELINES #225.3

Effective: 3/13
Area: Adult Services
Functional Responsibility:
Cross Reference(s):

TOPIC: Program/Peer Review Committee (PRC)

POLICY:

It is the policy of Seven Hills Rhode Island (SHRI) to maintain a Peer Review Committee (PRC) which will work under the direction of the Assistant Vice-Presidents for Adult Services and Child and Family Services in order to help ensure compliance with all regulatory agencies and funding sources and internal quality assurance/improvement initiatives. This committee will meet once monthly and will review all restrictive Adult Service behavioral programs, including any behavioral plans that include the proposed use of aversive therapies. In addition, the PRC will also be available to review/provide professional feedback on any Child and Family Service behavioral plan as well.

PROCEDURE:

The PRC shall be co-chaired by two staff in agency leadership positions and who possess significant positive behavior plan development skills, quality assurance knowledge and human rights experience. Further, these individuals shall possess the authority to recommend approval/denial of such plans if they do not meet the requirements set forth in the Rules and Regulations for the Licensing of Developmental Disability Organizations (amended January, 2013).

In addition to the co-chairs, the PRC committee will be comprised of a cross-section of agency professionals with considerable experience in the area of behavioral program development including the use of restrictive/aversive practices (including the use of mechanical and chemical restraints). In addition to the co-chairs, these individuals will be responsible for reviewing the behavioral programs and providing professional feedback with regards to the appropriateness of the interventions depicted in the behavioral program. The clinician responsible for the development of the behavioral plan(s) to be reviewed may also be requested to attend if deemed necessary.

In accordance with the Rules and Regulations for the Licensing of Developmental Disability Organizations (amended January, 2013), the PRC shall also be:

- Comprised of three (3) or more clinicians (including at least one (1) person who has at a minimum a Master's degree in psychology with demonstrable expertise in the development, implementation, and oversight in the care and treatment of

individuals with needs similar to those served by SHRI, expertise in behavior treatment, and familiarity with the use of psychotropic medications).

- The PRC shall be approved by the Department or its designee. Any clinician serving as a treating clinician within SHRI proposing to use Aversive Behavior Interventions shall not be a member of the Program/Peer Review Committee.
- The PRC shall review all Aversive Behavioral Interventions Plans to ascertain if they conform to the requirements for appropriate treatment established by these regulations.

PRC meetings will be held monthly in conjunction with the regularly scheduled Human Rights Committee (HRC) meetings. The Adult Services Behavior Specialist(s) will be responsible for presenting any new/renewal behavioral programs to the PRC for review/comment. Approval of behavioral plans will be contingent on receiving approval from both the PRC and HRC to ensure compliance with the Rules and Regulations for the Licensing of Developmental Disability Organizations (amended January, 2013). Failure to gain unanimous approval will result in the denial to implement the plan as written. Following revisions suggested by the PRC, the plan can be resubmitted to the PRC for review/approval.

Details of the PRC proceedings shall be documented in the minutes of the HRC meeting and shall include a description of the key points of the review process and whether the behavioral program was approved or rejected.

Dual Relationships: It should be noted that on occasion, the PRC might be reviewing a behavioral plan(s) developed by a PRC committee member or co-chair. In these situations, it will be the responsibility of the staff to make the dual relationship known to the committee co-chairs and to recuse themselves from the review and discussion of that particular plan(s).

SEVEN HILLS RHODE ISLAND
PROGRAM SPECIFIC GUIDELINES #225.1

Effective: 1/13
Area: Adult Services; Child & Family Services
Functional Responsibility: VP, AVPs
Cross Reference(s): Administrative Policy 225

TOPIC: Record/Utilization Review Committee

POLICY: It is the policy of Seven Hills Rhode Island (SHRI) to maintain a Record/Utilization Review Committee which will work under the direction of the Assistant Vice Presidents for Adult Services and Child and Family Services in order to help ensure compliance with all regulatory agencies and funding sources and internal quality assurance/improvement initiatives.

PROCEDURE:

1. The Record/Utilization Review Committee will meet to complete record reviews once monthly and will review all programs at SHRI to include:

Child and Family Services

HBTS
PASS
Respite
ABA
Early Intervention

Adult Services

Adult Day Habilitation and Vocational
ADH
Residential (including DHS & BHDDH SL)
Nursing

Behavioral Health

2. A team of twelve reviewers will be identified from Adult Services, Child and Family Services, and Behavioral Health to review the records of each area twice per year. Each team member will be responsible for reviewing/evaluating approximately four records at each review, for a total of approximately 50 records at each site visit. This represents a total of 100 records reviewed per program, per year, or a grand total of approximately 600 records reviewed each year across the entire affiliate.
3. All raw data will be compiled and analyzed by the AVPs for Adult Services and Children's Services and/or their designees. Results will be sent to the Foundation's Quality Assurance and Performance Improvement Director for review.
4. At the conclusion of each site review, any deficiencies will be noted and reviewed with the appropriate program supervisor. This plan will be reviewed with the employee responsible for the corrective action. The supervisor will be responsible to ensure that corrections are completed no later than 30 days following the review date. All correction plans are to be signed by the supervisor and sent to the Assistant Vice President after completion.

5. Review schedules will be determined one year in advance, with reviews occurring once per month at a consistent date/time. Each program will be visited twice per year for review and there will be six months between reviews of each program.
6. Review Team: The AVPs of Adult and Children's Services will be responsible for the selection of reviewers for the team. The composition of this multi-disciplinary review team will be made up of individual's with a wide range of credentials, spanning all agency programs. Assignments to the review team will be for one year in duration. Each review team member will be responsible for finding a suitable replacement that can fill-in should a team member be unable to attend a meeting.
7. Role of the Program Director (or designee): Each program director will be responsible for developing a program-specific checklist, based on regulations for their program, to guide reviewers on the survey of program records. In addition, the program director (or designee) of the program being reviewed will be present at the review to:
 - a. Give a brief review of their program/service(s)
 - b. Give an overview of the record set-up
 - c. Provide an overview of the review tool being used and key areas to watch for when conducting the review
 - d. Answer any questions that might arise
 - e. Provide a copy of the regulations governing the programs
 - f. Sit for a brief exit meeting to discuss findings and accept review forms
8. Record Sample: It will be the responsibility of the program's director (or designee) to select the sample of 50 (fifty) records to be reviewed at each visit. Records for the second review should be different than those reviewed at the first visit, unless the program has less than 100 records total. The program director (or designee) will be responsible for getting the records to and from the review site, for the designated time and date of the review. The review team reserves the right to sample additional records and/or deviate from the sample provided if deemed necessary.
9. Exit Conference: Each meeting will end with a brief "exit" conference with the program director or designee, and will describe any serious issues needing immediate attention. Exit conferences shall be conducted by either or both AVPs and/or designee(s) selected from the review team. Record review forms will be copied and left with the program director (or designee) for appropriate follow-up. A copy will also be made for the AVP overseeing that program.
10. Follow-up/Corrective Action Plan: The program director will have thirty (30) days to submit a correction plan for the deficiencies/issues noted during the record review process. The program director will sign and date the correction plan, signifying completion. The correction plan will be submitted to the AVP of the program for review. A small sampling of the deficient records from the previous review will be made at the next review meeting to ensure correction.

11. Findings: Upon receiving the correction plan and making all necessary changes, a "Record/Utilization Review Summary Report" form will be completed. Summarized results from each review will be documented on this form and will then be forwarded to the Foundation's Quality Assurance and Performance Improvement Director for review and evaluation purposes.
12. Dual Relationships: It should be noted that on occasion, for some reviews, the review team might include an individual(s) who either works in that program and/or serves in a leadership position in the program that is being reviewed. As it is believed that the benefits of being present and participating in the review outweigh any real or perceived issues resulting from the dual role, these individuals will not be excluded from the review. If, however, the reviewer (or their supervisor) choose to exclude them from a particular review, that individual(s) will be responsible for finding a replacement reviewer. No review team member should review a record of their own, where they are primarily responsible for providing care/services directly to that individual.

NOTE: Although the review process described herein is meant to enhance quality organization-wide, it may not meet individual program regulatory/funding requirements. In these cases, it will be the responsibility of the program director to ensure that all regulatory requirements are met which might include supplementary record/utilization reviews organized and conducted by program staff.

The following schedule will permit every area across the affiliate to be reviewed twice per year. Exact dates and times for each review TBD:

January-CFS North	July-CFS North
February-Adult (Day and ADH)	August- Adult (Day and ADH)
March-Behavioral Health	September-Behavioral Health
April-CFS South	October-CFS South
May-Adult (Res-24 hr, non 24 hr, SL)	November-Adult (Res-24 hr, non 24 hr, SL)
June-Early Intervention	December-Early Intervention

Seven Hills- Rhode Island

Record/Utilization Review Summary Report

Program Reviewed:

Review Date:

Number of Records Reviewed:

Reviewers Present: SEE ATTACHED ATTENDANCE LIST

Review Location:

Demographics:

Clinical Notes:

Authorizations:

Family Involvement:

Health/Safety:

Progress/Achievement:

Other:

Comments from Program Director:

Overall Condition of Records/Impressions/Summary:

Authorized Signature: _____ Date: _____

Seven Hills-Rhode Island
Record/Utilization Review
Corrective Action Plan

Program Reviewed: _____

Date of Review: _____

Location of Review: _____

Do you agree with the Review Team's findings? Yes _____ No _____

If not, why?

Corrective Action Plan (steps taken to correct problem records--use additional sheets if necessary):

Action steps taken to prevent similar issues at next review:

Name and title of person completing this form (please print)

Date

Signature

Please return this form directly to your program's Assistant Vice President

Signature of Assistant Vice-President

Date

WARRANTY DEED

ONE CUMBERLAND PLAZA LLC, a Rhode Island limited liability company having an office at 354 Turnpike Street, Suite 201, Canton, Massachusetts for consideration paid in the amount of Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000.00), grants to THE HOMESTEAD GROUP, a Rhode Island non-profit corporation having an office at 68 Cumberland Street, Suite 200, Woonsocket, Rhode Island, with WARRANTY COVENANTS:

A certain lot or parcel of land; with all improvements thereon, situated on the southeasterly side of Social Street, northeasterly side of Cumberland Street and northwesterly side of Clinton Street Extension in the City of Woonsocket, County of Providence and State of Rhode Island and shown as Parcel E-1 on a plan entitled "Plan of Parcel "E-1" for Arthur J. and Rose A. Chianese, Woonsocket, Rhode Island, June 18, 1982, Bibeault and Florentz Engineering Co., Civil Engineers and Land Surveyors, 99 Main Street Woonsocket, R.I.", which said plan is recorded with the Land Evidence Records of the City of Woonsocket in Plan Book 15, Page 75. Said parcel is bounded and described as follows, viz:

Beginning at the corner formed by the intersection of the northeasterly side of Cumberland Street with the southeasterly side of Social Street, said point being the most westerly corner of the lot hereby described;--

Thence northeasterly on a curved line having a radius of sixteen and twenty three one hundredths (16.23) feet, thirty and forty six one hundredths (30.46) feet to a point of tangent;--

Thence N. 68° 29' 51" E. fifty nine and twenty two one hundredths (59.22) feet;--

Thence 54° 10' 51" E. one hundred twelve and forty one one hundredths (112.41) feet;--

Thence N. 47° 54' 28" E. twenty and three one hundredths (20.03) feet to other land now or formerly of the Redevelopment Agency of Woonsocket, the last four (4) lines bounded by said Social Street;

Thence S. 39° 02' 12" E. one hundred eighty-two and twenty seven one hundredths (182.27) feet;--

Thence S. 69° 23' 09" E. twenty eight (28.00) feet to the aforesaid Clinton Street Extension, the last two (2) lines bounded by said other land now or formerly of said Redevelopment Agency;--

Thence southwesterly on a curved line having a radius of four hundred seventy five (475.00) feet, one hundred eighty three and twenty one one hundredths (183.21) feet to a point of tangent;--

Thence S. 42° 42' 48" W. thirty six and five tenths (36.50) feet to a point of curve at the

aforesaid Cumberland Street;--

Thence northwesterly on a curved line having a radius of fourteen (14.00) feet, twenty four and one one hundredth (24.01) feet to a point of tangent;--

Thence N. 39° 02' 12" W. two hundred sixty five and six tenths (265.60) feet to the point of beginning; the last two (2) lines bounded by said Cumberland Street.

Containing 54, 471 square feet, more or less.

The Redevelopment Agency of Woonsocket has reserved for itself, its successors and assigns, the right to pass and repass over a right of way twenty (20.00) feet in width along the northerly lines of the above-described premises from the southeasterly side of said Social Street, in a southeasterly direction, to the northwesterly side of said Clinton Street Extension, said right of way is more particularly bounded and described as follows:

Beginning at a point on the southeasterly side of Social Street at the most northerly corner of the above described premises and being the most northerly corner of the right of way hereby described;--

Thence S. 39° 02' 12" E. one hundred eighty two and twenty seven one hundredths (182.27) feet;--

Thence S. 69° 23' 09" E. twenty eight (28.00) feet to the aforesaid Clinton Street Extension, the last two (2) lines bounded by other land now or formerly of said Redevelopment Agency;--

Thence southwesterly with said Clinton Street Extension and on a curved line having a radius of four hundred seventy five (475.00) feet, twenty and one one hundredth (20.01) feet;--

Thence N. 69° 23' 09" W. thirty three (33.00) feet;--

Thence N. 39° 02' 12" W. one hundred eighty six and sixty three one hundredths (186.63) feet to the aforesaid Social Street, the last two (2) lines bounded by the remainder of the above described premises;--

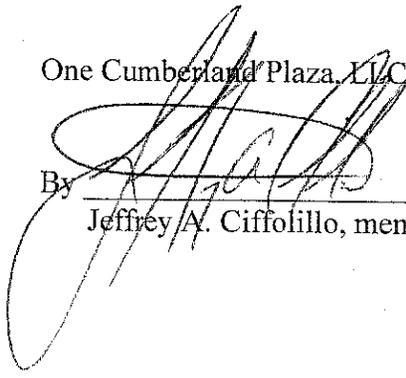
Thence N. 47° 54' 28" E. with said Social Street twenty and three one hundredths (20.03) feet to the point of beginning.

The above described premises are subject to the rights of the City of Woonsocket and others to maintain, repair and replace the existing sewer, water, storm water and gas mains and electric and telephone lines or mains in the former location of Brook Street, until such lines or mains are moved to the Clinton Street Extension, if ever.

Being the same premises conveyed to this grantor by deed of Arthur J. Chianese and Rose A. Chianese as Co-Trustees of The Arthur J. Chianese Trust dated January 17, 2001 and as Co-Trustees of The Rose A. Chianese Trust dated January 17, 2001 and recorded with the Land Evidence Records of the City of Woonsocket in Book 1337, Page 666.

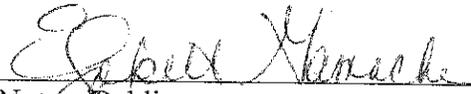
IN WITNESS WHEREOF, One Cumberland Plaza, LLC has caused this Warranty Deed to be executed under seal by its duly authorized member this 29th day of December, 2010.

One Cumberland Plaza, LLC

By 
Jeffrey A. Cifolillo, member

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

On this 29TH day of December, 2010, before me, the undersigned notary public, personally appeared Jeffrey A. Cifolillo, member of One Cumberland Plaza, LLC, a Rhode Island limited liability company, personally known to the notary, to be the person whose name is signed on the preceding or attached document, and acknowledged to the notary that he signed it voluntarily for its stated purpose.



Notary Public
Elizabeth Gamache
My Commission Expires: 8/9/2014
ID#30998

Property Address:
One Cumberland Street
Woonsocket, Rhode Island
AP 36, Lot 8

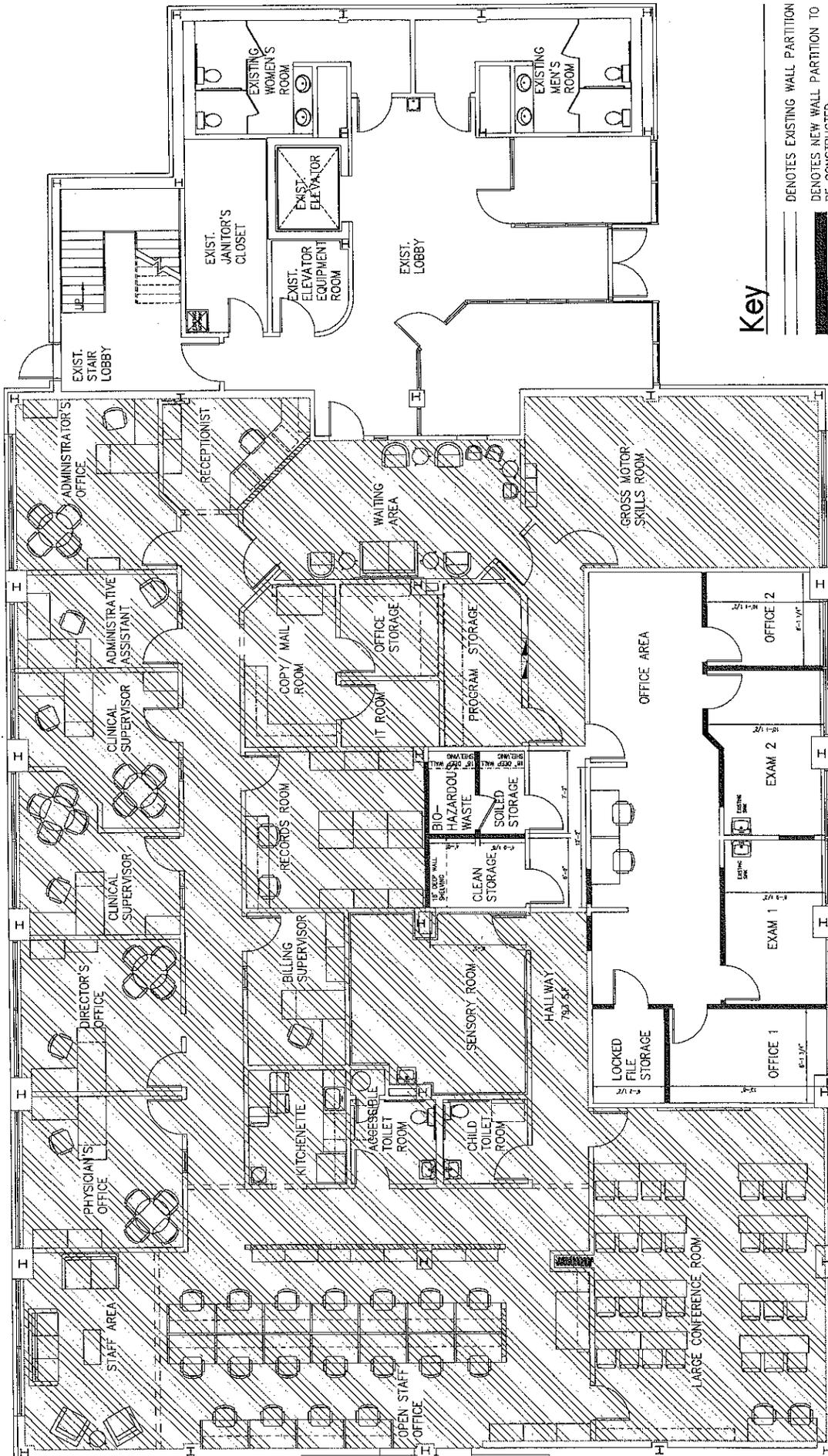
TAX \$ 10,000.00
DATE 12/30/2010
RECORDED JAL
CITY OF WOONSOCKET

012119

REAL ESTATE TAX

Received in Woonsocket R.I.
Date Dec 30, 2010 Time 02:49:48P
Andrea M. Bicki, City Clerk

No. 26



Key

 DENOTES EXISTING WALL PARTITION TO
 DENOTES NEW WALL PARTITION TO
 BE CONSTRUCTED

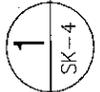


Seven Hills RI Clinic

30 Cumberland St. - First Floor
Woonsocket, RI

3-21-13

1 Floor Plan



16 FEET

Copyright

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State of Rhode Island and Providence Plantations

A. Ralph Mollis
Secretary of State

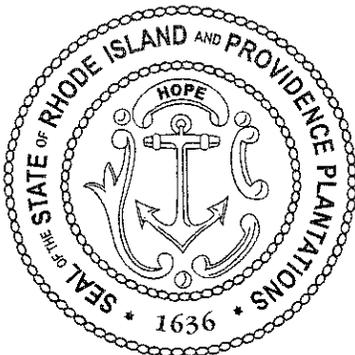
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

I, A. RALPH MOLLIS, Secretary of State of the State of Rhode Island
and Providence Plantations, hereby certify that this document, duly
executed in accordance with the provisions of Title 7 of the General Laws
of Rhode Island, as amended, has been filed in this office on this day:
April 29, 2011 10:09 AM

A handwritten signature in black ink that reads "A. Ralph Mollis".

A. RALPH MOLLIS

Secretary of State



Filing Fee: \$10.00

ID Number: 000028103



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Office of the Secretary of State
Corporations Division
148 W. River Street
Providence, Rhode Island 02904-2615

REC-1400
SECRETARY OF STATE
CORPORATIONS DIV
2011 APR 25 AM 11:10

NON-PROFIT CORPORATION

**ARTICLES OF AMENDMENT TO
ARTICLES OF INCORPORATION**

Pursuant to the provisions of Section 7-6-40 of the General Laws of Rhode Island, 1956, as amended, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

1. The name of the corporation is THE HOMESTEAD GROUP

2. The following amendment to the Articles of Incorporation was adopted by the corporation:

[Insert Amendment]

To change the name of the corporation to: SEVEN HILLS RHODE ISLAND, INC.

Multiple horizontal lines for additional amendments or signatures.

REC-1400
SECRETARY OF STATE
CORPORATIONS DIV
2011 APR 29 AM 09:09

10:09
FILED
APR 29 2011
By 2143497

3. The amendment was adopted in the following manner:

(check one box only)

- The amendment was adopted at a meeting of the members held on _____, at which meeting a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast.
- The amendment was adopted by a consent in writing on _____, signed by all members entitled to vote with respect thereto.
- The amendment was adopted at a meeting of the Board of Directors held on 10-27-2010 and received the vote of a majority of the directors in office, there being no members entitled to vote with respect thereto.

4. Date when amendment is to become effective upon filing
(not prior to, nor more than 30 days after, the filing of these Articles of Amendment)

Under penalty of perjury, we declare and affirm that we have examined these Articles of Amendment to the Articles of Incorporation, including any accompanying attachments, and that all statements contained herein are true and correct.

Date: April 15, 2011

THE HOMESTEAD GROUP, INC.

Print Corporate Name

By David L. Jordan-Frende

President or Vice President (check one)

AND

By Matthew P. ... Clerk

Secretary or Assistant Secretary (check one)

Filing Fee: \$10.00

ID Number: 28103



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Office of the Secretary of State
Corporations Division
148 W. River Street
Providence, Rhode Island 02904-2615

NON-PROFIT CORPORATION

**ARTICLES OF AMENDMENT TO
ARTICLES OF INCORPORATION**

Pursuant to the provisions of Section 7-6-40 of the General Laws of Rhode Island, 1956, as amended, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

1. The name of the corporation is Arc of Northern Rhode Island, Inc.

2. The following amendment to the Articles of Incorporation was adopted by the corporation:

[Insert Amendment]

1. Article SECOND of the Articles of Association is hereby amended to read as follows:

"SECOND. Said corporation shall be known by the name of The Homestead Group"

FILED

AUG 10 2006

2006 AUG 10 PM 12:55

Form No. 201
Revised: 12/05

By DA

15-81006

RECEIVED
CORPORATIONS DIV
SECRETARY OF STATE

3. The amendment was adopted in the following manner:

(check one box only)

- The amendment was adopted at a meeting of the members held on July 27, 2006, at which meeting a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast.
- The amendment was adopted by a consent in writing on _____, signed by all members entitled to vote with respect thereto.
- The amendment was adopted at a meeting of the Board of Directors held on _____ and received the vote of a majority of the directors in office, there being no members entitled to vote with respect thereto.

4. Date when amendment is to become effective upon filing these Articles
(not prior to, nor more than 30 days after, the filing of these Articles of Amendment)

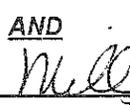
Under penalty of perjury, we declare and affirm that we have examined these Articles of Amendment to the Articles of Incorporation, including any accompanying attachments, and that all statements contained herein are true and correct.

Date: August 10, 2006

Arc of Northern Rhode Island, Inc.
Print Corporate Name

By 

President or Vice President (check one)

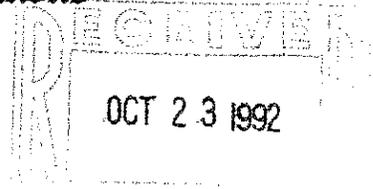
By  ^{AND} 

Secretary or Assistant Secretary (check one)

28105

State of Rhode Island and Providence Plantations

NON-PROFIT CORPORATION



ARTICLES OF AMENDMENT TO THE ARTICLES OF INCORPORATION OF

Northern RI Chapter, RIARC

Pursuant to the provisions of Section 7-6-40 of the General Laws, 1956, as amended, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

FIRST: The name of the corporation is Northern Rhode Island Chapter, Rhode Island Association for Retarded Citizens, Inc.

SECOND: The following amendment to the Articles of Incorporation was adopted by the corporation:

(Insert Amendment)

ocuf consent

The name of this organization shall be the Arc of Northern Rhode Island, Inc. organization advocating for and for citizens with differing abilities.

Rec'd & Filed JAN 11 1993 Oct 93 999

THIRD: The amendment was adopted in the following manner:

(Note 1)

The amendment was adopted at a meeting of members held on November 17, 1992, at which a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast.

Dated....., 19

Northern Rhode Island Chapter, RIARC

(Note 2)

By *Maurice Parmentier* (Note 3)

Its President

and *Sharon M Di Spirito* (Note 3)

Its Secretary

NOTES:

1. Insert whichever of the following statements is applicable:
 - (a) "The amendment was adopted at a meeting of members held on , at which a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast."
 - (b) "The amendment was adopted by a consent in writing signed under date of by all members entitled to vote in respect thereto."
 - (c) "The amendment was adopted at a meeting of the Board of Directors held on , and received the vote of a majority of the Directors in office, there being no members entitled to vote in respect thereof."
2. Exact corporate name of corporation adopting the Amendment.
3. Signatures and titles of officers signing for the corporation.

RECEIVED

RI Arc

advocating by and for people with differing abilities

99 BALD HILL ROAD CRANSTON, RHODE ISLAND 02920 401 463-9191

TEDIO CIAVARNI
President

JOHN J. PADIEN
First Vice President

WILLIAM CATELLI
Second Vice President

JOHN B. SUSA, Ph.D.
Secretary

VINCENT T. ANIELLO
Treasurer

JAMES V. HEALEY
Executive Director

January 6, 1993

Secretary of State of Rhode Island
Corporate Division
100 North Main Street
Providence, RI

RE: Consent to Use of Name

To Whom It May Concern:

I, Tedio Ciavarini, the President of the Rhode Island Arc - advocating by and for people with differing abilities, Inc. (RI Arc), hereby knowingly and voluntarily consent to the use of the name the Arc by the Northern Rhode Island Chapter of RI Arc for the purposes of conducting business in the State of Rhode Island. This consent is granted only to the Northern RI Chapter and other RI Arc chapters and RI Arc does not waive its right to prohibit any other entity from using a name identical to or substantially similar to its own.

Chapters

BLACKSTONE VALLEY
John J. Padien, President

BRISTOL COUNTY
Lombard Pozzi, President

CRANSTON
Constance Gomes, President

GREATER PROVIDENCE
Frank Giacomin, President

KENT COUNTY
Paul V. Sherlock, Ed.D., President

NEWPORT COUNTY
Marion Loffredo, President

NORTHERN RHODE ISLAND
Maureen Pormenter, President

SOUTH COUNTY
Eugene Garvey, President

WESTERLY-CHARIHO
Elaine Rizzo, President

Sincerely,



Tedio Ciavarini
President

The
Arc

a national organization
on mental retardation

FORMERLY RHODE ISLAND ASSOCIATION FOR RETARDED CITIZENS



United Way
PARTNER AGENCY

State of Rhode Island and Providence Plantations

September 19 73

WE, the undersigned Officers of
WOONSOCKET CHAPTER, RHODE ISLAND ASSOCIATION FOR RETARDED CHILDREN, INC.

a corporation duly incorporated under the laws of the State of Rhode Island,
HEREBY CERTIFY, that at a legal meeting of said corporation, duly called for the purpose,
and held in the City of Woonsocket
in said State, on the 15th day of February, A. D. 19 73,
the following amendment(s) to the Articles of Association was (or were) duly adopted by
the affirmative vote of 100% of its members viz:—
“VOTED, That

Article Second of the Articles of Association be further
amended to read as follows:

SECOND: Said corporation shall be known by the name of
NORTHERN RHODE ISLAND CHAPTER, RHODE ISLAND
ASSOCIATION FOR RETARDED CITIZENS, INC.

[CORPORATE SEAL]

ATTEST:

George R. Hazareth
President.
Arthur James
Secretary.

NON-BUSINESS

ORIGINAL

CERTIFICATE OF AMENDMENT OF
ARTICLES OF ASSOCIATION OF

Duly Incorporated Under the Laws of
the State of Rhode Island.

OCT 12-73 REG. OF STATE 777 CD*** 10.00

FILED IN THE OFFICE OF THE
SECRETARY OF STATE

OCT 12 1973

19

State of Rhode Island and Providence Plantations

December 10, 1963

WE, the undersigned Officers of

WOONSOCKET ASSOCIATION FOR RETARDED CHILDREN, INC.

a corporation duly incorporated under the laws of the State of Rhode Island, HEREBY CERTIFY, that at a legal meeting of said corporation, duly called for the purpose, and held in the CITY of WOONSOCKET in said State, on the 7th day of MAY, A. D. 1963, the following amendment(s) to the Articles of Association was (or were) duly adopted by the affirmative vote of 100% of its members viz:—
"VOTED, That

Article Second of the Articles of Association be further amended to read as follows:

SECOND. Said corporation shall be known by the name of WOONSOCKET CHAPTER, RHODE ISLAND ASSOCIATION FOR RETARDED CHILDREN, INC.

CORPORATE SEAL]

WOONSOCKET CHAPTER
R. I. Association For Retarded Child
100 A. ST. W. ST. 17
WOONSOCKET R.I.

ATTEST:

Nathyn B. Stearns
President.

James Fontaine
Secretary.

~~NON-BUSINESS~~ 11/1

~~ORIGINAL~~

CERTIFICATE OF AMENDMENT OF
ARTICLES OF ASSOCIATION OF

MOONSOCKET ASSOCIATION FOR

RETARDED CHILDREN, INC.

Duly Incorporated Under the Laws of
the State of Rhode Island.

MAY 14 6 1968

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
MAY 14 1968

State of Rhode Island and Providence Plantations

September 12, 1961

WE, the undersigned Officers of
Woonsocket Parents' Council for Retarded Children, Inc.

a corporation duly incorporated under the laws of the State of Rhode Island,
HEREBY CERTIFY, that at a legal meeting of said corporation, duly called for the purpose,
and held in the City of Woonsocket
in said State, on the 12th day of September, A. D. 1961,
the following amendment(s) to the Articles of Association was (or were) duly adopted by
the affirmative vote of 100% of its members viz:—

“VOTED, That Article Second of the Articles of Association of
Woonsocket Parents' Council for Retarded Children, Inc.
be, and it is hereby, amended to read as follows:

Second. Said corporation shall be known by the name of
WOONSOCKET ASSOCIATION FOR RETARDED CHILDREN, INC.

CORPORATE SEAL]



ATTEST:

Samuel J. Dulan
President.

Marville J. Beard
Secretary.

NON-BUSINESS

ORIGINAL

CERTIFICATE OF AMENDMENT OF
ARTICLES OF ASSOCIATION OF
WOONSOCKET PARENTS' COUNCIL.

FOR RETARDED CHILDREN, INC.

Duly Incorporated Under the Laws of
the State of Rhode Island.

FILED IN THE OFFICE OF THE
SECRETARY OF STATE

DEC 27 1961 19

ORIGINAL ARTICLES OF ASSOCIATION

(NON-BUSINESS CORPORATION)

Know all Men by these Presents, That we Gerard Daignault, Victor Dufresne,
F. D.
Lucille/Carroll, Constance Fitzgerald and Muriel/Desaulniers, all of
the City of Woonsocket,

all of lawful age, hereby agree to and with each other:

FIRST. To associate ourselves together with the intention of forming a corporation under and by virtue of the powers conferred by Chapter 7-6 of the General Laws of Rhode Island.

SECOND. Said corporation shall be known by the name of Woonsocket
Parents' Council for Retarded Children, Inc.

THIRD. Said corporation is constituted for the purpose of promoting among
the general public, government officials and professional persons
a better understanding and knowledge of the problems with which these
parents and their children are faced; promoting the development of
proper programs of care, treatment and training and education for
retarded children and adults who cannot compete on equal terms with
other individuals because of mental subnormality; co-operating with
other individuals, agencies and groups interested in this field;
objectively assisting and advising affected parents or guardians
in their problems.

In addition to the foregoing, said corporation shall have the following powers and authority, viz:—(See §§ 7-6-7, 7-6-8 of the General Laws.)

To do any lawful act which is necessary or proper to accomplish the purposes of its incorporation. Without limiting or enlarging the effect of this general grant of authority, it is hereby specifically provided that every such corporation shall have power:

- (a) to have perpetual succession in its corporate name unless a period for its duration is limited in its articles of association or charter;
- (b) to sue and be sued in its corporate name;
- (c) to have and use a common seal and alter the same at pleasure;
- (d) to elect such officers and appoint such agents as its purposes require, and to fix their compensation and define their duties;
- (e) to make by-laws not inconsistent with the Constitution or laws of the United States or of this state, or with the corporation's charter or articles of association, determining the time and place of holding and the manner of calling and of conducting meetings of its members and directors, the manner of electing its officers and directors, the mode of voting by proxy, and the number, qualifications, powers, duties and term of office of its officers and directors, and containing any other provisions, whether of the same or of a different nature, for the management of the corporation's property and the regulation and government of its affairs;
- (f) to make contracts, incur liabilities and borrow money.

Said corporation shall be entitled to take, hold, transmit and convey real and personal estate to an amount not exceeding in all one hundred fifty thousand dollars (\$150,000). But if such corporation desires to take and hold property to an amount exceeding one hundred fifty thousand dollars (\$150,000) either originally or by amendment, such privilege shall be granted only by the general assembly on petition thereto.

(Over)

FOURTH. Said corporation shall be located in Woonsocket, Rhode Island.
(City or Town)

(Further provisions not inconsistent with law)

FIFTH.....

SIXTH.....

SEVENTH.....

In Testimony Whereof, We have hereunto set our hands and stated our residences this
sixth day of June A. D. 1960

NAME	RESIDENCE
<i>Gerard Daignault</i>	398 Third Avenue, Woonsocket, R. I.
<i>Victor Dufresne</i>	44 Bennett Street, Woonsocket, R. I.
<i>Lucille F. Carroll</i>	430 Prospect Street, Woonsocket, R. I.
<i>Constance Fitzgerald</i>	249 Winter Street, Woonsocket, R. I.
<i>Muriel D. Desaulniers</i>	143 Andrews Street, Woonsocket, R. I.

STATE OF RHODE ISLAND, }
COUNTY OF PROVIDENCE }

In the City of Woonsocket
~~TOWN~~ }

in said county this sixth day of June A. D. 1960, then
personally appeared before me Gerard Daignault, Victor Dufresne,
Lucille F. Carroll, Constance Fitzgerald and Muriel D. Desaulniers

each and all known to me and known by me to be the parties executing the foregoing
instrument, and they severally acknowledged said instrument by them subscribed to be
their free act and deed.

W.C. Leland
Notary Public.

V 110
Non-Business Corporation

ORIGINAL
ARTICLES OF ASSOCIATION OF
Moonsocket Parents' Council
for Retarded Children, Inc.

FILED IN THE OFFICE OF THE
SECRETARY OF STATE

JUN - 7 1960

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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Schedule 2 - Explanation of Eliminations	21

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
	<u>26,379,376</u>	<u>313,783</u>	<u>216,713</u>	<u>26,909,872</u>	<u>29,723,001</u>
Total current assets					
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
	<u>13,502,678</u>	<u>-</u>	<u>-</u>	<u>13,502,678</u>	<u>19,182,836</u>
Total current liabilities					
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	144,627,534	172,071	-	144,799,605	146,656,709
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
	135,459,397	-	-	135,459,397	131,654,588
Supporting services					
Management and general	9,633,901	-	-	9,633,901	9,635,047
Total expenses	145,093,298	-	-	145,093,298	141,289,635
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	46,000,650	356,712	216,713	46,574,075	41,165,715
Net assets, end of year	\$ 43,903,802	\$ 528,783	\$ 216,713	\$ 44,649,298	\$ 46,574,075

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	7,537,959	-	-	-	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	Program Services				Management and General	Totals	
	Child Care Services	Clinical Services	Global Outreach	Total		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		
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		
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:

	<u>2012</u>	<u>2011</u>
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
	<u>4,899,047</u>	<u>3,974,088</u>
	<u>\$ 7,182,689</u>	<u>\$ 5,991,933</u>

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

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

3 - INVESTMENTS

Investments are included in the following classes of net assets:

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

Investments are composed of the following:

	<u>2012</u>		<u>2011</u>	
	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	-	-
	<u>\$ 14,662,405</u>	<u>\$ 14,736,647</u>	<u>\$ 13,695,481</u>	<u>\$ 14,261,329</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, 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)	<u>(1,327,960)</u>	<u>-</u>	<u>-</u>	<u>(1,327,960)</u>
Total investment return	<u>(1,094,644)</u>	<u>-</u>	<u>-</u>	<u>(1,094,644)</u>
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	-	<u>2,763,954</u>	<u>5,716,838</u>
		119,343,396	114,037,949
Less: Accumulated depreciation and amortization		<u>30,331,256</u>	<u>28,747,384</u>
		<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:

	<u>2012</u>	<u>2011</u>
Bond notes payable, secured by real estate and cash flows from provider contracts:		
Due in annual installments of principal through September 2028. Interest is due semi-annually at rates increasing from an initial 4.40% to 5.15% during the life of the obligation.	\$ 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	<u>250,983</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:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 800,000	\$ -
Less: Accumulated depreciation	<u>26,667</u>	<u>-</u>
	<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	<u>-</u>	<u>294,256</u>
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:

	2012	2011
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:

	<u>2012</u>	<u>2011</u>
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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,482,875</u>	<u>\$ 1,482,875</u>

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	<u>(504,621)</u>
Ending balance	<u>\$ (1,482,875)</u>

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	9,390,909	16,026,113	9,014,528	45,912,651	7,355,204	-
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	-	-	-	-	-	-
	52,155	14,462,421	8,782,109	45,729,611	7,350,520	-
Supporting services						
Management and general	7,655,035	-	-	-	-	-
Total expenses	7,707,190	14,462,421	8,782,109	45,729,611	7,350,520	-
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	(1,126,463)	-	-	-	-	-
Change in net assets	52,635	1,563,692	232,419	183,040	4,684	-
Net assets, beginning of year	37,734,453	9,144,117	5,695,075	316,256	527,171	(6,037,961)
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	
513,626	17,015,205	13,578,733	8,838,511	22,262,383	1,054,210	(6,334,539)	144,627,534	
-	-	-	-	-	-	(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	
439,240	-	1,517,063	167,591	-	-	(a,b)	(145,028)	9,633,901
439,240	16,994,297	14,068,969	10,891,038	23,212,040	1,817,402	(6,361,539)	145,093,298	
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)	
(66,620)	436,726	(5,612,206)	835,254	3,525,304	(352,919)	(a)	(144,000)	46,000,650
\$ 7,766	\$ 457,634	\$ (6,102,442)	\$ (1,217,273)	\$ 2,575,647	\$ (1,116,111)	(a)	\$ (117,000)	\$ 43,903,802

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.

SEVEN HILLS FOUNDATION AND AFFILIATES

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

YEAR ENDED JUNE 30, 2011

AND

INDEPENDENT AUDITOR'S REPORT

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2011

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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, 2011, 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 2010 combined financial statements and, in our report, dated November 12, 2010, 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, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Bollus Lynch, LLP

Worcester, Massachusetts
November 8, 2011

SEVEN HILLS FOUNDATION AND AFFILIATES
COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011
(With Summarized Financial Information for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
Assets					
Current assets					
Cash	\$ 14,040,425	\$ 356,712	\$ 216,713	\$ 14,613,850	\$ 12,315,515
Deposits with trustees	2,816,192	-	-	2,816,192	2,741,203
Accounts receivable, less allowance for doubtful accounts of \$451,847	12,217,685	-	-	12,217,685	13,485,586
Pledges receivable	51,296	-	-	51,296	86,296
Prepaid expenses and other assets	377,325	-	-	377,325	453,241
Notes receivable	445,000	-	-	445,000	472,187
Total current assets	29,947,923	356,712	216,713	30,521,348	29,554,028
Investments	14,261,329	-	-	14,261,329	11,575,129
Investment in unconsolidated affiliates	1,087,433	-	-	1,087,433	1,098,948
Deposits with trustees, net	3,175,741	-	-	3,175,741	3,168,700
Loan acquisition costs, net	2,758,291	-	-	2,758,291	2,884,441
Deposits and other assets	288,546	-	-	288,546	279,936
Property, plant, and equipment, net	85,290,565	-	-	85,290,565	80,025,850
Cash value of life insurance	1,791,710	-	-	1,791,710	1,203,564
	<u>\$ 138,601,538</u>	<u>\$ 356,712</u>	<u>\$ 216,713</u>	<u>\$ 139,174,963</u>	<u>\$ 129,790,596</u>
Liabilities and Net Assets					
Current liabilities					
Notes payable, bank	\$ 6,299,917	\$ -	\$ -	\$ 6,299,917	\$ 2,430,445
Current maturities of long-term debt	1,871,238	-	-	1,871,238	1,819,027
Accounts payable	3,793,963	-	-	3,793,963	3,177,581
Accrued and other liabilities	7,217,718	-	-	7,217,718	6,430,575
Total current liabilities	19,182,836	-	-	19,182,836	13,857,628
Advances from the State of Rhode Island	1,115,304	-	-	1,115,304	1,115,304
Long-term debt, less current maturities	68,046,875	-	-	68,046,875	69,903,622
Hedging instrument liability	978,254	-	-	978,254	1,019,540
Deferred compensation liability	3,277,619	-	-	3,277,619	2,728,787
	<u>92,600,888</u>	<u>-</u>	<u>-</u>	<u>92,600,888</u>	<u>88,624,881</u>
Net assets					
Unrestricted					
Undesignated	33,004,613	-	-	33,004,613	29,937,646
Designated for endowment	12,996,037	-	-	12,996,037	10,542,393
Temporarily restricted	-	356,712	-	356,712	468,963
Permanently restricted	-	-	216,713	216,713	216,713
	<u>46,000,650</u>	<u>356,712</u>	<u>216,713</u>	<u>46,574,075</u>	<u>41,165,715</u>
	<u>\$ 138,601,538</u>	<u>\$ 356,712</u>	<u>\$ 216,713</u>	<u>\$ 139,174,963</u>	<u>\$ 129,790,596</u>

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

(With Summarized Financial Information for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
Operating support and revenue:					
Government contracts and fees	\$ 130,687,704	\$ -	\$ -	\$ 130,687,704	\$ 129,567,678
Government donated staff and transportation	29,292	-	-	29,292	87,876
H.U.D. rental subsidy	635,389	-	-	635,389	630,471
Private contracts and fees	3,884,776	-	-	3,884,776	3,764,588
Trainee production	292,571	-	-	292,571	264,660
Rent, vending, service fees	4,278,683	-	-	4,278,683	4,164,249
Interest income	168,877	56	-	168,933	176,529
Investment income	202,443	-	-	202,443	237,966
Net investment gains	2,367,462	-	-	2,367,462	1,275,196
Beano income	1,662,451	-	-	1,662,451	1,692,342
Contributions	476,624	-	-	476,624	583,943
Grants	230,712	6,934	-	237,646	157,124
Cafeteria	294,390	-	-	294,390	307,158
Gain (loss) on sale of property, plant and equipment	128,589	-	-	128,589	(39,686)
Other	1,309,756	-	-	1,309,756	853,977
Net assets release from restrictions:					
Satisfaction of purpose restrictions	119,241	(119,241)	-	-	-
Total support and revenue	146,768,960	(112,251)	-	146,656,709	143,724,071
Operating expenses:					
Program services					
Residential services	40,290,065	-	-	40,290,065	37,803,869
Family support	12,761,927	-	-	12,761,927	11,957,782
Vocational services	7,620,819	-	-	7,620,819	7,783,101
Nursing home services	11,338,960	-	-	11,338,960	10,532,115
Community services - Massachusetts	9,261,734	-	-	9,261,734	8,857,840
Community services - Rhode Island	23,160,010	-	-	23,160,010	21,909,630
Rental property operations	323,822	-	-	323,822	343,217
Child care services	19,589,261	-	-	19,589,261	22,153,207
Clinical services	6,921,815	-	-	6,921,815	6,874,560
Global outreach	386,175	-	-	386,175	-
	131,654,588	-	-	131,654,588	128,215,321
Supporting services					
Management and general	9,635,047	-	-	9,635,047	8,422,245
Total expenses	141,289,635	-	-	141,289,635	136,637,566
Change in net assets from operations	5,479,325	(112,251)	-	5,367,074	7,086,505
Non-operating revenue (expense):					
Unrealized gain (loss) on hedging instrument	41,286	-	-	41,286	(557,890)
Change in net assets	5,520,611	(112,251)	-	5,408,360	6,528,615
Net assets, beginning of year	40,480,039	468,963	216,713	41,165,715	34,637,100
Net assets, end of year	\$ 46,000,650	\$ 356,712	\$ 216,713	\$ 46,574,075	\$ 41,165,715

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2011
 (With Summarized Financial Information for 2010)

	Program Services					
	Residential Services	Family Support	Vocational Services	Nursing Home	Community Services - MA	Community Services - RI
Staff payroll	\$ 25,019,770	\$ 2,929,925	\$ 3,769,554	\$ 6,653,208	\$ 5,778,590	\$ 15,039,885
Trainee payroll	-	-	268,541	-	-	248,346
Payroll taxes	2,137,030	260,263	333,215	477,448	488,046	1,245,715
Employee benefits	3,171,413	279,784	690,482	862,211	153,330	2,360,314
Government staff	-	-	29,292	-	-	-
Occupancy	2,774,617	241,234	606,546	773,986	745,761	1,195,322
Telephone	235,201	46,338	51,228	3,145	175,417	129,018
General insurance	94,716	25,937	47,861	171,376	74,917	150,248
Office and operating supplies	261,196	33,615	106,294	652,208	401,390	177,412
Dues and subscriptions	2,508	1,233	2,547	315	1,571	6,511
Printing and postage	208	5,769	8,732	156	13,784	37,561
Advertising	106	-	-	301	-	55,656
Legal and audit	-	-	1,331	-	-	87,738
Client transportation	1,500,731	184,806	334,462	26,899	190,543	448,634
Specialized home care	159,386	7,350,460	-	-	-	307,998
Clinical consultants	333,032	-	93,180	104,898	223,383	486,472
Purchased services	-	-	-	463,921	-	143,386
Family support	31,818	1,123,387	25	-	47,344	67,392
Staff training	3,686	2,099	220	5,995	7,229	39,280
Fund raising	-	-	-	-	-	-
Cafeteria and food	1,476,212	38,328	299,190	195,360	3,245	319,673
Interest	1,416,696	105,524	273,999	430,772	189,035	52,074
Beano expenses	515,032	-	393,177	-	-	-
Other	6,888	27,576	35,577	551	478,723	124,633
Total before depreciation	39,140,246	12,656,278	7,345,453	10,822,750	8,972,308	22,723,268
Depreciation and amortization	1,149,819	105,649	275,366	516,210	289,426	436,742
	<u>\$ 40,290,065</u>	<u>\$ 12,761,927</u>	<u>\$ 7,620,819</u>	<u>\$ 11,338,960</u>	<u>\$ 9,261,734</u>	<u>\$ 23,160,010</u>

Rental Property Operations	Child Care Services	Program Services			Total	Management and General	Totals	
		Clinical Services	Global Outreach				2011	2010
\$ 1,252	\$ 1,009,160	\$ 4,473,972	\$ 157,080	\$ 64,832,396	\$ 3,535,422	\$ 68,367,818	\$ 64,862,087	
-	-	-	-	516,887	-	516,887	618,223	
108	86,417	385,670	13,540	5,427,452	277,891	5,705,343	5,649,552	
-	110,029	622,626	6,483	8,256,672	981,755	9,238,427	8,838,205	
-	-	-	-	29,292	-	29,292	87,876	
96,604	169,896	332,826	3,251	6,940,043	375,315	7,315,358	6,212,128	
7,865	30,329	42,875	260	721,676	134,924	856,600	638,725	
2,561	15,067	21,792	2,500	606,975	29,222	636,197	671,432	
14,080	32,558	64,203	7,346	1,750,302	310,237	2,060,539	1,932,974	
56	5,370	13,767	51	33,929	56,527	90,456	110,232	
128	11,916	1,041	1,382	80,677	102,188	182,865	215,032	
-	-	421	1,587	58,071	195,783	253,854	214,951	
287	-	4,997	-	94,353	347,954	442,307	311,440	
4,708	103,960	230,682	45,140	3,070,565	217,163	3,287,728	2,904,236	
-	-	-	-	7,817,844	-	7,817,844	7,033,122	
2,265	601,702	91,067	43,864	1,979,863	395,560	2,375,423	2,635,235	
-	-	-	-	607,307	6,920	614,227	534,376	
-	17,042,273	-	-	18,312,239	-	18,312,239	20,697,559	
-	4,683	7,785	-	70,977	338,316	409,293	281,783	
-	-	-	-	-	62,350	62,350	59,376	
-	126,680	135,870	325	2,594,883	4,413	2,599,296	2,433,856	
71,746	85,706	293,179	-	2,918,731	404,564	3,323,295	3,298,006	
-	-	-	-	908,209	460,170	1,368,379	1,383,167	
48,788	1,915	4,718	102,927	832,296	1,204,638	2,036,934	1,776,422	
250,448	19,437,661	6,727,491	385,736	128,461,639	9,441,312	137,902,951	133,399,995	
73,374	151,600	194,324	439	3,192,949	193,735	3,386,684	3,237,571	
<u>\$ 323,822</u>	<u>\$ 19,589,261</u>	<u>\$ 6,921,815</u>	<u>\$ 386,175</u>	<u>\$ 131,654,588</u>	<u>\$ 9,635,047</u>	<u>\$ 141,289,635</u>	<u>\$ 136,637,566</u>	

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

(With Summarized Financial Information for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,408,360	\$ 6,528,615
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,386,684	3,237,571
Equity in loss of unconsolidated affiliates	11,515	136,484
Unrealized (gain) loss on hedging instrument	(41,286)	557,890
Net investment gains	(2,367,462)	(1,275,196)
Loss (gain) on sale of property, plant, and equipment	(128,589)	39,686
Contributions received for capital improvements	(35,000)	(3,807)
Deferred compensation expense	548,832	708,324
Decrease (increase) in operating assets:		
Accounts receivable	1,267,901	(658,290)
Pledges receivable	35,000	121,499
Prepaid expenses and other assets	75,916	(165,365)
Notes receivable	27,187	(269,440)
Increase (decrease) in operating liabilities:		
Accounts payable	616,382	(2,741,349)
Accrued and other liabilities	787,143	43,262
	<u>4,184,223</u>	<u>(268,731)</u>
Net cash provided by operating activities	<u>9,592,583</u>	<u>6,259,884</u>
Cash flows from investing activities:		
Payments for purchases of investments	(3,606,957)	(1,678,728)
Proceeds from sale and maturities of investments	3,288,219	1,127,614
Change in assets deposited with trustees	(82,030)	1,834,607
(Increase) decrease in deposits and other assets	(8,610)	400
Expenditures for property, plant, and equipment	(8,624,683)	(6,128,479)
Proceeds from sale of property, plant, and equipment	217,889	999,297
Increase in cash value of life insurance	(588,146)	(599,356)
Net cash used in investing activities	<u>(9,404,318)</u>	<u>(4,444,645)</u>
Cash flows from financing activities:		
Net proceeds on notes payable, bank	3,869,472	1,149,818
Proceeds from issuance of long-term debt	27,200	876,000
Principal payments of long-term debt	(1,821,602)	(1,392,981)
Contributions received for capital improvements	35,000	3,807
Net cash provided by financing activities	<u>2,110,070</u>	<u>636,644</u>
Net increase in cash	2,298,335	2,451,883
Cash, beginning of year	<u>12,315,515</u>	<u>9,863,632</u>
Cash, end of year	<u>\$ 14,613,850</u>	<u>\$ 12,315,515</u>

SEVEN HILLS FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The combined financial statements include the accounts of Seven Hills Foundation and the following affiliates which are under common control: Seven Hills Family Services, Inc.; Seven Hills Occupational & Rehabilitation Services, Inc.; Seven Hills Community Services, Inc.; Seven Hills Clinical 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 (formerly known as "Seven Hills Homestead Group"), 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 8, 2011, 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)

I - 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, 2010, from which the summarized information was derived.

Concentration of credit risk

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

Investments

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

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

Endowment funds

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

The Board of Directors has interpreted state law as allowing the utilization of appreciation on permanently restricted assets unless explicit donor stipulations specify how net appreciation must be used. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by state law.

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.

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

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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

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 Sequest Holding Company, LLC which are accounted for by the equity method.

Property, plant, and equipment

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

Derivative instruments

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.

Contributions, gifts, grants

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

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

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional expenses

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

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

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

Contributed facilities

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, 2011) 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 and \$87,876 in 2011 and 2010, respectively, 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 \$253,854 and \$214,951 in 2011 and 2010, respectively.

2 - DEPOSITS WITH TRUSTEES

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

	2011	2010
Current		
Future debt service	\$ 2,816,192	\$ 2,741,203
Long-term		
Future debt service	3,175,738	3,168,697
Property, plant and equipment acquisition	3	3
	3,175,741	3,168,700
	\$ 5,991,933	\$ 5,909,903

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

2 - DEPOSITS WITH TRUSTEES (Continued)

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

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 4,901,177	\$ 4,819,147
Corporate bonds	1,090,756	1,090,756
	<u>\$ 5,991,933</u>	<u>\$ 5,909,903</u>

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2011</u>	<u>2010</u>
Board-designated endowment funds	\$ 12,996,037	\$ 10,542,393
Unrestricted assets	1,265,292	1,032,736
	<u>\$ 14,261,329</u>	<u>\$ 11,575,129</u>

Investments are composed of the following:

	<u>2011</u>		<u>2010</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds	\$ 3,195,331	\$ 3,341,745	\$ 2,847,335	\$ 2,866,011
Mutual funds	8,473,033	8,695,184	9,180,297	7,263,360
Common stock	724,710	921,993	732,128	834,537
Money market accounts	1,302,407	1,302,407	611,221	611,221
	<u>\$ 13,695,481</u>	<u>\$ 14,261,329</u>	<u>\$ 13,370,981</u>	<u>\$ 11,575,129</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, 2011.

4 - ENDOWMENT ASSETS

Endowment assets include Board-designated investments. Changes in endowment assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 10,542,393	\$ -	\$ 216,713	\$ 10,759,106
Investment return:				
Investment income	230,800	-	-	230,800
Net appreciation (realized and unrealized)	2,222,844	-	-	2,222,844
Total investment return	2,453,644	-	-	2,453,644
Endowment assets, end of year	<u>\$ 12,996,037</u>	<u>\$ -</u>	<u>\$ 216,713</u>	<u>\$ 13,212,750</u>

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

5 - PROPERTY, PLANT, AND EQUIPMENT

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

	Estimated Useful Lives	2011	2010
Land	-	\$ 10,955,257	\$ 10,286,983
Buildings and improvements	20 - 40 years	84,705,783	80,700,985
Furniture and equipment	3 - 20 years	10,696,203	9,271,908
Motor vehicles	5 years	1,963,868	1,772,055
Construction in progress	-	5,716,838	3,601,987
		114,037,949	105,633,918
Less: Accumulated depreciation and amortization		28,747,384	25,608,068
		<u>\$ 85,290,565</u>	<u>\$ 80,025,850</u>

Depreciation and amortization expense for property, plant, and equipment was \$3,270,667 and \$3,121,615 in 2011 and 2010, 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.

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 September, 2011, at which time the terms and conditions of the line of credit will be reviewed. The balance outstanding on this line of credit was \$6,299,917 and \$2,430,445 as of June 30, 2011 and 2010, respectively.

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

8 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Bond notes payable, secured by real estate and cash flows from provider contracts:		
Due in annual installments of principal through September 2028. Interest is due semi-annually at rates increasing from an initial 4.40% to 5.15% during the life of the obligation.	\$11,840,000	\$12,290,000
Due in annual installments of principal through September 2032. Interest is due semi-annually at rates increasing from an initial 4.00% to 5.50% during the life of the obligation.	13,245,000	13,560,000
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.	23,068,208	23,583,342
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.	11,765,000	12,000,000
Due in annual installments of principal through September 2039. Interest is due monthly at variable rates during the life of the obligation and secured by a letter of credit.	5,385,000	5,500,000
Mortgage notes payable, secured by real estate:		
Due in monthly installments of \$1,475 including interest at 3.00% through April 2011 at which time the principal balance is due in full.	-	14,244
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.	419,887	431,681
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.	423,739	435,642
Due in monthly installments of \$532 including interest at 3.00% through March 2014 at which time the principal balance is due in full.	18,039	23,019
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.	649,833	674,577
Borrowings under construction credit facility. Due in monthly installments of \$6,642 including interest at 9.00% through August 2032.	752,886	764,277
Due in monthly installments of \$6,116, including interest at 7.30% through November 2013	161,940	220,953
Due in monthly installments of \$5,313 including interest at 7.25% through November 2017	270,588	325,311
Due at varying maturities through June 2037.	1,889,154	1,889,154
Note payable, bank, due in monthly installments of \$614 including interest at 1.49% through December, 2011	3,085	10,449
Note payable, leasing company, secured by motor vehicle due in monthly installments of \$569 including interest at 9.36% through March, 2017	25,754	-
	<u>69,918,113</u>	<u>71,722,649</u>
Less: Current maturities of long-term debt	<u>1,871,238</u>	<u>1,819,027</u>
	<u>\$68,046,875</u>	<u>\$69,903,622</u>

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

8 - LONG-TERM DEBT (Continued)

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:

2012	\$ 1,871,238
2013	1,955,415
2014	1,999,498
2015	2,792,692
2016	2,106,088
Thereafter	<u>59,193,182</u>
	<u>\$69,918,113</u>

9 - HEDGING INSTRUMENT

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

The Foundation has entered into two interest rate swap agreements related to 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 and September, 2018 and have rates of 2.97% and 3.3925%, respectively. The notional amounts are \$5,500,000 and \$8,000,000, respectively. Included in statement of activities is an unrealized gain (loss) of \$41,286 and (\$557,890) relating to the change in fair value of the swap agreements for the years ended June 30, 2011 and 2010 respectively.

10 - RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 are available for the following purposes:

Building renovation	\$ 253,845
Direct care services	<u>102,867</u>
	<u>\$ 356,712</u>

During 2011, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as specified by donors for the following purpose:

Building renovation	\$ 100,000
Direct care services	<u>19,241</u>
	<u>\$ 119,241</u>

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

11 - LEASES

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

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

11 - LEASES (Continued)

Future minimum lease payments as of June 30, 2011 are as follows:

2012	\$ 730,361
2013	468,296
2014	404,446
2015	309,320
2016	240,831
Thereafter	<u>386,649</u>
	<u>\$ 2,539,903</u>

12 - STATE SURPLUS REVENUE RETENTION

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

Through June 30, 2011, the Foundation did not have surpluses in excess of the 5% or 20% rules. As of June 30, 2011, the Foundation's surplus revenue retention was \$159,282 calculated as follows:

Balance, June 30, 2010	\$ (737,281)
Year ended June 30, 2011	<u>896,563</u>
Balance, June 30, 2011	<u>\$ 159,282</u>

13 - DEFERRED COMPENSATION LIABILITY AND LIFE INSURANCE

The Foundation has deferred compensation agreements providing benefits to certain key employees commencing at retirement. Deferred compensation expense related to these agreements was \$403,192 and \$567,313 in 2011 and 2010, 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 \$1,791,710 and \$1,203,564 at June 30, 2011 and 2010, respectively.

14 - ECONOMIC DEPENDENCY

The Foundation receives a significant portion of its support and revenue from the Commonwealth of Massachusetts, Department of Developmental Services (DDS) and Office of Child Care Services (OCCS). Total support and revenue included approximately \$48,283,522 and \$19,442,225 from the DDS of OCCS, respectively, in 2011.

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

15 - STATEMENT OF CASH FLOWS

Supplemental disclosure of cash flows information is as follows:

	2011	2010
Cash paid during the year for interest	\$ 3,339,539	\$ 3,309,557

16 - COMMITMENTS AND CONTINGENCY

The Foundation has obtained two letters of credit in the amounts of \$11,941,475 and \$5,465,775 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 labor contract was effective through June, 2011. The Foundation is in negotiations to extend the contract through June, 2012. In the opinion of management, the negotiations are not expected to have a material adverse effect on the Foundation's results of operations.

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, 2011, or on the changes in net assets for the year then ended.

17 - 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 2008.

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.

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

18 - RELATED PARTY TRANSACTIONS

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

	2011	2010
Notes receivable	\$ 445,000	\$ 445,000
Accounts payable	56,688	
Expenditures for property, plant and equipment	187,711	143,899

19 - FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic No. 820, "Fair Value Measurements"(ASC Topic 820). This Topic defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

Determination of Fair Value

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair Value Hierarchy

In accordance with ASC Topic 820, the Foundation groups their financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

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

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.

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

19 - 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, 2011 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds	\$ 3,341,745	\$ -	\$ -	\$ 3,341,745
Mutual funds	8,695,184	-	-	8,695,184
Common stock	921,993	-	-	921,993
Money market	<u>1,302,407</u>	<u>-</u>	<u>-</u>	<u>1,302,407</u>
Total investments	<u>\$ 14,261,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,261,329</u>

The Foundation's financial liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2011 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 978,254</u>	<u>\$ 978,254</u>

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

Beginning balance	\$ (1,019,540)
Total unrealized gain included in changes in net assets	<u>41,286</u>
Ending balance	<u>\$ (978,254)</u>

20 - SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the Foundation sold its investment in Sequest Holding Company, LLC (an unconsolidated affiliate) in which it had a non-controlling interest recording a gain on the transaction.

SUPPLEMENTAL SCHEDULES

SEVEN HILLS FOUNDATION AND AFFILIATES
 COMBINING STATEMENT OF UNRESTRICTED ACTIVITIES
 YEAR ENDED JUNE 30, 2011

	Seven Hills Foundation	Seven Hills Family Services, Inc.	Seven Hills Occupational & Rehabilitation Services, Inc.	Seven Hills Community Services, Inc.	Seven Hills Clinical Associates, Inc.
Operating support and revenue:					
Government contracts and fees	\$ -	\$ 14,869,415	\$ 7,510,434	\$ 39,181,168	\$ 7,598,481
Government donated staff and transportation	-	-	29,292	-	-
H.U.D. rental subsidy	-	3,696	-	631,693	-
Private contracts and fees	-	69,020	127,864	-	173
Trainee production	-	-	209,631	-	-
Rent, vending, service fees	-	60,695	124,009	3,025,219	-
Interest income	156,953	-	1,151	91	-
Investment income	200,385	-	-	-	-
Net investment gains	2,342,606	-	-	-	-
Beano income	-	-	482,459	621,082	-
Contributions	382,957	12,242	10,770	1,440	-
Grants	-	-	-	-	-
Cafeteria	-	-	176,759	-	-
Gain on sale of property, plant, and equipment	125,771	-	-	-	-
Management fee	5,894,326	-	-	-	-
Other	456,330	12,722	905	656,869	320
Net assets release from restrictions:					
Satisfaction of purpose restrictions	-	-	-	-	-
Total support and revenue	9,559,328	15,027,790	8,673,274	44,117,562	7,598,974
Operating expenses:					
Program services					
Residential services	-	-	-	42,735,157	-
Family support	-	13,481,963	-	-	-
Vocational services	-	-	8,139,287	-	-
Nursing home services	-	-	-	-	-
Community services	-	-	-	-	-
Facility maintenance	57,281	-	130,444	145,061	-
Child care services	-	-	-	-	-
Clinical services	-	-	-	-	7,339,475
Global outreach	-	-	-	-	-
	57,281	13,481,963	8,269,731	42,880,218	7,339,475
Supporting services					
Management and general	7,018,252	-	-	-	-
Total expenses	7,075,533	13,481,963	8,269,731	42,880,218	7,339,475
Change in net assets from operations	2,483,795	1,545,827	403,543	1,237,344	259,499
Non operating revenue:					
Unrealized gain on hedging instrument	41,286	-	-	-	-
Change in net assets	2,525,081	1,545,827	403,543	1,237,344	259,499
Net assets, beginning of year	35,209,372	7,598,290	5,291,532	(921,088)	267,672
Net assets, end 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>

Seaside Education Associates, Inc.	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
\$ -	\$ 20,000	\$ 19,611,543	\$ 12,783,178	\$ 6,533,182	\$ 22,580,303	\$ -	\$ -	130,687,704
-	-	-	-	-	-	-	-	29,292
-	-	-	-	-	-	-	-	635,389
-	-	155,404	111,157	3,409,406	11,752	-	-	3,884,776
-	-	-	-	-	82,940	-	-	292,571
-	-	-	-	38,400	1,030,360	-	-	4,278,683
-	-	9,332	347	7	996	-	-	168,877
-	-	-	-	-	2,058	-	-	202,443
-	-	-	-	-	24,856	-	-	2,367,462
-	558,910	-	-	-	-	-	-	1,662,451
-	-	1,774	8,244	1,155	14,658	43,384	-	476,624
-	17,750	3,300	-	-	209,662	-	-	230,712
-	-	-	-	-	117,631	-	-	294,390
-	-	-	-	-	2,818	-	-	128,589
-	-	-	-	-	-	-	(b) (5,894,326)	-
-	-	110	7,838	16,037	158,625	-	-	1,309,756
-	-	-	106,754	-	12,487	-	-	119,241
-	596,660	19,781,463	13,017,518	9,998,187	24,249,146	43,384	(5,894,326)	146,768,960
-	-	-	-	-	-	-	(b) (2,445,092)	40,290,065
-	-	-	-	-	-	-	(b) (720,036)	12,761,927
-	-	-	-	-	-	-	(b) (518,468)	7,620,819
-	-	-	12,054,316	-	-	-	(b) (715,356)	11,338,960
-	-	-	-	9,847,454	23,396,558	-	(b) (822,268)	32,421,744
-	-	-	-	-	-	-	(b) (8,964)	323,822
-	-	19,736,549	-	-	-	-	(b) (147,288)	19,589,261
-	-	-	-	-	-	-	(b) (417,660)	6,921,815
-	-	-	-	-	-	396,303	(b) (10,128)	386,175
-	-	19,736,549	12,054,316	9,847,454	23,396,558	396,303	(5,805,260)	131,654,588
939,077	517,641	-	1,165,191	110,952	-	-	(a,b) (116,066)	9,635,047
939,077	517,641	19,736,549	13,219,507	9,958,406	23,396,558	396,303	(5,921,326)	141,289,635
(939,077)	79,019	44,914	(201,989)	39,781	852,588	(352,919)	27,000	5,479,325
-	-	-	-	-	-	-	-	41,286
(939,077)	79,019	44,914	(201,989)	39,781	852,588	(352,919)	27,000	5,520,611
(5,098,884)	(145,639)	391,812	(5,410,217)	795,473	2,672,716	-	(a) (171,000)	40,480,039
\$ (6,037,961)	\$ (66,620)	\$ 436,726	\$ (5,612,206)	\$ 835,254	\$ 3,525,304	\$ (352,919)	(a) \$ (144,000)	\$ 46,000,650

SEVEN HILLS FOUNDATION
AND AFFILIATES

EXPLANATION OF ELIMINATIONS

YEAR ENDED JUNE 30, 2011

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

SEVEN HILLS FOUNDATION AND AFFILIATES

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

YEAR ENDED JUNE 30, 2010

AND

INDEPENDENT AUDITOR'S REPORT

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

YEAR ENDED JUNE 30, 2010

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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, 2010, 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 2009 combined financial statements and, in our report, dated November 16, 2009, 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, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Bollus Lynch, LLP

Worcester, Massachusetts
November 12, 2010

SEVEN HILLS FOUNDATION AND AFFILIATES
COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010
(With Summarized Financial Information for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
Assets					
Current assets					
Cash	\$ 11,629,839	\$ 468,963	\$ 216,713	\$ 12,315,515	\$ 9,863,632
Deposits with trustees	2,741,203	-	-	2,741,203	2,775,304
Accounts receivable, less allowance for doubtful accounts of \$667,771	13,485,586	-	-	13,485,586	12,827,296
Pledges receivable	86,296	-	-	86,296	207,795
Prepaid expenses and other assets	453,241	-	-	453,241	287,876
Notes receivable	472,187	-	-	472,187	202,747
Total current assets	28,868,352	468,963	216,713	29,554,028	26,164,650
Investments	11,575,129	-	-	11,575,129	9,748,819
Investment in unconsolidated affiliates	1,098,948	-	-	1,098,948	1,235,432
Deposits with trustees, net	3,168,700	-	-	3,168,700	4,969,206
Loan acquisition costs, net	2,884,441	-	-	2,884,441	3,010,531
Deposits and other assets	279,936	-	-	279,936	280,336
Property, plant, and equipment, net	80,025,850	-	-	80,025,850	78,057,969
Cash value of life insurance	1,203,564	-	-	1,203,564	604,208
	<u>\$ 129,104,920</u>	<u>\$ 468,963</u>	<u>\$ 216,713</u>	<u>\$ 129,790,596</u>	<u>\$ 124,071,151</u>
Liabilities and Net Assets					
Current liabilities					
Notes payable, bank	\$ 2,430,445	\$ -	\$ -	\$ 2,430,445	\$ 1,280,627
Current maturities of long-term debt	1,819,027	-	-	1,819,027	1,733,459
Accounts payable	3,177,581	-	-	3,177,581	5,918,930
Accrued and other liabilities	6,430,575	-	-	6,430,575	6,387,313
Total current liabilities	13,857,628	-	-	13,857,628	15,320,329
Advances from the State of Rhode Island	1,115,304	-	-	1,115,304	1,115,304
Long-term debt, less current maturities	69,903,622	-	-	69,903,622	70,516,305
Hedging instrument liability	1,019,540	-	-	1,019,540	461,650
Deferred compensation liability	2,728,787	-	-	2,728,787	2,020,463
	<u>88,624,881</u>	<u>-</u>	<u>-</u>	<u>88,624,881</u>	<u>89,434,051</u>
Net assets					
Unrestricted					
Undesignated	29,937,646	-	-	29,937,646	24,889,327
Designated for endowment	10,542,393	-	-	10,542,393	9,056,482
Temporarily restricted	-	468,963	-	468,963	474,578
Permanently restricted	-	-	216,713	216,713	216,713
	<u>40,480,039</u>	<u>468,963</u>	<u>216,713</u>	<u>41,165,715</u>	<u>34,637,100</u>
	<u>\$ 129,104,920</u>	<u>\$ 468,963</u>	<u>\$ 216,713</u>	<u>\$ 129,790,596</u>	<u>\$ 124,071,151</u>

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010
(With Summarized Financial Information for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
Operating support and revenue:					
Government contracts and fees	\$ 129,567,678	\$ -	\$ -	\$ 129,567,678	\$ 120,959,052
Government donated staff and transportation	87,876	-	-	87,876	87,876
H.U.D. rental subsidy	630,471	-	-	630,471	667,168
Private contracts and fees	3,764,588	-	-	3,764,588	3,712,624
Trainee production	264,660	-	-	264,660	198,970
Rent, vending, service fees	4,164,249	-	-	4,164,249	3,512,304
Interest income	176,386	143	-	176,529	267,775
Investment income	237,966	-	-	237,966	588,831
Net investment gains (losses)	1,275,196	-	-	1,275,196	(2,564,200)
Beano income	1,692,342	-	-	1,692,342	1,759,389
Capital campaign	80,023	-	-	80,023	320,486
Contributions	500,113	3,807	-	503,920	5,101,156
Grants	157,124	-	-	157,124	106,662
Cafeteria	307,158	-	-	307,158	223,975
Gain (loss) on sale of property, plant and equipment	(39,686)	-	-	(39,686)	176,349
Other	853,977	-	-	853,977	825,655
Net assets release from restrictions:					
Satisfaction of purpose restrictions	9,565	(9,565)	-	-	-
Total support and revenue	<u>143,729,686</u>	<u>(5,615)</u>	<u>-</u>	<u>143,724,071</u>	<u>135,944,072</u>
Operating expenses:					
Program services					
Residential services	37,803,869	-	-	37,803,869	35,757,572
Family support	11,957,782	-	-	11,957,782	13,467,721
Vocational services	7,783,101	-	-	7,783,101	7,863,459
Nursing home services	10,532,115	-	-	10,532,115	10,737,513
Community services - Massachusetts	8,857,840	-	-	8,857,840	8,573,986
Community services - Rhode Island	21,909,630	-	-	21,909,630	10,946,899
Rental property operations	343,217	-	-	343,217	391,128
Child care services	22,153,207	-	-	22,153,207	25,711,721
Clinical services	6,874,560	-	-	6,874,560	7,181,318
	<u>128,215,321</u>	<u>-</u>	<u>-</u>	<u>128,215,321</u>	<u>120,631,317</u>
Supporting services					
Management and general	8,422,245	-	-	8,422,245	8,272,344
Total expenses	<u>136,637,566</u>	<u>-</u>	<u>-</u>	<u>136,637,566</u>	<u>128,903,661</u>
Change in net assets from operations	7,092,120	(5,615)	-	7,086,505	7,040,411
Non-operating expense:					
Unrealized loss on hedging instrument	(557,890)	-	-	(557,890)	(461,650)
Change in net assets	6,534,230	(5,615)	-	6,528,615	6,578,761
Net assets, beginning of year	<u>33,945,809</u>	<u>474,578</u>	<u>216,713</u>	<u>34,637,100</u>	<u>28,058,339</u>
Net assets, end of year	<u>\$ 40,480,039</u>	<u>\$ 468,963</u>	<u>\$ 216,713</u>	<u>\$ 41,165,715</u>	<u>\$ 34,637,100</u>

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010

(With Summarized Financial Information for 2009)

	Program Services					
	Residential Services	Family Support	Vocational Services	Nursing Home	Community Services - MA	Community Services - RI
Staff payroll	\$ 23,627,873	\$ 2,507,701	\$ 3,906,450	\$ 6,218,506	\$ 5,471,040	\$ 14,316,604
Trainee payroll	-	-	283,204	-	-	335,019
Payroll taxes	2,143,557	235,546	366,057	453,145	494,905	1,173,928
Employee benefits	2,818,583	254,488	681,240	859,079	189,460	2,068,276
Government staff	-	-	87,876	-	-	-
Occupancy	2,301,248	111,230	481,846	680,282	586,712	1,086,847
Telephone	197,548	18,039	34,520	2,087	101,488	120,630
General insurance	126,652	38,221	58,893	150,078	63,359	115,428
Office and operating supplies	204,898	14,139	115,793	581,644	367,321	205,103
Dues and subscriptions	-	-	-	-	16,914	16,382
Printing and postage	6,789	4,451	5,933	-	15,595	30,797
Advertising	904	230	-	301	425	19,849
Legal and audit	-	-	-	-	-	170,700
Client transportation	1,387,878	179,546	384,434	16,363	170,748	318,092
Specialized home care	170,245	6,862,877	-	-	-	-
Clinical consultants	378,481	-	87,038	142,701	195,609	723,607
Purchased services	130	-	-	315,653	-	211,792
Family support	33,487	1,514,970	-	-	59,192	65,148
TEACH program	-	-	-	-	-	-
Staff training	3,404	-	-	4,555	5,923	68,116
Fund raising	25	-	25	-	-	-
Cafeteria and food	1,398,725	41,881	279,246	167,797	4,085	295,116
Interest	1,399,280	84,912	290,094	437,614	188,880	26,662
Beano expenses	526,612	-	398,235	-	-	-
Other	59,425	12,130	37,977	4,911	644,445	68,120
Total before depreciation	36,785,744	11,880,361	7,498,861	10,034,716	8,576,101	21,436,216
Depreciation and amortization	1,018,125	77,421	284,240	497,399	281,739	473,414
	<u>\$ 37,803,869</u>	<u>\$ 11,957,782</u>	<u>\$ 7,783,101</u>	<u>\$ 10,532,115</u>	<u>\$ 8,857,840</u>	<u>\$ 21,909,630</u>

Rental Property Operations	Program Services			Total	Management and General	Totals	
	Child Care Services	Clinical Services				2010	2009
\$ 1,418	\$ 1,305,737	\$ 4,481,460	\$ 61,836,789	\$ 3,025,298	\$ 64,862,087	\$ 57,242,989	
-	-	-	618,223	-	618,223	404,252	
129	120,142	407,796	5,395,205	254,347	5,649,552	4,949,007	
-	178,168	562,338	7,611,632	1,226,573	8,838,205	7,887,389	
-	-	-	87,876	-	87,876	87,876	
118,245	232,332	304,826	5,903,568	308,560	6,212,128	5,694,203	
10,738	30,886	41,762	557,698	81,027	638,725	677,967	
9,398	27,067	31,955	621,051	50,381	671,432	742,912	
19,648	63,537	73,894	1,645,977	286,997	1,932,974	1,690,378	
28	5,925	14,200	53,449	56,783	110,232	108,985	
476	19,258	654	83,953	131,079	215,032	205,361	
-	1,168	301	23,178	191,773	214,951	175,069	
1,931	-	-	172,631	138,809	311,440	255,482	
22	94,414	210,214	2,761,711	142,525	2,904,236	2,677,711	
-	-	-	7,033,122	-	7,033,122	6,685,017	
54	693,564	90,416	2,311,470	323,765	2,635,235	2,385,229	
-	-	-	527,575	6,801	534,376	298,343	
-	19,024,704	58	20,697,559	-	20,697,559	24,979,540	
-	-	-	-	-	-	21,922	
-	3,205	2,820	88,023	193,760	281,783	218,061	
-	-	-	50	59,326	59,376	85,827	
-	114,617	132,389	2,433,856	-	2,433,856	2,179,100	
96,648	87,080	306,909	2,918,079	379,927	3,298,006	3,424,568	
-	-	-	924,847	458,320	1,383,167	1,424,243	
280	21,215	7,249	855,752	920,670	1,776,422	1,598,637	
259,015	22,023,019	6,669,241	125,163,274	8,236,721	133,399,995	126,100,068	
84,202	130,188	205,319	3,052,047	185,524	3,237,571	2,803,593	
<u>\$ 343,217</u>	<u>\$ 22,153,207</u>	<u>\$ 6,874,560</u>	<u>\$ 128,215,321</u>	<u>\$ 8,422,245</u>	<u>\$ 136,637,566</u>	<u>\$ 128,903,661</u>	

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010
(With Summarized Financial Information for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,528,615	\$ 6,578,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,237,571	2,803,593
Equity in (earnings) loss of unconsolidated affiliates	136,484	(35,432)
Unrealized loss on hedging instrument	557,890	461,650
Net investment (gains) losses	(1,275,196)	2,564,200
Loss (gain) on sale of property, plant, and equipment	39,686	(176,349)
Contributions received for capital improvements	(3,807)	(236,142)
Non-cash contributions	-	(4,622,984)
Deferred compensation expense	708,324	565,048
Decrease (increase) in operating assets:		
Accounts receivable	(658,290)	(1,854,593)
Pledges receivable	121,499	(112,309)
Prepaid expenses and other assets	(165,365)	(70,522)
Notes receivable	(269,440)	(137,799)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,741,349)	2,441,356
Accrued and other liabilities	43,262	(267,370)
	<u>(268,731)</u>	<u>1,322,347</u>
Net cash provided by operating activities	<u>6,259,884</u>	<u>7,901,108</u>
Cash flows from investing activities:		
Payments for purchases of investments	(1,678,728)	(2,613,930)
Proceeds from sale and maturities of investments	1,127,614	2,019,884
Change in assets deposited with trustees	1,834,607	(1,796,773)
Expenditures for loan acquisition costs	-	(552,177)
(Increase) decrease in deposits and other assets	400	(1,656)
Expenditures for property, plant, and equipment	(6,128,479)	(7,094,193)
Proceeds from sale of property, plant, and equipment	999,297	664,023
Increase in cash value of life insurance	(599,356)	(58,447)
	<u>(4,444,645)</u>	<u>(9,433,269)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Net proceeds (repayments) on notes payable, bank	1,149,818	(3,886,991)
Proceeds from issuance of long-term debt	876,000	17,500,000
Principal payments of long-term debt	(1,392,981)	(9,109,192)
Contributions received for capital improvements	3,807	236,142
	<u>636,644</u>	<u>4,739,959</u>
Net cash provided by financing activities		
Net increase in cash	2,451,883	3,207,798
Cash acquired through merger with Homestead Group	-	2,661,858
Cash, beginning of year	<u>9,863,632</u>	<u>3,993,976</u>
Cash, end of year	<u>\$ 12,315,515</u>	<u>\$ 9,863,632</u>

See accompanying notes to combined financial statements.

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The combined financial statements include the accounts of Seven Hills Foundation and the following affiliates which are under common control: Seven Hills Family Services, Inc.; Seven Hills Occupational & Rehabilitation Services, Inc.; Seven Hills Community Services, Inc.; Seven Hills Clinical 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 (formerly known as 'Seven Hills Extended Care Center at Groton, Inc. '), Seven Hills Behavioral Health, Inc., Seven Hills Global Outreach, Seven Hills Homestead Group (formerly known as 'The Homestead Group'), 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.

Merger

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

Operating support and revenue	\$ 11,650,750
Operating expenses	10,946,899

Accounting estimates

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

Subsequent events

The Foundation has evaluated the financial statement impact of subsequent events occurring through November 12, 2010 the date that the financial statements were available to be issued.

Method of accounting

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

Financial statement presentation

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

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

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statement presentation (continued)

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

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

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Concentration of credit risk

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

Investments

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

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

Endowment funds

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

The Board of Directors has interpreted state law as allowing the utilization of appreciation on permanently restricted assets unless explicit donor stipulations specify how net appreciation must be used. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by state law.

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 of yield method of amortization is not material to the combined financial statements.

Investment in unconsolidated affiliates

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

Property, plant, and equipment

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

Derivative instruments

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.

Contributions, gifts, grants

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

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional expenses

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

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

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

Contributed facilities

Three of the group homes and one program operated by The Homestead Group are located in buildings owned by the State of Rhode Island and are provided to The Homestead Group at no cost. The estimated value of this space (\$67,650 for the period ended June 30, 2010) has been recorded in the combined statement of activities as both a revenue and expense item.

Donated services

Certain employees of the Commonwealth of Massachusetts donate their services to the Foundation. Donated services amounting to \$87,876 in 2010 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 \$214,951 and \$175,069 in 2010 and 2009, respectively.

2 - DEPOSITS WITH TRUSTEES

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

	<u>2010</u>	<u>2009</u>
Current		
Future debt service	\$ 2,741,203	\$ 2,775,304
Long-term		
Future debt service	3,168,697	3,215,103
Property, plant and equipment acquisition	3	1,754,103
	<u>3,168,700</u>	<u>4,969,206</u>
	<u>\$ 5,909,903</u>	<u>\$ 7,744,510</u>

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

2 - DEPOSITS WITH TRUSTEES (Continued)

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

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 4,819,147	\$ 6,653,755
Corporate bonds	<u>1,090,756</u>	<u>1,090,755</u>
	<u>\$ 5,909,903</u>	<u>\$ 7,744,510</u>

3 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2010</u>	<u>2009</u>
Board-designated endowment funds	\$ 10,542,393	\$ 9,056,482
Unrestricted assets	<u>1,032,736</u>	<u>692,337</u>
	<u>\$ 11,575,129</u>	<u>\$ 9,748,819</u>

Investments are composed of the following:

	<u>2010</u>		<u>2009</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds	\$ 2,847,335	\$ 2,866,011	\$ 2,690,001	\$ 2,585,358
Mutual funds	9,180,297	7,263,360	9,410,738	6,465,728
Common stock	732,128	834,537	58,079	62,990
Money market accounts	<u>611,221</u>	<u>611,221</u>	<u>634,743</u>	<u>634,743</u>
	<u>\$ 13,370,981</u>	<u>\$ 11,575,129</u>	<u>\$ 12,793,561</u>	<u>\$ 9,748,819</u>

4 - ENDOWMENT ASSETS

Endowment assets include Board-designated investments. Changes in endowment assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 9,056,482	\$ -	\$ 216,713	\$ 9,273,195
Investment return:				
Investment income	214,166	-	-	214,166
Net appreciation (realized and unrealized)	<u>1,271,745</u>	<u>-</u>	<u>-</u>	<u>1,271,745</u>
Total investment return	<u>1,485,911</u>	<u>-</u>	<u>-</u>	<u>1,485,911</u>
Endowment assets, end of year	<u>\$ 10,542,393</u>	<u>\$ -</u>	<u>\$ 216,713</u>	<u>\$ 10,759,106</u>

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

5 - PROPERTY, PLANT, AND EQUIPMENT

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

	Estimated Useful Lives	2010	2009
Land	-	\$ 10,286,983	\$ 10,620,033
Buildings and improvements	20 - 40 years	80,700,985	74,221,615
Furniture and equipment	3 - 20 years	9,271,908	8,713,130
Motor vehicles	5 years	1,772,055	1,530,291
Construction in progress	-	3,601,987	5,730,786
		105,633,918	100,815,855
Less: Accumulated depreciation and amortization		25,608,068	22,757,886
		<u>\$ 80,025,850</u>	<u>\$ 78,057,969</u>

Depreciation and amortization expense for property, plant, and equipment was \$3,121,615 and \$2,692,253 in 2010 and 2009, respectively.

6 - ADVANCES FROM THE STATE OF RHODE ISLAND

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

7 - NOTES PAYABLE, BANK

The Foundation has a \$7,000,000 working capital line of credit with a bank secured by substantially all assets of the Foundation. Interest is charged at the U.S. prime rate. The line of credit is available through September, 2010, at which time the terms and conditions of the line of credit will be reviewed. The balance outstanding on this line of credit was \$2,430,445 and \$1,280,627 as of June 30, 2010 and 2009, respectively.

The Foundation had a \$5,000,000 non-revolving real estate line of credit with a bank secured by substantially all assets of the Foundation. Interest was charged at the U.S. prime rate. The line of credit was available through December, 2008.

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

8 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</u>
Bond notes payable, secured by real estate and cash flows from provider contracts:		
Due in annual installments of principal through September 2028. Interest is due semi-annually at rates increasing from an initial 4.40% to 5.15% during the life of the obligation.	\$ 12,290,000	\$ 12,720,000
Due in annual installments of principal through September 2032. Interest is due semi-annually at rates increasing from an initial 4.00% to 5.50% during the life of the obligation.	13,560,000	13,860,000
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.	23,583,342	24,078,475
Due in annual installments of principal through September 2039. Interest is due monthly at variable rates during the life of the obligation and secured by a letter of credit.	12,000,000	12,000,000
Due in annual installments of principal through September 2039. Interest is due monthly at variable rates during the life of the obligation and secured by a letter of credit.	5,500,000	5,500,000
Mortgage notes payable, secured by real estate:		
Due in monthly installments of \$1,475 including interest at 3.00% through April 2011 at which time the principal balance is due in full.	14,244	29,244
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.	431,681	-
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.	435,642	-
Due in monthly installments of \$532 including interest at 3.00% through March 2014 at which time the principal balance is due in full.	23,019	27,999
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.	674,577	697,100
Borrowings under construction credit facility. Due in monthly installments of \$6,642 including interest at 9.00% through August 2032.	764,277	774,678
Due in monthly installments of \$6,116, including interest at 7.30% through November 2013	220,953	275,768
Due in monthly installments of \$5,313 including interest at 7.25% through November 2017	325,311	378,800
Due at varying maturities through June 2037.	1,889,154	1,889,154
Note payable, bank, due in monthly installments of \$614 including interest at 1.49% through December, 2011	10,449	18,543
	<u>71,722,649</u>	<u>72,249,764</u>
	<u>1,819,027</u>	<u>1,733,459</u>
Less: Current maturities of long-term debt	<u>\$ 69,903,622</u>	<u>\$ 70,516,305</u>

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

8 - LONG-TERM DEBT (Continued)

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:

2011	\$ 1,819,027
2012	1,866,743
2013	1,950,347
2014	1,993,106
2015	2,785,920
Thereafter	<u>61,307,506</u>
	<u>\$71,722,649</u>

9 - HEDGING INSTRUMENT

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

The Foundation has entered into two interest rate swap agreements related to 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 and September, 2018 and have rates of 2.97% and 3.3925%, respectively. The notional amounts are \$5,500,000 and \$8,000,000, respectively. Included in statement of activities is an unrealized loss of \$557,890 and \$461,650 relating to the change in fair value of the swap agreements for the years ended June 30, 2010 and 2009 respectively.

10 - RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2010 are available for the following purposes:

Building renovation	\$ 162,800
Direct care services	<u>306,163</u>
	<u>\$ 468,963</u>

During 2010, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as specified by donors for direct case services of \$9,565.

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

11 - LEASES

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

Future minimum lease payments as of June 30, 2010 are as follows:

2011	\$ 1,050,871
2012	472,613
2013	219,656
2014	153,790
2015	91,375
Thereafter	<u>525,708</u>
	<u>\$ 2,514,013</u>

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

12 - STATE SURPLUS REVENUE RETENTION

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

Through June 30, 2010, the Foundation did not have surpluses in excess of the 5% or 20% rules. As of June 30, 2010, the Foundation's surplus revenue retention was \$(736,986) calculated as follows:

Balance, June 30, 2009	\$ (3,484,261)
Year ended June 30, 2010	<u>2,747,275</u>
Balance, June 30, 2010	<u>\$ (736,986)</u>

13 - DEFERRED COMPENSATION LIABILITY AND LIFE INSURANCE

The Foundation has deferred compensation agreements providing benefits to certain key employees commencing at retirement. Deferred compensation expense related to these agreements was \$708,324 and \$565,048 in 2010 and 2009, 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 \$1,203,564 and \$604,208 at June 30, 2010 and 2009, respectively.

14 - ECONOMIC DEPENDENCY

The Foundation receives a significant portion of its support and revenue from the Commonwealth of Massachusetts, Department of Developmental Services (DDS) and Office of Child Care Services (OCCS). Total support and revenue included approximately \$49,492,986 and \$21,395,762 from the DDS of OCCS, respectively, in 2010.

15 - STATEMENT OF CASH FLOWS

Supplemental disclosure of cash flows information is as follows:

	<u>2010</u>	<u>2009</u>
Cash paid during the year for interest	\$ 3,309,557	\$ 3,513,236

16 - COMMITMENTS AND CONTINGENCY

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

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

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

16 - COMMITMENTS AND CONTINGENCY (Continued)

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

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

As of year-end, the Foundation had approximately 178 employees who are represented by Local 5068, United Nurses & Allied Professionals. The labor contract is effective through June, 2011.

17 - TAX-EXEMPT STATUS

The Foundation qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax is required. 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 2007.

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.

18 - RELATED PARTY TRANSACTIONS

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

	<u>2010</u>	<u>2009</u>
Notes receivable	\$ 445,000	\$ 150,000
Expenditures for property, plant and equipment	143,899	371,982

19 - FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic No. 820, "Fair Value Measurements". This Topic defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

Determination of Fair Value

The Foundation use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

SEVEN HILLS FOUNDATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
(Continued)

19 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (continued)

In accordance with ASC Topic 820, the Foundation groups their financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

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

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

The Foundation's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2010 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds	\$ 2,866,011	\$ -	\$ -	\$ 2,866,011
Mutual Funds	7,263,360	-	-	7,263,360
Common Stock	834,537	-	-	834,537
Money Market	<u>611,221</u>	<u>-</u>	<u>-</u>	<u>611,221</u>
Total investments	<u>\$ 11,575,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,575,129</u>

The Foundation's financial liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2010 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,019,540</u>	<u>\$ 1,019,540</u>

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

Beginning balance	\$ (461,650)
Total unrealized losses included in changes in net assets	<u>(557,890)</u>
Ending balance	<u>\$ (1,019,540)</u>

20 - RECLASSIFICATIONS

Certain amounts in the 2009 comparative information have been reclassified to conform with the 2010 presentation. Such reclassifications had no effect on the change in net assets as previously reported.

SUPPLEMENTAL SCHEDULES

SEVEN HILLS FOUNDATION AND AFFILIATES
COMBINING STATEMENT OF UNRESTRICTED ACTIVITIES

YEAR ENDED JUNE 30, 2010

	Seven Hills Foundation	Seven Hills Family Services, Inc.	Seven Hills Occupational & Rehabilitation Services, Inc.	Seven Hills Community Services, Inc.	Seven Hills Clinical Associates, Inc.
Operating support and revenue:					
Government contracts and fees	\$ -	\$ 14,322,964	\$ 7,618,961	\$ 37,598,350	\$ 7,578,951
Government donated staff and transportation	-	-	87,876	-	-
H.U.D. rental subsidy	-	-	-	626,022	-
Private contracts and fees	-	20,458	128,060	-	5,425
Trainee production	-	-	172,908	-	-
Rent, vending, service fees	-	52,770	134,656	2,964,282	-
Interest income	166,113	-	72	-	-
Investment income	236,308	-	-	-	-
Net investment gains	1,261,694	-	-	-	-
Beano income	-	-	487,424	639,712	-
Capital campaign	80,023	-	-	-	-
Contributions	384,834	13,852	10,661	-	-
Grants	-	-	1,000	2,665	-
Cafeteria	-	-	180,778	-	-
Gain (loss) on sale of property, plant, and equipment	(84,755)	-	-	-	-
Management fee	6,360,076	-	-	-	-
Other	(51,324)	7,874	3,572	713,684	7,529
Net assets release from restrictions:					
Satisfaction of purpose restrictions	9,565	-	-	-	-
Total support and revenue	8,362,534	14,417,918	8,825,968	42,544,715	7,591,905
Operating expenses:					
Program services:					
Residential services	-	-	-	40,571,793	-
Family support	-	12,757,618	-	-	-
Vocational services	-	-	8,375,673	-	-
Nursing home services	-	-	-	-	-
Community services	-	-	-	-	-
Facility maintenance	69,868	-	138,558	144,991	-
Child care services	-	-	-	-	7,353,768
Clinical services	-	-	-	-	-
	69,868	12,757,618	8,514,231	40,716,784	7,353,768
Supporting services					
Management and general	6,250,384	-	-	-	-
Total expenses	6,320,252	12,757,618	8,514,231	40,716,784	7,353,768
Change in net assets from operations	2,042,282	1,660,300	311,737	1,827,931	238,137
Non operating expense:					
Unrealized loss on hedging instrument	(557,890)	-	-	-	-
Change in net assets	1,484,392	1,660,300	311,737	1,827,931	238,137
Net assets, beginning of year	33,724,980	5,937,990	4,979,795	(2,749,019)	29,535
Net assets, end of year	\$ 35,209,372	\$ 7,598,290	\$ 5,291,532	\$ (921,088)	\$ 267,672

Seaside Education Associates, Inc.	Seven Hills Disability Resources & Advocacy, Inc.	Childrens Aid & Family Service, Inc.	Seven Hills Extended Care at Groton, Inc.	Seven Hills Behavioral Health, Inc.	The Homestead Group	Eliminations	Total
\$ -	\$ -	\$ 21,569,919	\$ 11,884,884	\$ 6,692,955	\$ 22,300,694	\$ -	\$ 129,567,678
-	-	-	-	-	-	-	87,876
-	-	-	-	4,449	-	-	630,471
-	-	563,951	73,149	2,972,170	1,375	-	3,764,588
-	-	-	-	-	91,752	-	264,660
-	-	-	-	42,101	970,440	-	4,164,249
-	-	6,247	1,031	149	2,774	-	176,386
-	-	-	-	-	1,658	-	237,966
-	-	-	-	-	13,502	-	1,275,196
-	565,206	-	-	-	-	-	1,692,342
-	-	-	-	-	-	-	80,023
-	-	55,306	4,699	530	30,231	-	500,113
-	30,250	21,981	4,350	-	96,878	-	157,124
-	-	-	-	-	126,380	-	307,158
-	-	-	-	-	45,069	-	(39,686)
-	-	-	-	-	-	(b) (6,360,076)	-
-	-	216	-	24,684	147,742	-	853,977
-	-	-	-	-	-	-	9,565
-	595,456	22,217,620	11,968,113	9,737,038	23,828,495	(6,360,076)	143,729,686
-	-	-	-	-	-	(b) (2,767,924)	37,803,869
-	-	-	-	-	-	(b) (799,836)	11,957,782
-	-	-	-	-	-	(b) (592,572)	7,783,101
-	-	-	11,314,971	-	-	(b) (782,856)	10,532,115
-	-	-	-	9,473,836	21,909,630	(b) (615,996)	30,767,470
-	-	-	-	-	-	(b) (10,200)	343,217
-	-	22,380,259	-	-	-	(b) (227,052)	22,153,207
-	-	-	-	-	-	(b) (479,208)	6,874,560
-	-	22,380,259	11,314,971	9,473,836	21,909,630	(6,275,644)	128,215,321
710,344	484,054	-	1,008,737	80,158	-	(a,b) (111,432)	8,422,245
710,344	484,054	22,380,259	12,323,708	9,553,994	21,909,630	(6,387,076)	136,637,566
(710,344)	111,402	(162,639)	(355,595)	183,044	1,918,865	27,000	7,092,120
-	-	-	-	-	-	-	(557,890)
(710,344)	111,402	(162,639)	(355,595)	183,044	1,918,865	27,000	6,534,230
(4,388,540)	(257,041)	554,451	(5,054,622)	612,429	753,851	(a) (198,000)	33,945,809
\$ (5,098,884)	\$ (145,639)	\$ 391,812	\$ (5,410,217)	\$ 795,473	\$ 2,672,716	(a) \$ (171,000)	\$ 40,480,039

SEVEN HILLS FOUNDATION
AND AFFILIATES

EXPLANATION OF ELIMINATIONS

YEAR ENDED JUNE 30, 2010

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

Seven Hills Rhode Island Budget									
			Year 1		Year 2		Year 3		Total
Personnel:	Rate	FTE		Cum FTE		Cum FTE			
Clinic Director	40.87	1.0	85,010	1.0	85,010	1.0	85,010		255,029
Primary Care Provider: NP	40.87	0.5	42,505	1.0	85,010	1.5	127,514		255,029
Nurse Case Mgr	31.25	1.0	65,000	2.0	130,000	3.0	195,000		390,000
Peer Life/Wellness Coach	12.50	2.0	52,000	3.0	78,000	4.0	104,000		234,000
Peer Mentor	10.00	1.5	31,200	2.5	52,000	3.0	62,400		145,600
Pharmacist	57.70	0.2	24,003	0.2	24,003	0.2	24,003		72,010
Executive Director	48.07	0.1	9,999	0.1	9,999	0.1	9,999		29,996
Project Liason	36.25	0.1	7,540	0.3	24,505	0.5	37,700		69,745
Controller/Finance	36.25	0.2	15,080	0.2	15,080	0.2	15,080		45,240
Human Resources	25.00	0.1	5,200	0.2	10,400	0.2	10,400		26,000
Marketing Professional	25.00	0.1	5,200	0.2	10,400	0.2	10,400		26,000
Office Mgr	19.23	1.0	39,998	1.0	39,998	1.0	39,998		119,995
IT	30.00	0.3	15,600	0.3	15,600	0.3	15,600		46,800
Total Personnel			398,335		580,004		737,104		1,715,443
Taxes and Benefits *			151,367		220,402		280,100		651,868
Travel:	Mileage	FTE		Cum FTE		Cum FTE			
Clinic Director/Project Liason	1819	1.0	1,000	1.0	1,000	1.0	1,000		3,001
Primary Care Provider: NP	1455	0.5	400	1.0	800	1.5	1,200		2,401
Nurse Case Mgr	1455	1.0	800	2.0	1,601	3.0	2,401		4,802
Peer Life/Wellness Coach	1455	2.0	1,601	3.0	2,401	4.0	3,201		7,202
Peer Mentor	1091	1.5	900	2.5	1,500	3.0	1,800		4,200
Pharmacist	1455	0.2	160	0.2	160	0.2	160		480
Executive Director	1455	0.1	80	0.1	80	0.1	80		240
Liason	1455	0.1	80	0.3	260	0.5	400		740
IT	1455	0.3	200	0.3	200	0.3	200		600
Travel			5,222		8,002		10,443		23,667
Adjunct Clinical Services - Direct Supp	Rate	FTE		Cum FTE		Cum FTE			
OT	65.00	0.2	27,040	0.2	27,040	0.2	27,040		81,120
PT	55.00	0.2	22,880	0.2	22,880	0.2	22,880		68,640
SLP	55.00	0.2	22,880	0.2	22,880	0.2	22,880		68,640
Dietician	55.00	0.2	22,880	0.2	22,880	0.2	22,880		68,640
Total Adjunct Clinical Services			95,680		95,680		95,680		287,040
MD Consultant/Oversight to NP			52,000		52,000		52,000		156,000
Stepping Up/Care NE- Community Based Organization Outreach, Employee/Contrator Recruitment, Career Advising/Advancement			30,000		30,000		30,000		90,000
Cleaning			10,000		10,000		10,000		30,000
Medical Equipment Start-Up (Detail Attached)			52,892		-		-		52,892
Office/Tech Equipment, Furniture & Supplies			52,000		20,000		20,000		92,000
Rent/Utilities **			34,500		34,500		34,500		103,500
Other: Conferences/Payroll Fees			1,500		2,300		2,600		6,400
3rd Party Billing:									
4 visits per day (5 days) @ \$40 (6 vists yr2, 8 yr3)			(41,600)		(62,400)		(83,200)		(187,200)
Fee - 8% of Revenue			3,328		4,992		6,656		14,976
Total			845,223		995,480		1,195,883		3,036,586
*Fringe Benefits at a rate of 38% (includes 7.65% FICA, 2% Unemployment, 6% Workers Compensation, Medical 20%, Disability/Life 2.35%)									
**\$23/sq ft, 1500 sq ft - 2 treatment rooms, patient waiting area, 3 offices, 1 conference room/meeting space, file storage, secure server area									

SEVEN HILLS FOUNDATION
GOVERNING BOARD OF DIRECTORS
(Effective January 1, 2013)

DIRECTORS	ADDRESS	TERM EXPIRES	COMMITTEE MEMBERSHIPS
John N. Altomare, Esq. Attorney	FA & E Law Offices 71 Elm Street Worcester, MA 01609	12/2013	
Mrs. Jeanne Antonucci Retired Banker	194 Bridle Cross Road Fitchburg, MA 01420	12/2013	Philanthropy & Community Relations Committee
Mr. Charles Austin DO NOT CALL Retired News Broadcaster	14 Bridge Street S. Dartmouth, MA 02748	12/2014	
Mrs. Maureen F. Binienda School Principal, Worcester	18 Chestnut Hill Drive Worcester, MA 01609	12/2013	Human Rights Core Committee (non-voting member)
Attorney Brian R. Forts Member-at-Large Attorney	21 Birchwood Drive Holden, MA 01520	12/2013	<div style="background-color: black; color: black;">[REDACTED]</div> Finance & Audit Committee (ex officio) Philanthropy & Community Relations Committee (ex officio) Nominating Committee
Mr. Melvin P. Gordon Clerk Real Estate Executive	4-47 Sheridan Drive Shrewsbury, MA 01545	12/2013	<div style="background-color: black; color: black;">[REDACTED]</div> Finance & Audit Committee Philanthropy & Community Relations Committee Nominating Committee Human Rights Core Committee (non-voting member)
Dr. Mark Hasso College Professor (WPI)	35 Byard Lane Westborough, MA 01581	12/2015	<div style="background-color: black; color: black;">[REDACTED]</div> Finance & Audit Committee
Mr. John Healy C/O Mfg. Advancement Ctr Vice-Chairman	100 Grove Street Worcester, MA 01605	12/2014	<div style="background-color: black; color: black;">[REDACTED]</div> Finance & Audit Committee

DIRECTORS	ADDRESS	TERM EXPIRES	COMMITTEE MEMBERSHIPS
David A. Jordan, DHA President/CEO-SHF	81 Hope Avenue Worcester, MA 01603	12/2013	Finance & Audit Committee Nominating Committee Philanthropy & Community Relations Committee Human Rights Core Committee (ex-officio)
Mrs. Arlene Lian Retired Nurse-VNA	23 Mark Circle Holden, MA 01520	12/2013	Human Rights Core Committee (non-voting member)
Mr. Robert L. Mahar Retired Engineer	10 Pheasant Hill Lane Sterling, MA 01564	12/2013	Finance & Audit Committee Nominating Committee
Mrs. Deborah J. Needleman Community Relations Director	121 State Street Framingham, MA 01701	12/2013	Philanthropy & Community Relations Committee Human Rights Core Committee (non-voting member)
Dr. David Paydarfar Physician, UMass	UMass Memorial Medical Center Neurology Department 44 Lake Avenue North Worcester, MA 01655	12/2013	
Ms. Frances Polito Retired	1 Jaclyn Rae Drive Millbury, MA 01527	12/2013	
Mr. John M. Prosser Chairman President of Manufacturing Company	929 Shaker Road, Apt 3 Westfield, MA 01085-5049	12/2013	Finance & Audit Committee Nominating Committee
Ms. Marianne E. Rogers Life Insurance Executive	545 Main Street P.O. Box 566 Boylston, MA 01505	12/2014	Finance & Audit Committee
Mrs. Claire M. Swan Treasurer Retired	37 Maynard Street Northborough, MA 01532	12/2013	Finance & Audit Committee Nominating Committee

SEVEN HILLS FOUNDATION, INC.

BY-LAWS

ARTICLE I

Name, Purpose, Powers, Location
Insignia and Fiscal Year

1.1 Name and Purposes The name of this organization shall be SEVEN HILLS FOUNDATION, INC. (the "Corporation"). The purposes for which the Corporation is formed are as set forth in its Articles of Organization and include the right to do all things lawful under, and consistent with, Massachusetts General Laws, Chapter 180, as the same may be amended from time to time. The Corporation is irrevocably dedicated to, and operated exclusively for, nonprofit purposes. No part of the income or assets of the Corporation shall be distributed to, or inure to the benefit of, any individual.

1.2 Powers. The Corporation shall have and may exercise all powers necessary and convenient to effect any or all of the purposes for which the Corporation is formed, provided that no such power shall be exercised in a manner inconsistent with Massachusetts General Laws Chapter 180 or any other chapter of these General Laws, and provided, further, that the Corporation shall not engage in any activity or exercise any power which would deprive it of any exemption from federal income tax which the Corporation may receive under Section 501(c)(3) of the Internal Revenue Code of 1954, as now in force or hereafter amended.

1.3 Location. The principal office of the Corporation in the Commonwealth of Massachusetts shall be located in Worcester

County, Massachusetts. The Directors may change the location of the principal office in the Commonwealth of Massachusetts or designate such other offices as they consider appropriate.

1.4 Insignia. The Directors may adopt and alter a corporate seal and official insignia of the Corporation.

1.5 Fiscal Year. The fiscal year of the Corporation shall, unless otherwise decided by the Directors, end on June 30th in each year.

ARTICLE II

Board of Directors

2.1 Powers. The affairs of the Corporation shall be managed, supervised and controlled by the Board of Directors (the "Board"), which shall have and may exercise all the powers reserved to the Corporation by law, the Articles of Organization, or these By-laws, and which shall actively prosecute the objects and purposes of the Corporation, and which, in addition, shall execute the policies and decisions of the Corporation. The Board shall have the right to delegate to one or more of the Officers or Directors the authority to sign, execute, acknowledge and deliver any legal documents to accomplish and exercise any of these powers.

2.2 Selection. Those persons serving as the Directors of the Worcester Area ARC, Inc. (f/k/a Worcester Area Association for Retarded Children, Inc.), during their service as such, shall be the Directors of this Corporation.

2.3 Committees. The Board may establish one or more committees, including without limitation, those committees set

forth in Article III of these By-Laws and may delegate to any such committee or committees any or all of its powers. Any committee to which the powers of the Board are delegated shall include at least three Directors as members. Unless the Board otherwise designates, committees shall conduct their affairs in the same manner as is provided in these By-laws for the Board. The members of any committee shall remain in office at the pleasure of the Board.

2.4 Annual Meeting. The annual meeting of the Board shall be held contemporaneously with the annual meeting of the Board of the Worcester Area ARC, Inc., or if no annual meeting is held in accordance therewith, then a special meeting may be held in lieu thereof.

2.5 Regular Meetings. The Board shall hold its regular meetings at such a place within Worcester County, Massachusetts, and at such frequency and times as it may determine, provided, however, that the Board shall meet at least eight (8) times in each calendar year.

2.6 Special Meetings. Special meetings of the Board may be held at any time and at any place within Worcester County, Massachusetts, when called by the Chairperson of the Board, or upon written demand of three or more Directors.

2.7 Call and Notice.

(a) Regular Meetings: No call or notice shall be required for regular meetings of the Board, provided that reasonable notice: (i) of the first regular meeting following the determination by the Board of the times and places for regular

meetings shall be given to absent Directors; (ii) specifying the purpose of a regular meeting shall be given to each Director if either contracts or transactions of the Corporation with interested persons or amendments to these By-laws or removal or suspension of a Director are to be considered at the meeting; and (iii) shall be given as otherwise required by law, the Articles of Organization or these By-laws.

(b) Annual and Special Meetings. Reasonable notice of the time and place of the annual and all special meetings of the Board called by the Chairperson of the Board or upon demand of three or more Directors shall be given to each Director. Such notice shall specify the purposes of any special meeting.

(c) Reasonable Notice. Except as otherwise expressly provided, it shall be reasonable and sufficient notice to a Director to send notice by mail at least five days or by telegram at least twenty-four hours before the meeting addressed to him/her at his/her usual or last known business or residence address or to give notice to him/her in person or by telephone at least twenty-four hours before the meeting.

(d) Waiver of Notice. Whenever notice of a meeting is required, such notice need not be given to any Director if a written waiver of notice, executed by him/her (or his/her attorney thereunto authorized) before or after the meeting, is filed with the records of the meeting, or to any Director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him/her. A waiver of notice need not specify the purposes of the meeting unless such purposes were required to be specified in the notice of such meeting.

2.8 Quorum. At any meeting of the Board a majority of the Directors then in office shall constitute a quorum. Any meeting may be adjourned to such date or dates not more than thirty days after the first session of the meeting by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

2.9 Action by Vote. Each Director, except for the President who serves ex officio, shall have one vote. When a quorum is present at any meeting, a majority of the Directors present and voting shall decide any question unless otherwise provided by law, the Articles of Organization, or these By-laws.

2.10 Action by Written Consent. Any action required or permitted to be taken at any meeting of the Board may be taken without a meeting if all of the Directors consent to the action in writing and the written consents are filed with the records of the meeting of the Board. Such consents shall be treated for all purposes as a vote at a meeting.

2.11 Agenda. All meetings of the Board shall be open to the public, provided that the Board reserves the right to vote to enter into executive session, from which persons not Directors may be excluded. Individuals wishing to be heard on any subject during Board meetings shall inform the Chairperson thereof. The Chairperson, with the concurrence of the Board, may include such requests on the agenda of that meeting or defer such requests to the next succeeding meeting of the Board.

2.12 Compensation. Directors shall not be entitled to compensation for their services as Directors.

2.13 Rules of Order. Except where these By-laws otherwise provide, meetings of the Board shall be convened, conducted and adjourned in compliance with the procedures set forth in the most recently issued edition of Robert's Rules of Order.

ARTICLE III

Committees

3.1 Committees. At the annual meeting of the Board, and at such other times as the Board deems expedient, the Chairperson of the Board may, with the concurrence of the Board, appoint Board members to existing committees which are designated Standing Committees of the Board of Directors, and, except as provided in this Article, appoint Chairpersons of such committees.

The Board may designate any standing committees it deems necessary and vest in them such powers as it deems necessary. These committees may include but are not limited to:

Standing Committees

- (a) Executive Committee
- (b) Investment and Finance Committee
- (c) Development Committee
- (d) Board Development/Nomination Committee
- (e) Human Rights Committee.

3.2 Executive Committee. The Executive Committee shall be comprised of the Chairperson and the Vice Chairperson of the Board of Directors, the Treasurer and the Clerk of the Corporation and one other Director, who shall be appointed by the Chairperson. The Chairperson of the Board of Directors shall act as the Chairperson of the Executive Committee. The Executive

Committee shall meet during intervals between meetings of the Board to deal with matters in which timely official action is deemed necessary or desirable by the Chairperson of the Board of Directors. The Executive Committee shall exercise all powers of the Board of Directors during such intervals; provided, however, that it shall not reverse any decisions or policies of the Board nor approve any substantial expenditures not previously approved by the Board. A quorum of any meeting of the Executive Committee shall consist of three (3) members. All Executive Committee proceedings shall be reported to the next succeeding meeting of the Board of Directors which shall approve or reject the same; provided, however, that no rights of third parties shall be prejudiced by any subsequent Board rejection of Executive Committee action.

3.3 Investment/Finance Committee. This committee shall be chaired by the Treasurer and shall meet at least quarterly with the President and such other staff members of the Corporation as it deems necessary to assure proper fiscal operation of the Corporation. Quarterly reports indicating fiscal conditions shall be made by the Committee Chairperson to the Board of Directors. The committee, with the President, shall be responsible for preparation of the Corporation's annual budget for approval by the Board of Directors. This Committee shall also be responsible for oversight of the management and investment of the Corporation's endowment funds.

3.4 Development Committee. This Committee shall be chaired by the Vice Chairman of the Board of Directors and shall meet at

least quarterly with the President and such other staff members of the Corporation as it deems necessary. The Committee, with the President, shall be responsible for preparation of the Corporation's annual development plan.

3.5 Board Development/Nomination Committee. This committee shall recommend nominees for officers and Directors to be elected by the Directors at the annual meeting and, when necessary, to be chosen to fill any vacancies. This committee shall be chaired by the Vice Chairperson of the Corporation and shall be comprised of five Directors.

3.6 Human Rights Committee. The Board shall appoint Directors to a Human Rights Committee as and when required by, and in compliance with, applicable governmental regulations.

ARTICLE IV

Officers and Agents

4.1 Number and Qualification. The offices and officers of the Corporation shall be a Chairperson, Vice Chairperson, Treasurer, Assistant Treasurer, Clerk, Assistant Clerk and such other offices and officers, if any, as the Board of Directors may establish and elect. The chief executive officer of the Corporation shall be a full time employee of the Corporation, and shall bear the title of President. With the approval of the Board, the most senior full time employee of each of the affiliated corporations of the Corporation, other than the President, shall each bear the title of Vice President. Neither the President nor the Vice-Presidents shall be officers for purposes of this Article IV. The Corporation may also have such

agents, if any, as the Board may appoint. The clerk shall be a resident of Massachusetts unless the Corporation has a resident agent duly appointed for purposes of service of process. A person may not hold more than one office at the same time. If required by the Board, any officer shall be bonded for the faithful performance of his/her duties in such amount and with such surety or sureties as shall be satisfactory to the Board.

4.2 Election. Those persons serving as the officers of the Worcester Area ARC, Inc. (f/k/a Worcester Area Association for Retarded Children, Inc.), during their service as such, shall hold the same positions with this Corporation.

4.3 Chairperson. The Chairperson shall be the chief presiding officer of the Corporation. The Chairperson shall keep himself/herself informed of the work of the committees set forth under Article III of these By-laws, and shall have general charge and supervision thereof. He/she shall advise and consult with the Corporation's staff as appropriate. The Chairperson shall preside at all meetings of the Board and shall have such other powers and duties as may be determined by the Board. The Chairperson is authorized to sign all checks of the Corporation. The Chairperson shall provide for the representation of the Corporation to the community.

4.4 Vice Chairperson. The Vice Chairperson shall have and may exercise all of the powers and duties of the Chairperson during the absence or disability of the Chairperson. The Vice Chairperson shall assist the Chairperson during his/her term and shall have such other powers and duties as may be delegated to him/her by the Board of Directors or these By-Laws.

4.5 Treasurer. The Treasurer shall have general responsibility for the financial operations and affairs of the Corporation. The Treasurer shall be responsible for the funds, securities and valuable papers of the Corporation. Under the supervision and oversight of the Treasurer, the day to day financial operations of the Corporation shall be conducted by, and under the supervision of, a full time salaried employee of the Corporation who shall have the title of Chief Financial Officer. The Treasurer shall have such other duties and powers as may be designated by the Board. The Treasurer is authorized to and shall sign all checks, provided, however, the Board may adopt alternative procedures for the signing of checks. The books and accounts shall at all reasonable times be open to the inspection of any member of the Board. The accounts shall be audited annually by an independent firm of certified public accountants. The Treasurer shall transfer all books, vouchers, accounts and duties to his/her successor at the end of his/her term of office.

4.6 Assistant Treasurer. In the absence or disability of the Treasurer, his powers and duties shall be performed by the Assistant Treasurer. The Assistant Treasurer shall have such other powers and perform such other duties as the Directors shall from time to time designate.

4.7 Clerk. The Clerk shall record and maintain all records of all proceedings of the Board, which book or records shall be kept within the Commonwealth at the principal office of the Corporation or at the office of its Clerk or of its resident

agent and shall be open at all reasonable times to the inspection of any member of the Board. Such book or books shall also contain records of all meetings of incorporators and the original, or attested copies, of the Articles of Organization and By-laws and the names of all Directors and the address of each. If the Clerk is absent from any meeting of the members or the Board, the Assistant Clerk or a temporary Clerk chosen at the meeting of the Board shall exercise the duties of the Clerk at the meeting.

4.8 Assistant Clerk. In the absence of the Clerk from any meeting of the Directors, the Assistant Clerk, if one be elected, shall perform the duties of the Clerk. The Assistant Clerk shall have such other powers and perform such other duties as the Directors may from time to time designate.

ARTICLE V

Advisory Board of Trustees

5.1 The Board of Directors will establish an Advisory Board of Trustees. The Advisory Board of Trustees shall be created for the purpose of enabling those interested in the activities of the Corporation and its affiliated corporations to contribute to the furtherance of its programs and, at the same time, the creation of such a Board will enable the Corporation to have the counsel and guidance of the leaders throughout the area served by the Corporation and its affiliated corporations. The Trustees shall be elected for a three-year term. Trustees may be re-elected for successive three-year periods.

5.2 The number of Advisory Trustees of the Corporation shall be not less than thirteen or not more than fifty, who shall

be elected so as to have one-third thereof, or as near a proportion as a division of the total number will permit, elected annually for a three year term. Directors of the Corporation shall serve, ex officio, as Trustees. The balance of the trustees shall be elected at the annual meeting of the Directors and each Trustee shall continue to hold office until his successor is elected and qualified. There shall be no residence qualifications required of Trustees.

5.3 Any vacancy occurring in the Board of Trustees for any cause may be filled by an affirmative vote of a majority of the Directors. A Trustee elected to fill a vacancy shall be elected for the unexpired term of the predecessor in office. A Trustee so elected shall hold office until his successor is duly elected and qualified.

5.4 The Board of Trustees shall serve in an advisory capacity to the Board of Director and will hold no governing responsibilities.

5.5 Meetings of the Board of Trustees, regular or special, may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors, provided, however, that the Board of Trustees shall meet at least two times a year including an annual meeting concurrent with the annual meeting of the Board of Directors.

ARTICLE VI

Senior Staff Employees of the Corporation

6.1 Unless and until changed by the Board of Directors of the Corporation, the day to day operations of the Corporation

shall be managed and supervised by the President, who shall be the chief executive officer of the Corporation, having the responsibilities described below. The President shall report directly to the Board of Directors, shall be hired by the Board and shall be a full-time, salaried employee of the Corporation.

6.2 The President of the Corporation shall be responsible for the general administrative and financial operations of the Corporation, including personnel. He/she shall: a) prepare income and expense budgets, and financial plans and forecasts of capital expenditures and cash flow; b) maintain supervision and control of, and follow-up systems concerned with management data and reports; c) maintain supervision and control of the Corporation's financial books, payrolls and records; d) timely file all local, state and federal reports and returns; e) maintain supervision and control over the Corporation's banking relationships, investment policies, purchases and expenses; f) be responsible for the supervision and direction of all employees of the Corporation; g) maintain appropriate insurance coverage for the Corporation; h) meet with and assist the Investment/Finance Committee as it may request; i) meet with and assist the Corporation's independent accountants; and j) assume such other responsibilities as the Board of Directors may direct from time to time.

ARTICLE VII

Execution of Documents

Except as the Board may generally or in particular cases authorize the execution thereof in some other manner, all deeds,

leases, transfers, contracts, bonds, notes, and other obligations made, accepted or endorsed by the Corporation shall be signed by both the Chairperson of the Board and the Treasurer.

Any recordable instrument purporting to effect an interest in real estate, executed in the name of the Corporation by two of its officers, of whom one is the Chairperson or the Vice Chairperson and the other is the Treasurer, shall be binding on the Corporation in favor of a purchaser or other person relying in good faith on such instrument notwithstanding any inconsistent provisions of the Articles of Organization, these By-laws, resolutions or votes of the Corporation.

ARTICLE VIII

Personal Liability

The Directors and officers of the Corporation will not be personally liable for any debt, liability or obligation of the Corporation. All persons, corporations or other entities extending credit to, contracting with, or having any claim against, the Corporation may look only to the funds and property of the Corporation for the payment of any such contract or claim, or for the payment of any debt, damages, judgment or decree, or of any money that may otherwise become due or payable to them from the Corporation. Nothing herein shall constitute Directors of the Corporation as partners for any purpose.

ARTICLE IX

Indemnification of Directors, Officers and Employees

9.1 Right to Indemnification. The Corporation may to the extent legally permissible and only to the extent that the status

of the Corporation as an organization exempt under Section 501(c)(3) of the Internal Revenue Code is not affected thereby, indemnify and reimburse out of the funds of the Corporation any person (or the personal representative of any person) who at any time serves or shall have served as a Director, officer or employee of the Corporation, or who serves or shall have served at its request as a Director, officer or employee of another organization in which it has an interest, whether or not in office at the time, against and for any and all claims and liabilities to which he/she may be or become subject by reason of such service, and against and for any and all expenses necessarily incurred in connection with the defense or reasonable settlement of any legal or administrative proceedings to which he/she is made a party by reason of such service, except with respect to any matter as to which he/she shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his/her action was in the best interests of the Corporation. In effecting such indemnity and reimbursement, the Directors of the Corporation may enter into such agreements and direct the officers of the Corporation to make such payment or payments and take such other action (including employment of counsel to defend against such claims and liabilities) as may in their judgment be reasonably necessary or desirable. Such indemnification or reimbursement shall not be deemed to exclude any other rights or privileges to which such person may be entitled.

9.2 Indemnification in Advance of Final Disposition.

Indemnification to the persons specified in Section 9.1 may include payment by the Corporation of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action-or-proceeding upon receipt of an undertaking by the person indemnified to repay such payment if he/she shall be adjudicated to be not entitled to indemnification under this by-law or under the laws of the Commonwealth of Massachusetts.

9.3 Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or other agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or other agent of another organization, in which it has an interest, against any liability incurred by him/her in any such capacity, or arising out of his/her status as such.

ARTICLE X

Personal Financial Interest

10.1 No person shall be disqualified from holding any office by reason of any financial interest in any concern doing business with the Corporation. In the absence of fraud, any Director or officer of the Corporation individually, or any individual having any financial interest in any concern in which any such Director or officer has any interest, may be a party to, or may be pecuniarily or otherwise interested in, any contract, transaction, or other act of the Corporation, and (1) such contract, transaction, or act shall not be in any way invalidated

or otherwise affected by that fact provided that the procedure set forth in 10.2 is complied with; (2) no such Director or officer shall be liable to account to the Corporation for any profit or benefit realized through any such contract, transaction, or act. Any such Director of the Corporation may not be counted in determining the existence of a quorum at any meeting of the Board or of any committee thereof which shall authorize any such contract, transaction, or act. The term "interest" shall include personal interest and interests as a Director, officer, stockholder, shareholder, partner, trustee, member or beneficiary of any concern; the term "concern" meaning any corporation, association, trust, partnership, firm, person, or other entity other than the Corporation.

10.2 In the event that a business relationship exists between a member of the Board or officer with the Corporation or any of its divisions, the following procedures will be undertaken so that a potential conflict of interest will be avoided:

a) Where the business relationship is one of the supply of a product or service with an annual cost of over \$25,000.00, and which, because of its nature, is obtainable at varying prices, the staff members responsible for the Corporation expenditure will seek competitive bids. The mechanics of competitive bidding will be established by operating policy of the Board of Directors.

b) During its annual deliberation of the Corporation's budget, the Board shall review such relationships.

c) The member of the Board or officer involved shall abstain from voting on all matters which include funds for this

relationship. Further restrictions, including a prohibition of presence and/or discussion by such person, may be imposed by the Board of Directors.

The intent of this provision is not to discourage business relationships as described above, but rather to encourage participation by creating an appropriate procedural mechanism for both the Director/officer and the Corporation.

ARTICLE XI

Limitation of Powers

No part of the assets of the Corporation and no part of any net earnings of the Corporation shall be divided among or inure to the benefit of any officer or Director of the Corporation or any private individual or be appropriated for any charitable purposes other than the purposes of the Corporation, as herein set forth, and no substantial part of the activities of the Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation except to the extent that the Corporation makes expenditures for purposes of influencing legislation in conformity with the requirements of Section 501(h) of the Internal Revenue Code, and the Corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office. It is intended that the Corporation shall not be a private foundation under Section 509(a) of the Internal Revenue Code, but rather that it be qualified under Section 501(c)(3) of the Code.

In the event, however, that the Corporation is a private foundation as that term is defined in Section 509 of the Internal

Revenue Code, then notwithstanding any other provisions of the Articles of Organization or these By-laws, the following provisions shall apply:

(1) The Board shall distribute the income for each taxable year at such time and in such manner as not to become subject to the tax on undistributed income imposed by Section 4942 of the Internal Revenue Code.

(2) The Board shall not engage in any act of self-dealing as defined in Section 4941(d) of the Internal Revenue Code, nor retain any excess business holdings as defined in Section 4943(c) of the Internal Revenue Code, nor make any investments in such manner as to incur tax liability under Section 4944 of the Internal Revenue Code, nor make any taxable expenditures as defined in Section 4945(d) of the Internal Revenue Code.

ARTICLE XII

Evidence of Authority

A Certificate by the Clerk as to any action taken by the Directors or any officer or representative of the Corporation shall, as to all who rely thereon in good faith, be conclusive evidence of such action.

ARTICLE XIII

Ratification

Any action taken on behalf of the Corporation by a Director or any officer or representative of the Corporation which requires authorization by the Board of Directors shall be deemed to have been duly authorized if subsequently ratified by the Board of Directors.

ARTICLE XIV

Dissolution

Upon the dissolution of the corporation, the Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the corporation, dispose of all of the assets of the Corporation to such organization or organizations as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code and its Regulations, as they now exist or may hereafter be amended which are created, and operated for nonprofit purposes similar to those of the Corporation. The Corporation's property shall not be conveyed to any organization created or operated for profit or to any individual for less than the fair market value of such property.

ARTICLE XV

Amendments

These By-Laws may be amended at any regular business meeting or special meeting of the Board at which a quorum is present by a majority vote of the Directors then in office, providing that all Directors have been notified of the proposed changes at least 60 days in advance of the meeting.