HOPE NETWORK AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2011 and 2010

BeeneGarter LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Hope Network and Affiliates
Grand Rapids, Michigan

We have audited the accompanying consolidated statements of financial position of Hope Network and Affiliates (the "Network") as of September 30, 2011 and 2010, and the related consolidated statements of changes in net assets, activities, and cash flows for the years then ended (the "consolidated financial statements"). These consolidated financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion based on our audits, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Network as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

56 Grandville Ave. SW
Suite 100
Grand Rapids, MI
49503-4036
616.235.5200 Phone
800.824.7882
616.235.5285 Fax
www.beenegarter.com

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2012, on our consideration of Hope Network and Affiliates' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Beene Garter LLP

January 25, 2012
Grand Rapids, Michigan

CONSOLIDATED FINANCIAL STATEMENTS

HOPE NETWORK AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,940,634	$ 12,678,577
Cash designated for bond payment	460,763	324,326
Accounts receivable, net of allowance for doubtful accounts of $1,729,019 and $1,311,759 at September 30, 2011 and 2010, respectively	14,853,686	11,455,909
Interest in net assets of Hope Network Foundation	556,282	521,260
Prepaid expenses and other assets	706,006	788,717
TOTAL CURRENT ASSETS	**28,517,371**	**25,768,789**
Property and equipment, net	52,503,476	53,251,121
OTHER ASSETS		
Investments in and receivables from unconsolidated affiliates	2,547,277	2,558,634
Deposits to reserves	3,880,769	3,209,369
Restricted cash	1,875,379	323,188
Investments	610,000	1,075,000
Bond issuance and financing costs, net of accumulated amortization of $574,877 and $534,115 at September 30, 2011 and 2010, respectively	292,089	332,852
Interest in net assets of Hope Network Foundation	1,102,000	1,166,172
Other	667,913	104,795
TOTAL OTHER ASSETS	**10,975,427**	**8,770,010**
TOTAL ASSETS	**$ 91,996,274**	**$ 87,789,920**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 3,636,494	$ 1,868,646
Current maturities of non-recourse debt	383,158	351,786
Accounts payable and advances	4,196,583	3,732,572
Accrued salaries, wages and related liabilities	6,745,466	6,206,362
TOTAL CURRENT LIABILITIES	**14,961,701**	**12,159,366**
Long-term debt, less current maturities	10,094,181	11,889,065
Obligation under interest rate swap	368,626	296,252
Non-recourse debt, less current maturities	6,626,350	6,672,863
Long-term pension liability and other non-current liabilities	12,620,249	8,013,790
TOTAL LIABILITIES	**44,671,107**	**39,031,336**
NET ASSETS		
Unrestricted	56,592,385	53,405,296
Minimum pension liability adjustment	(11,598,211)	(6,517,678)
Temporarily restricted	2,330,993	1,870,966
TOTAL NET ASSETS	**47,325,167**	**48,758,584**
TOTAL LIABILITIES AND NET ASSETS	**$ 91,996,274**	**$ 87,789,920**

See accompanying notes

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HOPE NETWORK AND AFFILIATES
Consolidated Statements of Changes in Net Assets
September 30, 2011 and 2010

	Unrestricted Net Assets						
	Service Affiliates	Housing Affiliates	Subtotal	Minimum Pension Liability Adjustment	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Net assets at October 1, 2009	**$ 39,916,871**	**$ 11,497,035**	**$ 51,413,906**	**$ (6,355,468)**	**$ 45,058,438**	**$ 2,024,922**	**$ 47,083,360**
Minimum pension liability adjustment	-	-	-	(162,210)	(162,210)	-	(162,210)
Acquisition of Insight	465,454	-	465,454	-	465,454	-	465,454
Change in net assets - 2010	1,337,090	188,846	1,525,936	-	1,525,936	(153,956)	1,371,980
Net assets at September 30, 2010	**$ 41,719,415**	**$ 11,685,881**	**$ 53,405,296**	**$ (6,517,678)**	**$ 46,887,618**	**$ 1,870,966**	**$ 48,758,584**
Minimum pension liability adjustment	-	-	-	(5,080,533)	(5,080,533)	-	(5,080,533)
Acquisition of Housing Plus	-	409,612	409,612	-	409,612	-	409,612
Inclusion of Hope Network Service Corporation	176,864	-	176,864	-	176,864	-	176,864
Intercompany net asset transfers	(163,532)	163,532	-	-	-	-	-
Change in net assets - 2011	2,416,680	183,933	2,600,613	-	2,600,613	460,027	3,060,640
Net assets at September 30, 2011	**$ 44,149,427**	**$ 12,442,958**	**$ 56,592,385**	**$ (11,598,211)**	**$ 44,994,174**	**$ 2,330,993**	**$ 47,325,167**

See accompanying notes

HOPE NETWORK AND AFFILIATES
Consolidated Statements of Activities
Year Ended September 30, 2011

	Unrestricted Net Assets				Temporarily Restricted Net Assets	Total
	Service Affiliates	Housing Affiliates	Eliminations	Total		
REVENUE AND SUPPORT						
Client fees	$ 91,960,707	$ -	$ -	$ 91,960,707	$ -	$ 91,960,707
Rent revenue	922,457	4,733,229	(557,604)	5,098,082	-	5,098,082
Production and projects	4,640,350	-	-	4,640,350	-	4,640,350
Other revenue	16,263,126	472,026	(12,216,387)	4,518,765	-	4,518,765
Investment income	64,391	19,373	-	83,764	-	83,764
TOTAL REVENUE AND SUPPORT	**113,851,031**	**5,224,628**	**(12,773,991)**	**106,301,668**	-	**106,301,668**
OPERATING EXPENSE						
Salaries, wages and benefits - staff	67,561,509	644,039	(1,211,069)	66,994,479	-	66,994,479
Salaries, wages and benefits - consumer	2,857,034	-	-	2,857,034	-	2,857,034
Occupancy	7,686,264	2,125,832	(583,157)	9,228,939	-	9,228,939
Insurance	976,163	143,848	-	1,120,011	-	1,120,011
Transportation	4,632,931	-	-	4,632,931	-	4,632,931
Program supplies and equipment	2,486,709	-	-	2,486,709	-	2,486,709
Dietary services	1,687,485	-	-	1,687,485	-	1,687,485
Professional and contracted services	10,909,420	535,759	(6,508,851)	4,936,328	-	4,936,328
Dues, travel and training	1,049,017	35,576	-	1,084,593	-	1,084,593
Administrative supplies and maintenance	2,320,991	61,417	-	2,382,408	-	2,382,408
Interest	831,520	495,131	(90,974)	1,235,677	-	1,235,677
Depreciation and amortization	3,793,610	860,607	-	4,654,217	-	4,654,217
Other	5,121,574	138,486	(4,379,940)	880,120	-	880,120
TOTAL OPERATING EXPENSE	**111,914,227**	**5,040,695**	**(12,773,991)**	**104,180,931**	-	**104,180,931**
OPERATING INCOME	**1,936,804**	**183,933**	-	**2,120,737**	-	**2,120,737**
OTHER INCOME (LOSS)						
Interest in loss of joint venture	(275,365)	-	-	(275,365)	-	(275,365)
Change in beneficial interest in assets held by Hope Network Foundation	(49,064)	-	-	(49,064)	-	(49,064)
Interest rate swap adjustment	(72,375)	-	-	(72,375)	-	(72,375)
Net periodic benefit cost	(804,388)	-	-	(804,388)	-	(804,388)
Impairment of property and equipment	(91,799)	-	-	(91,799)	-	(91,799)
Gain on disposal of property and equipment	33,356	-	-	33,356	-	33,356
Realized gain on investments in unconsolidated affiliates	1,666,367	-	-	1,666,367	-	1,666,367
Unrealized loss on investments in unconsolidated affiliates	(959,279)	-	-	(959,279)	-	(959,279)
TOTAL OTHER INCOME (LOSS), NET	**(552,547)**	-	-	**(552,547)**	-	**(552,547)**
CONTRIBUTION INCOME, NET						
Contributions - Hope Network Foundation	791,646	-	-	791,646	-	791,646
Contributions - other sources	69,003	-	-	69,003	1,130,613	1,199,616
Net assets released from temporary restrictions	670,586	-	-	670,586	(670,586)	-
Fundraising expense	(498,812)	-	-	(498,812)	-	(498,812)
TOTAL CONTRIBUTION INCOME, NET	**1,032,423**	-	-	**1,032,423**	**460,027**	**1,492,450**
CHANGE IN NET ASSETS	**$ 2,416,680**	**$ 183,933**	**$ -**	**$ 2,600,613**	**$ 460,027**	**$ 3,060,640**

See accompanying notes

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HOPE NETWORK AND AFFILIATES
Consolidated Statements of Activities
Year Ended September 30, 2010

	Unrestricted Net Assets				Temporarily Restricted Net Assets	
	Service Affiliates	Housing Affiliates	Eliminations	Total		Total
REVENUE AND SUPPORT						
Client fees	$ 83,528,056	$ -	$ -	$ 83,528,056	$ -	$ 83,528,056
Rent revenue	915,358	4,631,081	(541,248)	5,005,191	-	5,005,191
Production and projects	3,998,007	-	-	3,998,007	-	3,998,007
Other revenue	13,587,472	437,763	(10,489,760)	3,535,475	-	3,535,475
Investment income	84,044	15,534	-	99,578	-	99,578
TOTAL REVENUE AND SUPPORT	**102,112,937**	**5,084,378**	**(11,031,008)**	**96,166,307**	**-**	**96,166,307**
OPERATING EXPENSE						
Salaries, wages and benefits - staff	61,782,296	649,039	(1,213,042)	61,218,293	-	61,218,293
Salaries, wages and benefits - consumer	1,602,059	-	-	1,602,059	-	1,602,059
Occupancy	6,889,892	2,046,812	(717,586)	8,219,118	-	8,219,118
Insurance	806,829	157,811	-	964,640	-	964,640
Transportation	4,157,042	-	-	4,157,042	-	4,157,042
Program supplies and equipment	2,759,211	-	-	2,759,211	-	2,759,211
Dietary services	1,547,062	-	-	1,547,062	-	1,547,062
Professional and contracted services	10,306,622	523,382	(6,140,901)	4,689,103	-	4,689,103
Dues, travel and training	962,597	22,878	-	985,475	-	985,475
Administrative supplies and maintenance	1,959,145	70,030	-	2,029,175	-	2,029,175
Interest	798,315	514,975	(110,138)	1,203,152	-	1,203,152
Depreciation and amortization	3,351,761	830,232	-	4,181,993	-	4,181,993
Other	3,862,101	75,033	(2,849,341)	1,087,793	-	1,087,793
TOTAL OPERATING EXPENSE	**100,784,932**	**4,890,192**	**(11,031,008)**	**94,644,116**	**-**	**94,644,116**
OPERATING INCOME	**1,328,005**	**194,186**	**-**	**1,522,191**	**-**	**1,522,191**
OTHER INCOME (LOSS)						
Interest in loss of joint venture	(37,699)	-	-	(37,699)	-	(37,699)
Change in beneficial interest in assets held by Hope Network Foundation	54,110	-	-	54,110	-	54,110
Interest rate swap adjustment	(296,252)	-	-	(296,252)	-	(296,252)
Net periodic benefit cost	(778,505)	-	-	(778,505)	-	(778,505)
Impairment of property and equipment	(148,000)	-	-	(148,000)	-	(148,000)
Write off excess purchase price	(209,139)	-	-	(209,139)		(209,139)
Loss on disposal of property and equipment	(59,603)	(5,340)	-	(64,943)	-	(64,943)
TOTAL OTHER INCOME (LOSS), NET	**(1,475,088)**	**(5,340)**	**-**	**(1,480,428)**	**-**	**(1,480,428)**
CONTRIBUTION INCOME, NET						
Contributions - Hope Network Foundation	214,439	-	-	214,439	-	214,439
Contributions - other sources	397,758	-	-	397,758	1,167,754	1,565,512
Net assets released from temporary restrictions	1,321,710	-	-	1,321,710	(1,321,710)	-
Fundraising expense	(449,734)	-	-	(449,734)	-	(449,734)
TOTAL CONTRIBUTION INCOME, NET	**1,484,173**	**-**	**-**	**1,484,173**	**(153,956)**	**1,330,217**
CHANGE IN NET ASSETS	**$ 1,337,090**	**$ 188,846**	**$ -**	**$ 1,525,936**	**$ (153,956)**	**$ 1,371,980**

See accompanying notes

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HOPE NETWORK AND AFFILIATES
Consolidated Statements of Cash Flows
September 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,060,640	$ 1,371,980
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Contributions restricted for capital projects	-	(18,613)
Cash designated for bond payment	(136,437)	(33,998)
Non cash donation of software	-	(332,618)
Increase in allowance for doubtful accounts	417,260	319,880
Depreciation and amortization	4,654,217	4,181,993
Impairment of property and equipment	91,799	148,000
Interest in loss of joint venture	275,365	37,699
Realized gain on investments	(1,666,367)	-
Unrealized loss on investments	959,279	-
Change in beneficial interest in assets held by Hope Network Foundation	49,064	(54,110)
Interest rate swap adjustment	72,375	296,252
Net periodic benefit cost	804,388	778,505
Write off excess purchase price	-	209,139
(Gain) loss on disposal of property and equipment	(33,356)	64,943
Changes in operating assets and liabilities		
Accounts receivable	(1,864,027)	(1,219,144)
Interest in net assets of, and pledges receivable from Hope Network Foundation	8,720	31,490
Prepaid expenses and other assets	125,718	(28,305)
Accounts payable and advances	82,684	213,088
Accrued salaries, wages and related liabilities	(190,720)	(1,098,630)
Other non-current liabilities	(1,878,462)	160,374
NET CASH PROVIDED BY OPERATING ACTIVITIES	**4,832,140**	**5,027,925**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	396,794	86,968
Purchase of property and equipment	(2,797,439)	(4,152,590)
Purchase of investments	-	(100,000)
Sale of investments	945,716	63,850
Cash received in acquisition/inclusion of affiliates	354,062	43,652
Net increase in investments in and receivables from unconsolidated affiliates and other	(37,636)	(316,115)
Net increase in other net assets and beneficial interest in assets held by Hope Network Foundation	(28,634)	(25,084)
NET CASH USED BY INVESTING ACTIVITIES	**(1,167,137)**	**(4,399,319)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from contributions restricted for capital projects	-	312,823
Net (payments) borrowings on line of credit	(305,000)	935,000
Bond issue costs, net	-	(20,000)
Borrowings of long-term debt	450,000	-
Repayments of long-term debt	(1,928,411)	(2,601,097)
Payments on non-recourse debt	(353,430)	(327,705)
Payments on long term contracts	(468,318)	-
Deposits to reserves	(564,155)	(352,434)
Change in restricted cash	(1,233,632)	(35,197)
NET CASH USED BY FINANCING ACTIVITIES	**(4,402,946)**	**(2,088,610)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(737,943)**	**(1,460,004)**
Cash and Cash Equivalents at Beginning of Year	**12,678,577**	**14,138,581**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 11,940,634**	**$ 12,678,577**
SUPPLEMENTAL INFORMATION		
Noncash Activity:		
Provision for minimum pension liability	$ 5,080,533	$ 162,210
Purchase of property and equipment financed with accounts payable	60,913	(8,240)
Net cash received upon acquisition/inclusion of affiliates		
Accounts receivable	(1,951,010)	(729,238)
Other current assets	(17,712)	(33,144)
Property and equipment	(1,523,607)	(845,556)
Other Long Term Assets	(1,014,217)	-
Other current liabilities	1,416,151	349,986
Long term debt	1,789,663	835,650
Other non-current liabilities	1,068,318	-
Net assets	586,476	465,954
CASH RECEIVED FROM AQUSITION/INCLUSION OF AFFILIATES	**$ 354,062**	**$ 43,652**

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND CONSOLIDATION POLICY

Hope Network and Affiliates (collectively, the "Network") are not-for-profit corporations organized principally to provide a continuum of specialized care and comprehensive support services in the areas of clinical and residential programs as well as employment, community support, vocational, and transportation services to people in Michigan who have disabilities and/or disadvantages. The consolidated financial statements include the accounts of service affiliates and housing affiliates.

Service affiliates are those affiliates that provide some level of human services to consumers in the conduct of their respective programs and activities. The service affiliates include the accounts of Hope Network (also referred to as "HN Leadership Center" and "HN Corporate"); Hope Network Behavioral Health ("HNBHS" or "HN Behavioral Health"); Hope Network Southeast ("HN Southeast"); Hope Network Integrated Recovery ("HN Integrated Recovery"); Hope Network Rehabilitation Services ("HN Rehab Services"); Hope Network West Michigan ("HN West Michigan"); Hope Network Services Corporation ("Service Corp"); and Insight I, Inc., combined with Connexion, Inc.

Effective August 1, 2011, Hope Network acquired Alternative Community Living, Inc (d/b/a New Passages Behavioral Health and Rehabilitation Services) ("New Passages"), and its affiliate, Housing Plus Nonprofit Housing Corporation ("Housing Plus"), both not-for-profit corporations. In conjunction with the acquisition, Hope Network formed a new affiliate, Hope Institute for Research ("Research"), which has applied for not-for-profit status. New Passages provides and operates community-based supports and services for persons with psychiatric and developmental disabilities, primarily in central and southeastern Michigan. New Passages' operations generate approximately $22 million in annual revenues. The transaction was accounted for as an acquisition with assets and liabilities of New Passages recognized and measured as of the date of acquisition. The excess of the fair value of consideration transferred over the net amount of assets acquired less liabilities assumed, approximately $500,000, was recognized as goodwill and included in other assets in the accompanying 2011 consolidated statement of financial position. The assets and liabilities of Housing Plus were carried forward at net book value. Housing Plus has annual revenues of less than $100,000.

Housing affiliates are those affiliates that own real estate and do not provide human services connected to the real estate operations. Typically, these affiliates have U.S. Department of Housing and Urban Development ("HUD") or Michigan State Housing Development Authority ("MSHDA") loans, grants or subsidies that aid in their operation. The housing affiliates include: Metropolitan Alternative Housing Corporation ("Metropolitan Apartments"); MAHC II ("Walker Village"); MAHC III ("Leonard Pines"); MAHC IV ("Village Drive"); Birchgrove Non Profit Housing Corporation ("Birchgrove"); Hillview Townhouses; Lilac Lane NPHC ("Lilac Lane"); Wellington NPHC ("Wellington Court"); Brentwood NPHC ("Brentwood"); Three Rivers Alternative Housing Corporation ("River Country"); Big Rapids NPHC; ("Water Tower Place"); Kalamazoo NPHC ("Milham Parkside"); Hill House Apartments, Inc. ("Hill House"); Battle Creek NPHC ("The Meadows"); Masquignon NPHC; Twin Lakes NPHC ("Twin Lakes"); Breton NPHC ("Breton"); Carlton NPHC ("Carlton"); Gaines NPHC ("Gaines"); Lakeview NPHC ("Lakeview"); Berrien Woods NPHC ("Berrien Woods"); Housing Plus; and Synergy Non-Profit Housing Corporation ("Synergy").

Hope Network is the sole voting member of the affiliates.

All significant accounts and transactions between the affiliates have been eliminated in consolidation.

ACCOUNTING POLICIES

Basis of Accounting - The Network maintains its accounting records using the accrual basis of accounting.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimation process required to prepare the Network's financial statements and accompanying footnotes requires assumptions to be made about future events and conditions, and as such, is inherently subjective and uncertain. Actual results could differ materially from those estimates.

Material estimates particularly susceptible to change in the near term include the allowance for doubtful accounts and recovery of long-lived assets. Management has analyzed individual accounts receivable and evaluated the allowance based upon its knowledge and experience with various funding sources and other relevant information. In addition, management has reviewed the carrying value of certain long-lived assets, primarily land and buildings held for sale or not currently used in operations, as necessary given specific circumstances, based upon estimated future cash inflows of such assets from real estate transactions. Management believes that actual results will not differ materially from the estimates included in the accompanying financial statements.

Cash and Cash Equivalents generally include demand and time deposits (including certificates of deposit) with maturities of three months or less when purchased. The Network maintains cash at several financial institutions. The Federal Deposit Insurance Corporation insures deposits at these institutions. From time to time, the Network's cash balances may exceed the federally insured limits.

Receivables consist primarily of accounts receivable for services provided to consumers and other third-parties. Unconditional pledges made to the Hope Network Foundation ("Foundation") on behalf of Hope Network and Affiliates are recognized as revenue to the Network in the period the pledge is made and as assets, decreases of liabilities or expenses depending on the form of the benefits to be received. Conditional pledges are recognized when the conditions upon which they depend are substantially met.

Receivables are stated at unpaid balances, less allowances for doubtful accounts and pledges. The Network provides for potential losses on receivables using the allowance method. The allowance is determined by management based on experience, third-party contracts, and other circumstances, which may affect the ability of consumers and other third-parties to meet their obligations. The potential uncollectible amounts are recorded as an expense and an increase to the allowance. Balances that are still outstanding after management has exhausted reasonable collection efforts are written off through a decrease to the allowance and a decrease to accounts receivable.

Property and Equipment are stated at cost, if purchased. Donations of property and equipment are recorded as support at estimated fair value at the time received. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Network reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Network follows the policy of capitalizing property and equipment purchases in excess of $3,000. The Network also typically capitalizes qualifying assets purchased in larger quantities, or as part of a larger project, even though such assets may not meet the capitalization threshold individually.

Certain transportation assets (primarily vehicles) received from the Michigan Department of Transportation ("MDOT") are restricted as to use and must be returned to MDOT at the conclusion of their useful lives. Certain other property and equipment acquired through funding provided by local community mental health ("CMH") boards are also restricted as to use in CMH-funded programs, and may need to be returned to the CMH boards in the event of contract termination. CMH-restricted property and equipment held by the Network are fully depreciated.

Depreciation is computed over the estimated useful lives of the respective assets (three to seven years for equipment and fifteen to forty years for buildings and improvements) using the straight-line method. Leasehold improvements are depreciated over estimated useful lives, not to exceed the life of the respective lease. Upon sale or retirement, the cost and related accumulated depreciation or amortization is eliminated from the respective accounts, and the resulting gain or loss (if any) is included in the statement of activities. Depreciation expense related to property and equipment was approximately $4,613,000 and $4,156,000 for the years ended September 30, 2011 and 2010, respectively.

Long-Lived Assets - The Network reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any such provision for impairment is reflected in the consolidated statement of activities in other income (loss), as necessary. There was a provision for impairment of approximately $90,000 recorded during 2011 and $148,000 recorded in 2010.

Investments in Unconsolidated Affiliates - As discussed in Note 11, the Network applies the equity method of accounting for its investments in Hope/Spectrum Health CCG and Autism Services Group, LLC, joint ventures with external parties, in which it has the ability to exercise significant influence regarding operating and financial policies. The interest in Autism Services Group, LLC was sold during the year ended September 30, 2011.

Investments - The Network maintains investments primarily in the form of short-term, highly liquid marketable securities at various financial institutions. Investments held at these financial institutions may be partially uninsured. The marketable securities are recorded at fair value, which approximated cost at September 30, 2011 and 2010. Fair value was determined using quoted market prices for specific instruments owned or for similar securities and other relevant information generated by market transactions. See Note 3 for comments regarding fair value measurements.

Bond Issuance and Financing Costs are recorded at cost and amortized over the lives of the respective debt instruments. Amortization expense related to such costs was approximately $40,800 and $25,500 for the years ended September 30, 2011 and 2010, respectively.

Interest in Net Assets of Hope Network Foundation - The Network holds an exclusive interest in certain assets held by the Foundation, including cash, pledges receivable and a beneficial interest in certain investments. The investments, including accumulated earnings and investment growth, are designated to fund Network programs. The beneficial interest is recorded at fair value, determined by using quoted market prices for specific instruments owned or for similar securities and other relevant information generated by market transactions. Gains and losses in the underlying investments are recorded as changes in beneficial interest in the accompanying consolidated statements of activities of the Network. See Note 5 for comments regarding fair value measurements.

Derivative Instruments - The Network uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. Material gain or loss on the effective portion of the hedge is included in the consolidated statement of activities. The Network documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Network's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to a fixed rate. The Network does not use derivative instruments for speculative purposes.

Net Assets and changes therein are classified and reported as follows:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by specified events and/or the passage of time. Net assets are temporarily restricted for certain projects or programs.
- Permanently restricted net assets - net assets that are permanently restricted by donor-imposed stipulations that are not released except by the donor. The Network has no permanently restricted net assets.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Certain restricted assets (primarily vehicles and related equipment provided to HN West Michigan from MDOT) are considered contributions to the transportation program, and are reported within temporarily restricted net assets. As such assets are depreciated over their expected useful lives, equivalent amounts are considered released from restrictions and reported as reclassifications from temporarily restricted net assets to unrestricted net assets. The unamortized amount of temporarily restricted net assets related to these transactions totaled approximately $2,194,000 and $1,544,000 at September 30, 2011 and 2010, respectively.

Revenues, Contributions and Investment Income are reported as follows:

- Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. CMH and other contract revenues are recognized when services are rendered. Grant revenues are recognized at the time reimbursable expenses are incurred. Revenues from services to consumers are recorded at the estimated net realizable amounts from individuals, third-party payers and others, and are recognized when services are rendered. Investment income, including gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.
- Contributions, including unconditional pledges, are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restriction. The Network has elected to treat contributions that are temporarily restricted for program purposes as unrestricted since the related expenditures occur very soon after receipt of the contribution and the restrictions are typically very broad in nature.
- All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions of assets other than cash are recorded at estimated fair value.

Expenses are reported as decreases in unrestricted net assets. U.S. generally accepted accounting principles require expenses of not-for-profit organizations to be presented in the statement of activities or the notes to the financial statements functionally (i.e., by the nature of the activity). The Network presents expenses in the consolidated statements of activities by type of expense (i.e., "natural" classification). Total expenses by function for the years ended September 30, 2011 and 2010, are as follows:

	2011	**2010**
Program services:		
Residential services	$ 59,678,473	$ 54,585,528
Employment and training services	19,550,698	19,302,008
Rehabilitation services	14,510,603	12,065,777
Transportation services	4,881,456	4,149,835
Total Program Services	**98,621,230**	**90,103,148**
Support services: Management and general	5,559,701	4,540,968
Total Operating Expense	**104,180,931**	**94,644,116**
Fundraising	498,812	449,734
Total Expenses	**$ 104,679,743**	**$ 95,093,850**

Income Taxes - The Internal Revenue Service has recognized Hope Network and its affiliates as organizations described in Internal Revenue Code ("IRC") Sections 501(c)(3), 501(c)(2), or 501(c)(4). As such, the entities are exempt from federal income taxes.

Accounting for Uncertainty for Income Taxes – The Network follows Financial Accounting Standards Board (FASB) Codification Section 740-10 provisions which clarify the accounting and reporting for uncertainties in income tax law. The provisions prescribe a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. With limited exceptions, the Network is no longer subject to audits by federal authorities for the years prior to 2008.

Reclassifications – Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

Subsequent Events - Management has evaluated significant events and transactions subsequent to September 30, 2011, for potential recognition or disclosure in these financial statements. The evaluation was performed through January 25, 2012, the date the financial statements were available for issuance. See discussion in Note 14.

NOTE 2 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	2011	2010
Land and improvements	$ 9,151,104	$ 9,251,741
Buildings and improvements	73,872,797	72,564,969
Leasehold improvements	801,334	779,911
Machinery and equipment	2,000,139	2,561,202
Office furniture and equipment	4,714,141	7,555,411
Vehicles and related equipment	7,669,920	6,995,491
Construction in progress	60,912	184,189
	98,270,347	**99,892,914**
Less accumulated depreciation	(45,766,871)	(46,641,793)
Property and equipment, net	**$ 52,503,476**	**$ 53,251,121**

Property and equipment includes the net book value of land and buildings held for sale of approximately $361,000 at September 30, 2010. There were no properties held for sale at September 30, 2011. In addition, property and equipment includes the net book value of land and buildings that are idle or not currently used in operations of approximately $664,000 and $855,000 at September 30, 2011 and 2010, respectively. Management believes that the fair value of such assets does not materially differ from the recorded values.

NOTE 3 - INVESTMENTS

Fair value of investments held as of September 30, 2011 and 2010 are as follows:

	2011	2010
Bonds	$ 610,000	$ 1,075,000
Total Investments	**$ 610,000**	**$ 1,075,000**

The investment earnings and/or losses of the investments held by Hope Network are included as revenue or expense in the accompanying consolidated statements of activities. The cost of the investments approximates fair value at September 30, 2011 and 2010.

Fair Value Measurements

Hope Network follows Financial Accounting Standards Board Codification "Fair Value Measurements". This guidance establishes 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 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under this framework are as follows:

Level 1 unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

Level 3 significant unobservable inputs which may include the Hope Network's own assumptions in determining fair value

The fair value measurement level of the asset or liability 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 should 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:

Bonds: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Hope Network 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 following table sets forth by level, within the fair value hierarchy, the Network's investments reported at fair value as of September 30, 2011 and 2010:

		2011	
	Level 1	Level 2	**Total**
Bonds	**$ -**	**$ 610,000**	**$ 610,000**

		2010	
	Level 1	Level 2	**Total**
Bonds	**$ -**	**$ 1,075,000**	**$ 1,075,000**

Hope Network and Affiliates, including the Foundation (See Note 5), hold certain investment securities which are exposed to various risks such as fluctuation in interest rates, the securities market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term.

NOTE 4 - DEPOSITS TO RESERVES

The housing affiliates have restricted cash deposits which are required by HUD. Monthly deposits are made for replacement reserve, property insurance, and property tax, where applicable. The HUD regulatory agreement requires aggregate monthly deposits of $40,800 to the replacement reserve accounts. Also, residual receipts realized from operations must be deposited annually into a residual receipts account. Funds may be withdrawn for various capital improvements or emergency situations with written approval from HUD. In some instances, HUD may utilize these funds to supplant HUD's rental subsidies or fund other HUD obligations to the housing affiliates.

NOTE 5 - INTEREST IN NET ASSETS OF HOPE NETWORK FOUNDATION

As discussed in Note 1, the Network has an interest in net assets of Hope Network Foundation. The interest is recorded at fair value, is categorized within Level 3 of the fair value hierarchy, and, as of September 30, 2011 and 2010, consists of the following:

	2011	2010
Interest in net assets of Hope Network Foundation, current		
Cash and other net assets	$ 492,082	$ 513,070
Pledges receivable, current	64,200	8,190
	556,282	**521,260**
Interest in net assets of Hope Network Foundation, long term		
Investments, named funds	169,226	173,018
Pledges receivable, long term	4,500	48,242
	173,726	**221,260**
Beneficial interest in assets held by Hope Network Foundation	928,274	944,912
	$ 1,658,282	**$ 1,687,432**

Pledges receivable from Hope Network Foundation included above are anticipated to be collected as follows:

	2011	2010
Receivable in less than one year	$ 68,900	$ 8,200
Receivable in one to five years	5,000	53,084
	73,900	**61,284**
Less allowance for doubtful pledges	(5,200)	(4,852)
Net Pledges Receivable	**$ 68,700**	**$ 56,432**

Pledges receivable are recorded at the net present value of estimated future cash flows. Given the short-term nature of the majority of Foundation pledges receivable, and the very low interest rate environment, management has determined that any applicable discount would be immaterial. Management has assessed the collectability of these pledges and provided for any doubtful collections as expense within the applicable financial statements.

Following is a reconciliation of activity for the years ended September 30, 2011 and 2010, for the interest in assets of the Foundation:

	2011	2010
Balance - Beginning of year	$ 1,687,432	$ 1,933,935
Investment income from Hope Network Foundation	28,634	25,084
Change in cash and other net assets	(20,988)	(69,464)
Net pledges received	12,268	(256,233)
Change in beneficial interest in assets held by Hope Network Foundation	(49,064)	54,110
	$ 1,658,282	$ 1,687,432

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following as of September 30:

	2011	2010
Program facilities mortgage notes, bonds and building capital lease obligations payable	$ 10,223,636	$ 9,878,805
Administrative facilities mortgage notes and bonds payable	3,485,635	3,705,293
Other, including equipment and vehicle capital leases	21,404	173,613
Total	**13,730,675**	**13,757,711**
Less current maturities	(3,636,494)	(1,868,646)
Total long-term debt	**$ 10,094,181**	**$ 11,889,065**

Interest on such debt is at rates ranging from 0% to 7.5% per annum. Cash paid for interest on debt classified as long-term, non-recourse debt (see Note 7), and bank lines of credit was approximately $925,000 and $822,000 during the years ended September 30, 2011 and 2010, respectively.

Future maturities of long-term debt for the fiscal years ending September 30 are as follows:

2012	$ 3,636,494
2013	1,864,351
2014	555,054
2015	568,214
2016	1,141,836
Thereafter	5,964,726
Total	**$ 13,730,675**

The Network has a $10,000,000 bond issue that was utilized to refinance debt on certain facilities of Hope Network. These Series 1998B bonds carry a fixed interest rate of 5.125% on the balance outstanding of $2,260,000 at September 30, 2011. The bonds mature in September 2013.

HN West Michigan, HN Rehab. Services and Hope/Spectrum Health CC (the "Obligors") jointly have a $9,610,000 bond issue with Michigan Strategic Fund which was retained to finance the purchase of new facilities as well as to refinance debt on other facilities. The bond has a variable interest rate of not more than 10% (.38 % at September 30, 2011) and matures in April 2030. As of September 30, 2011, approximately $1,286,000 of the $8,090,000 outstanding was an obligation of Hope/Spectrum Health CC. During 2010, to hedge against the financial exposure tied to movements in interest rates, the Obligors entered into an interest rate swap agreement which effectively converts the variable rate to a 2.78% fixed rate for $4 million of the bonds. The swap is a separate contract with a ten year maturity. The value of the swap instrument will fluctuate up or down based upon movements in interest rates. If the swap contract were to be cancelled prior to maturity, the Obligors would realize a gain or loss depending on the current value of the swap instrument. Based upon the estimated fair value of the swap contract at September 30, 2011, early termination would result in a loss of approximately $437,000. This amount, less $68,000 related to Hope/Spectrum Health CC, has been recorded as a non-current liability as of September 30, 2011, in the consolidated statement of financial position.

HN Behavioral Health has a $1,865,000 bond issue primarily to fund the purchase and renovation of property. The bond carries a variable interest rate of 1.65% on the balance outstanding of $720,000 at September 30, 2011. The bond matures in June 2016.

Hope Network has total available bank lines of credit in the amount of $6,850,000, which are due upon written notification from the bank. Hope Network had total borrowings outstanding under these lines of credit of $1,045,000 as of September 30, 2011, and $1,150,000 as of September 30, 2010, which are included in accounts payables and advances. Borrowings under these lines of credit bear interest that ranges from the bank's LIBOR rate (.239% at September 30, 2011) plus 2% to Prime Rate (3.25% at September 30, 2011) plus 1%. One of the lines of credit is collateralized by real estate of a certain affiliate.

Long-term debt is collateralized by substantially all real and personal property of the Network. The terms of the debt agreements, including lines of credit, also impose certain covenants, of which the most restrictive include requirements that unrestricted net assets, as defined, cannot be less than $41,000,000, the ratio of debt to unrestricted net assets, as defined, cannot exceed 2.5 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0 be maintained, and additional indebtedness shall not exceed $750,000 with lenders other than the primary lender without written permission of the primary lender. HN Behavioral Health is required to maintain fixed charge coverage, as defined, of not less that 1.2 to 1.0, and funded debt, as defined, to EBITDA of not more than 3.0 to 1.0. Management believes that the Network is in compliance with these covenants at September 30, 2011. Cash deposits classified as designated for bond payment on the accompanying consolidated statements of financial position consist primarily of funds earmarked for debt service.

NOTE 7 - NON-RECOURSE DEBT

Non-recourse debt consists of the following at September 30:

	2011	2010
Mortgages on HUD subsidized apartments	$ 7,009,508	$ 7,024,649
Less current maturities	(383,158)	(351,786)
Total	$ 6,626,350	$ 6,672,863

Interest on such debt is at rates ranging from 0% to 9.25% per annum, with maturity dates ranging from August 2012 through September 2042. Future maturities of non-recourse debt for the fiscal years ending September 30, are as follows:

2012	$ 383,158
2013	360,356
2014	253,839
2015	148,563
2016	159,410
Thereafter	5,704,182
Total	$ 7,009,508

Housing corporations are established as single asset corporations. They hold the above mortgages and related assets. The apartment complexes and other residential buildings are pledged as collateral for the notes with no recourse to the remaining Network.

NOTE 8 - LEASES

Operating Leases:

The Network has entered into various noncancelable lease agreements for facilities, vehicles and equipment that have been accounted for as operating leases. Rent expense under such agreements was approximately $2,438,000 and $1,950,000 for the years ended September 30, 2011 and 2010, respectively.

At September 30, 2011, future minimum rental commitments under such operating lease agreements for the next five years are as follows:

2012	$ 1,344,954
2013	1,093,980
2014	445,773
2015	263,332
2016	77,280
Total	$ 3,225,319

Capital Lease:

HN Behavioral Health is the lessee of the West Lake intensive residential facility under a capital lease agreement that expires in fiscal 2012. The assets under capital lease consist of land and buildings and were recorded at appraised value at the inception of the lease of $2,500,000. The assets are depreciated over the estimated productive lives and such expense is included in depreciation expense in the accompanying consolidated statements of activities. The remaining obligation under this capital lease as of September 30, 2011, is included as part of current maturities of long-term debt to be paid in fiscal 2012 (see Note 6.).

Interest on the capital lease is recorded at 5%, a rate imputed based on the Network's incremental borrowing rate at the inception of the lease.

NOTE 9 - RETIREMENT PLANS

Retirement benefits are provided to substantially all hourly and salaried employees of HN Corporate, HN Behavioral Health, HN Southeast, HN Integrated Recovery, HN Rehab Services, HN West Michigan, and Insight.

A defined benefit pension plan provides for monthly benefits based on years of credited service. Effective January 2005, the Network elected to freeze its defined benefit pension plan by enacting a plan curtailment. Accordingly, no future benefits will accrue to existing participants for additional years of service or compensation adjustments. The Network will continue to fund the plan to the extent necessary to settle retirement obligations earned by existing participants.

The following table sets forth the status of the defined benefit pension plan at September 30, 2011 and 2010:

	2011	2010
Projected benefit obligation	$ 24,187,293	$ 19,340,404
Pension assets at fair value	11,804,183	12,102,485
Unfunded projected benefit obligation (projected plan obligations in excess of plan assets)	**12,383,110**	**7,237,919**
Unrecognized loss	(11,550,655)	(6,458,509)
Net prior service cost	(47,557)	(59,170)
Additional liability recognized under the minimum liability provisions	11,598,211	6,517,678
Accrued pension liability	**12,383,109**	**7,237,918**
Current portion	(1,262,078)	(330,034)
Long-term accrued pension liability	**$ 11,121,031**	**$ 6,907,884**

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.0% and 5.5% as of September 30, 2011 and 2010, respectively. Due to plan curtailment, no provision for salary increases in current or future years is necessary. The assumed long-term rate of return on assets was 7.0% and 7.5% as of September 30, 2011 and 2010, respectively. Plan assets are invested primarily in common stocks, common stock mutual funds and ETFs (47.4%), bonds and bond mutual funds (29.7%), cash and cash equivalents (11.4%) and other (11.5%).

The Network has recorded a minimum pension liability adjustment as a result of the underfunded status of the plan. The minimum liability is equal to the excess of the accumulated benefit obligation over plan assets and accrued amounts previously recorded. The remaining portion is recorded as a reduction in net assets of $11,598,211 and $6,517,678 as of September 30, 2011 and 2010, respectively. The current portion of the accrued pension liability is included in accrued salaries, wages and related liabilities, and the long-term portion is included in long-term pension liability and other non-current liabilities in the accompanying consolidated statements of financial position.

The changes in plan assets for the years ended September 30, are as follows:

	2011	2010
Fair value of plan assets, beginning of year	$ 12,102,485	$ 11,511,832
Actual return on plan assets	(238,247)	1,051,164
Employer contributions	739,730	210,716
Benefits paid	(580,370)	(520,664)
Administrative expenses paid	(219,415)	(150,563)
Fair value of plan assets, end of year	**$ 11,804,183**	**$ 12,102,485**

The following is a summary of net pension expense recognized for the plan for the years ended September 30:

	2011	2010
Interest cost on projected benefit obligation	$ 1,046,392	$ 976,669
Expected return on plan assets	(892,638)	(846,788)
Net amortization and deferral	11,613	11,613
Net loss amortization	639,021	637,011
Net pension expense	**$ 804,388**	**$ 778,505**

Expected benefit payments for the next ten years (ending September 30) are as follows:

2012	$ 812,834
2013	883,531
2014	941,168
2015	1,032,461
2016	1,094,704
2017 through 2021	6,552,831

The Network offers a 403(b) defined contribution retirement plan to its eligible employees who meet minimum age and service requirements. Employees can elect to contribute to their own accounts. The Network provides a match of 35 to 50 percent of the employee contribution, depending on years of service, up to a maximum of 6 percent of compensation. The provision for such matching contributions was approximately $330,000 and $304,000 for fiscal years 2011 and 2010, respectively. Additional employer contributions are at the discretion of the board. The provision for such discretionary contributions was approximately $713,000 and $662,000 for calendar years 2011 and 2010, respectively, to be paid in fiscal years 2012 and 2011, respectively.

Insight offers a 401(k) defined contribution retirement plan to its full-time employees, which allows participants to make contributions to their accounts. Insight may also contribute to the plan annually based on certain criteria, as defined by the plan. No employer contributions were made to the Insight 401(k) plan during fiscal years 2011 or 2010.

Effective January 2005, management determined that a select group of long-term staff over age 45 was to be most adversely affected by the defined benefit pension plan curtailment. Accordingly, this group of staff is to receive a non-discretionary deposit into their 403(b) accounts annually for 10 years provided that they remain active employees of Hope Network. Payments began in 2006; the remaining liability of $371,000 is provided for in the accompanying statement of financial position as of September 30, 2011.

NOTE 10 - CAPITAL ADVANCES - HUD

Hope Network has seven housing affiliates (Village Drive, River Country, Water Tower Place, Milham Parkside, The Meadows, Masquignon, and Twin Lakes) that have drawn funds from HUD totaling $7,565,300 at September 30, 2011 and 2010, against capital advance agreements under Section 811 of the Cranston-Gonzalez National Affordable Housing Act. The advances bear no interest and do not require repayment so long as the housing remains available to eligible low-income and disabled individuals and families for a period of 40 years ending from 2034 to 2042. Since the capital advance funds have been spent in compliance with the agreement, they are classified as unrestricted net assets in the consolidated statements of financial position. Each advance is secured by a mortgage on the land and buildings of the affiliate.

The Network also has four housing affiliates (Hillview Townhouses, Lilac Lane, Wellington Court, Brentwood) that have received grants of $7,821,277 as of September 30, 2011 and 2010, from HUD pursuant to the Low-Income Housing Preservation and Resident Homeownership Act of 1990 ("LIHPRHA"). The grants were for substantial rehabilitation, transfer preservation equity, transaction costs and replacement reserve funding associated with the transfer of the projects. These affiliates must carry out their grant activities in compliance with LIHPRHA, the regulations, and terms of its plan of action. Also, these projects could not become affiliated with or transfer property to a non-priority purchaser for a period of ten years from the date of the grant. This restriction has expired. The grants are included in unrestricted net assets in the consolidated statements of financial position.

NOTE 11 - UNCONSOLIDATED AFFILIATES

Hope Network is a 50% shareholder in Hope/Spectrum Health CCG, a joint venture with Spectrum Health Continuing Care Group. The joint venture, which provides rehabilitation and residential services, was started in late 1996. The investment is accounted for using the equity method, whereby Hope Network's share of the joint venture's operating income is included in the consolidated statements of activities. The consolidated statements of financial position include Hope Network's equity in the joint venture within investments in unconsolidated affiliates. Hope Network's share of the joint venture's operating income for the years ended September 30, 2011 and 2010, was approximately $124,000 and $170,000 respectively. Assets and liabilities of the joint venture were approximately $6,437,000 and $1,969,000, respectively, at September 30, 2011, and $6,590,000 and $2,370,000, respectively, at September 30, 2010.

Hope Network is the general partner in two partnerships that own two apartment buildings, 54th Street Apartment Ltd. I and II. Hope Network owns 1% of each partnership. The facilities were partially funded through the sale of tax credits. Total assets and liabilities of these partnerships were approximately $404,000 and $482,000, respectively, at September 30, 2011, and $430,000 and $490,000, respectively, at September 30, 2010.

Hope Network owned membership interests of Autism Services Group, LLC (ASG), a New Jersey limited liability company formed in 2010 to administer autism spectrum disorder (ASD) and other developmental disability (DD) services and benefits on behalf of health plans, employers and other purchasers of ASD and DD services. The investment was accounted for using the equity method, whereby Hope Network's share of ASG's operating income or loss is included in the consolidated statements of activities. Hope Network's share of ASG's operating loss during fiscal 2011 was approximately $400,000 and approximately $210,000 during fiscal 2010. During 2011, ASG was acquired by Beacon Health Holdings, LLC (Beacon), an unrelated third party. As part of this acquisition, Hope Network elected to sell one third of its ASG membership units for approximately $480,000, and convert two thirds of its ASG membership units into a new corporation, ASG Rollover Holdings, LLC (Rollover), whose sole purpose is the holding of equity interests in Beacon. Hope Network owns approximately 32% of Rollover as of September 30, 2011, and carries this investment at $0 on the consolidated balance sheet due to the inability to determine future recoverability. Hope Network recognized approximately $1,666,000 as realized gain from the sale and conversion of its ASG membership units, and recorded an investment reserve of $960,000 as an unrealized loss, both which are accounted for in other income (loss) in the accompanying 2011 consolidated statement of activities.

Hope Network Foundation, a nonprofit entity under IRC Section 501(c)(3), is the sole entity responsible for raising, receiving and distributing contributions to Hope Network and Affiliates. The Foundation's governing board consists of a minimum of nine members, three of which are appointed by Hope Network. The Foundation's bylaws restrict the conduct of its fundraising activities to be exclusively for Hope Network and affiliates; therefore, the Network has recorded its interest in the net assets of this financially-interrelated organization. Such interests have been presented in the accompanying statements of financial position and include items such as pledges, investments and other net assets. Amounts owed to the Network by the Foundation were approximately $1,658,000 and $1,687,000 at September 30, 2011 and 2010, respectively. In exchange for the services provided, the Foundation charges a fundraising fee to the Network based on prearranged amounts. The Network also provides clerical and management services to support the efforts of the Foundation.

NOTE 12 - CONTINGENCIES

The Network is exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Network's financial position primarily due to insurance coverage and the expectation that other third-parties will share in any liabilities that may arise related to these claims. As such, no provision for loss has been made in the accompanying consolidated financial statements; although, some provision has been made for the Network's deductibles in certain asserted cases.

Hope Network and Affiliates participate in federal grant programs. The programs are subject to program and Single Audit Act compliance. The audits of the programs for September 30, 2011 and 2010, have been conducted and various program and Single Audit reports have been issued. However, the grantors have not yet accepted the compliance audit reports for the year ended September 30, 2011. The amount of expenditures if any, which may be disallowed by the granting agencies cannot be determined at this time, although Hope Network and Affiliates expect such amounts, if any, to be immaterial.

NOTE 13 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The housing affiliates operate in a heavily regulated environment and are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD and MSHDA. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the regulatory agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

A significant portion of the revenue earned by the service affiliates results from contracts with local community mental health boards. During the years ended September 30, 2011 and 2010, services were provided by the Network under contract to various county CMH boards, including work services, activity services, supported employment, residential services and transportation services.

Revenues under contracts with the various county CMH boards were approximately $52 million and $47 million for the years ended September 30, 2011 and 2010, respectively. This represents approximately 49% of consolidated unrestricted revenue for each fiscal year. Approximately $27 million and $26 million of such revenue relates to the Network180 for the years ended September 30, 2011 and 2010, respectively.

The Network, which operates exclusively in the State of Michigan, receives a substantial portion of its funding and support from CMH, HUD, MSHDA, and MDOT fees, loans, grants and subsidies. While most of the arrangements under which the Network receives funding are for multiple years, certain of these arrangements are one year contracts that are renewed annually. Due to uncertainties associated with the current economic conditions in the United States and the State of Michigan, specifically future federal and state governmental appropriations, the continuation of funding from these sources may be impacted.

Approximately 20% of the Network's consolidated unrestricted revenue is earned through clinical and residential rehabilitation services to consumers with automobile insurance coverage, essentially programs of HN Rehab Services. Legislation has been introduced in the State of Michigan House of Representatives to change Michigan's Auto No-Fault insurance regulations. If legislation is eventually enacted which substantially changes existing Michigan Auto No-Fault regulations, the Network's revenue and profitability could be significantly negatively impacted.

While the Network is not aware of any specific intention to do so, if governmental funding of the Network's services was significantly decreased or eliminated, or if auto insurance funding of the Network's rehabilitation services was significantly decreased, the Network would need to substantially reduce service offerings and eliminate costs and/or find alternative funding sources.

NOTE 14 - SUBSEQUENT EVENT

Hope Network acquired Insight I, Inc ("Insight") in early fiscal 2010. Insight is a not-for-profit entity established to provide services to individuals in central and southeastern Michigan suffering from alcoholism, substance abuse and psychological disorders, including ex-offenders and youth. Insight has realized substantial financial losses during fiscal years 2010 and 2011. Subsequent to the end of the year, management decided to close the operations of Insight effective December 31, 2011. Costs required to close Insight operations will be recognized in the fiscal 2012 consolidated financial statements. Management anticipates minimal revenue and expense from Insight business operations in fiscal 2012.