HEALTHWAYS, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

Optimizing Your Business Value and Creating Wealth

SEACHRIST, KENNON & MARLING, A.C.
CERTIFIED PUBLIC ACCOUNTANTS

HEALTHWAYS, INC. AND AFFILIATES
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
HealthWays, Inc. & Affiliates
Weirton, West Virginia

We have audited the accompanying consolidated statement of financial position of HealthWays, Inc. & Affiliates (nonprofit organizations) as of June 30, 2012, and the related consolidated statement of activities and changes in net assets (deficit), and consolidated statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthWays, Inc. & 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013, on our consideration of HealthWays, Inc. & Affiliates' internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Seachrist, Kennon & Marling, A.C.

Seachrist, Kennon, & Marling, A.C.
Wheeling, West Virginia
January 18, 2013

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2012

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combined 2012
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 5,649,819	$ 4,373	$ 35,540	$ 5,689,732
Client receivables, net	1,563,924	-	-	1,563,924
Contract receivables	421,625	-	-	421,625
Prepaid insurance	-	715	1,060	1,775
Deposits and prepaid assets	103,384	-	-	103,384
Total current assets	7,738,752	5,088	36,600	7,780,440
Deposits held in trust-funded	-	2,067	5,088	7,155
Restricted Deposits and Funded Reserves	-	27,297	46,926	74,223
Plant, property and equipment:				
Land	49,184	30,000	32,783	111,967
Buildings	3,140,271	468,605	961,181	4,570,057
Equipment	922,698	-	36,043	958,741
Furniture and fixtures	87,912	20,409	42,616	150,937
Vehicles	907,986	-	-	907,986
	5,108,051	519,014	1,072,623	6,699,688
Less accumulated depreciation	(3,410,660)	(169,355)	(711,339)	(4,291,354)
Property and equipment, net	1,697,391	349,659	361,284	2,408,334
Other assets, at cost:				
Investments	2,110,914	-	-	2,110,914
Investment in joint venture	86,172	-	-	86,172
Deferred Financing Costs	-	-	6,127	6,127
Total other assets	2,197,086	-	6,127	2,203,213
Total assets	$ 11,633,229	$ 384,111	$ 456,025	$ 12,473,365
LIABILITIES & NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable	$ 591,079	$ 6,665	$ 13,343	$ 611,087
Provider tax payable	38,019	-	-	38,019
Accrued wages and benefits	341,072	-	-	341,072
Deferred income	107,062	-	-	107,062
Tenant security deposits	-	1,713	3,821	5,534
Accrued interest payable	-	-	4,654	4,654
Mortgage payable-current portion	-	-	23,742	23,742
Total current liabilities	1,077,232	8,378	45,560	1,131,170
Long-Term Liabilities:				
Mortgage payable	-	378,400	786,393	1,164,793
Total liabilities	1,077,232	386,778	831,953	2,295,963
Net assets (deficit):				
Unrestricted net assets (deficit)	10,544,104	(2,667)	(375,928)	10,165,509
Temporarily restricted net assets	11,893	-	-	11,893
Total net assets (deficit)	10,555,997	(2,667)	(375,928)	10,177,402
Total liabilities and net assets (deficit)	$ 11,633,229	$ 384,111	$ 456,025	$ 12,473,365

The accompanying notes are an integral part of these financial statements.

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2012

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2012
UNRESTRICTED NET ASSETS:					
Support and Revenues					
Net client service revenue - Note 1	$ 9,143,833	$ -	$ -	$ -	$ 9,143,833
Rental income	-	29,827	65,514	-	95,341
Tenant assistance payments	-	12,757	99,916	-	112,673
West Virginia Department of Health and Human Resources funding	2,088,711	-	-	-	2,088,711
Other support	251,826	-	-	-	251,826
Workshops and rentals	13,757	-	-	-	13,757
Investment income (loss)	104,077	78	373	-	104,528
Management fee revenue	14,046	-	-	(10,651)	3,395
Tenant charges	-	1,452	-	-	1,452
Other revenue	21,537	228	6,042	-	27,807
Total support and revenues	11,637,787	44,342	171,845	(10,651)	11,843,323
Net assets released from restrictions	30,819	-	-	-	30,819
Total revenues and reclassifications	11,668,606	44,342	171,845	(10,651)	11,874,142
Operating Expenses					
Salaries and wages	3,182,625	-	-	-	3,182,625
Employee benefits	1,048,444	-	-	-	1,048,444
Contracted services	3,357,906	13,373	13,457	-	3,384,736
Supplies	175,718	3,103	17,760	-	196,581
Transportation	251,463	-	-	-	251,463
Utilities and telephone	140,106	9,131	22,842	-	172,079
Maintenance	164,668	1,666	3,286	-	169,620
Depreciation and amortization	206,699	12,109	36,337	-	255,145
Bad debt	87,118	-	-	-	87,118
Insurance	99,216	3,542	4,096	-	106,854
Interest expense	-	-	57,507	-	57,507
Provider tax	422,552	-	-	-	422,552
Management fees	-	3,936	6,715	(10,651)	-
Investment fees	16,092	-	-	-	16,092
Other	57,777	3,416	1,091	-	62,284
Total expenses	9,210,384	50,276	163,091	(10,651)	9,413,100
Other Income/Expenses					
Gain (Loss) on Disposition	(66,479)	-	-	-	(66,479)
Total other income/expenses	(66,479)	-	-	-	(66,479)
Increase (decrease) in unrestricted net assets	2,391,743	(5,934)	8,754	-	2,394,563

The accompanying notes are an integral part of these financial statements.

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2012

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2012
TEMPORARILY RESTRICTED NET ASSETS:					
Support and Revenues					
Net assets released from restrictions	(30,819)	-	-	-	(30,819)
Increase (decrease) in temporarily restricted net assets	(30,819)	-	-	-	(30,819)
Increase (decrease) in net assets	2,360,924	(5,934)	8,754	-	2,363,744
Net assets (deficit), beginning of year	8,195,073	3,267	(384,682)	-	7,813,658
Net assets (deficit), end of year	$ 10,555,997	$ (2,667)	$ (375,928)	$ -	$ 10,177,402

The accompanying notes are an integral part of these financial statements.

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2012
Cash Flows from Operating and Non-Operating Revenue Activities:					
Increase (decrease) in net assets	$ 2,360,924	$ (5,934)	$ 8,754	$ -	$ 2,363,744
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:					
Depreciation	206,699	12,109	36,337	-	255,145
(Disposals) of property and equipment	66,479	-	-	-	66,479
Realized and unrealized (gain) loss on investments	(2,829)	-	-	-	(2,829)
Change in assets and liabilities:					
(Increase) decrease in receivables	(903,364)	-	-	-	(903,364)
(Increase) decrease in deposits and prepaid expenses	44,350	86	(1,060.00)	-	43,376
Increase (decrease) in accounts payable	116,465	430	5,990	-	122,885
Increase (decrease) in provider tax	10,119	-		-	10,119
Increase (decrease) in accrued wages and benefits	(36,581)	-		-	(36,581)
Increase (decrease) in tenant security deposits	-	(2)	160	-	158
Increase (decrease) in other liabilities	1,500	-	(126)	-	1,374
Increase (decrease) in deferred income	(32,541)	-	-	-	(32,541)
Net cash provided (used) by operating activities	1,831,221	6,689	50,055	-	1,887,965
Cash Flows from Investing Activities					
(Purchases) of property and equipment	(108,441)	(6,870)	(7,861)	-	(123,172)
(Purchases) of investments	(1,195,450)	-	-	-	(1,195,450)
Sale of investments	399,298	-	-	-	399,298
Net (deposits) withdrawls in residual receipts	-	6,866	-	-	6,866
Net (deposits) to withdrawls from the reserve for replacement	-	(2,472)	(11,492)	-	(13,964)
Net cash provided (used) in investing activities	(904,593)	(2,476)	(19,353)	-	(926,422)
Cash Flows from Financing Activities					
Principal (payments) on first mortgage	-	-	(21,943)	-	(21,943)
Net cash provided (used) in financing activities	-	-	(21,943)	-	(21,943)
Net increase (decrease) in cash	926,628	4,213	8,759	-	939,600
Cash and cash equivalents at beginning of the year	4,723,191	160	26,781	-	4,750,132
Cash and cash equivalents at end of the year	$ 5,649,819	$ 4,373	$ 35,540	$ -	$ 5,689,732
Supplemental disclosure for cash flow information:					
Cash paid during the period for:					
Interest expense	$ -	$ -	$ -	$ -	$ -
Income taxes	$ -	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements.

Note 1 – Description of Organization and Significant Accounting Policies:

HealthWays, Inc. was incorporated in West Virginia as a not-for-profit corporation on June 12, 1970 as Hancock-Brooke Mental Health Services, Inc. On July 26, 1996, the name was officially changed to HealthWays, Inc. (HealthWays). Its purpose is to establish, maintain, support and operate a comprehensive mental health center, primarily to serve the residents of Hancock and Brooke counties in West Virginia, but also to serve the residents of surrounding areas. During the year ended June 30, 2009 HealthWays, Inc. obtained a controlling interest in Greenbrier Manor, Inc. During the year ending June 30, 2011 Health Ways, Inc. obtained a controlling interest in Brooke-Hancock Community Living, Inc.

Greenbrier Manor, Inc. is a not-for-profit corporation organized under the laws of the State of West Virginia, to acquire real property located in Weirton, West Virginia and to construct and operate thereon an 8-unit residential facility in accordance with Section 811 of the National Affordable Housing Act. Such projects are regulated by the U.S. Department of Housing and Urban Development (HUD) as to rent charges and operating methods. The project is also subject to a Project Rental Assistance agreement with HUD, and a significant portion of the Project's revenue is received from HUD. In addition, the Corporation is operated exclusively for nonprofit purposes, and no part of the income or assets of the Corporation may be distributed to, or inure to the benefit of, any individual.

Brooke-Hancock Community Living, Inc. (Shiloh Apartments) is a not-for-profit corporation organized under the laws of the State of West Virginia, to acquire real property located in Wellsburg, WV and to construct and operate thereon a 21 unit apartment complex in accordance with Section 202 of the National Housing Act, with mortgage insurance provided by the Federal Housing Administration (FHA) of HUD. Such projects are regulated by HUD as to rent charges and operating methods. The project is also subject to Section 8 Housing Assistance Payment agreements with HUD, and a significant portion of the Project's revenue is received from HUD. In addition, the Corporation is operated exclusively for nonprofit purposes, and no part of the income or assets of the Corporation may be distributed to, or inure to the benefit of, any individual.

Basis of Financial Reporting - The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with guidelines established by the American Institute of Certified Public Accountants.

Principles of Consolidation - The consolidated financial statements as of June 30, 2012 include the accounts of HealthWays, Inc. and its controlled affiliates: Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. All intercompany transactions have been eliminated from the consolidated financial statements.

Note 1 – Description of Organization and Significant Accounting Policies (continued):

Revenue Recognition – HealthWays has agreements with third-party payers that provide for payments to the organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, and discounted charges. Net client service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenues from services rendered to clients are recorded by HealthWays, Inc. at the full-established rates, with estimated amounts uncollectible by reason of charity allowances and contractual adjustments recorded as revenue deductions. Net amounts are reported on the statement of activities. For the year ended June 30, 2012, allowances and discounts totaled $1,448,753.

Revenues are based on medical services provided. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of Health Ways.

Charity Care - HealthWays provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates.

Contributions, Grants and Awards - All contributions, grants and awards are considered to be available for unrestricted use unless specifically restricted by the donor/grantor. Amounts received that are designated for future periods or restricted by the donor/grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same year in which the contribution, grant or award is received, HealthWays reports the support as unrestricted.

Deductions from Revenue – HealthWays' policy is to charge for services at standard billing rates and to record sliding fee adjustments and contractual allowances as a deduction from revenue. Accordingly, accounts receivable as of June 30, 2012 have been reduced by such allowances.

Note 1 – Description of Organization and Significant Accounting Policies (continued):

Current Vulnerability Due To Certain Circumstances – HealthWays, Inc. receives a substantial portion of its funding from the Medicaid program and the West Virginia Department of Health and Human Resources. It is therefore dependent on funding from these agencies for its continued existence.

Patient service revenue that HealthWays' generates is primarily limited to services to residents in Hancock and Brooke counties in West Virginia, but also to serve the residents of surrounding areas. General economic conditions in the areas can, therefore, significantly influence HealthWays' ability to collect fees for services rendered.

Greenbrier Manor, Inc.'s sole asset is an 8-unit apartment building. Greenbrier Manor, Inc.'s operations are concentrated in the multifamily real estate market. In addition, Greenbrier Manor, Inc. operates in a heavily regulated environment. The operations of Greenbrier Manor, Inc. are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Brooke-Hancock Community Living, Inc.'s sole asset is a 21-unit apartment building. Brooke-Hancock Community Living, Inc.'s operations are concentrated in the multifamily real estate market. In addition, Brooke-Hancock Community Living, Inc. operates in a heavily regulated environment. The operations of Brooke-Hancock Community Living, Inc. are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Client Receivables - Client receivables have been reported net of allowances for uncollectibles and contractual adjustments of $410,419 as of June 30, 2012. Past due accounts are written off in the period management deems them to be uncollectible.

Note 1 – Description of Organization and Significant Accounting Policies (continued):

Client Receivables (continued) - Client receivables are reported at estimated net realizable amounts from patients and responsible third-party payers. Amounts owed to HealthWays are reported net of allowances. Allowances include estimates of contractual adjustments, charity care and bad debts. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. In this regard, HealthWays has implemented a standardized approach to estimate and review the collectability of its receivables based on accounts receivable aging trends. Historical collection and payer reimbursement experience are an integral part of the estimation process related to determining allowances for contractual allowances and doubtful accounts. In addition, HealthWays assesses the current state of its billing functions in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. Revisions in reserve estimates are recorded as an adjustment to net client service revenue or the provision for doubtful accounts in the period of revision. HealthWays believes that its collection and reserve processes, along with the monitoring of its billing processes, help to reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection, reimbursement experience and billing functions.

Property and Equipment - HealthWays, Inc. leases its facility located at 501 Colliers Way, Weirton from the West Virginia Department of Health under a 99-year lease for a total of one dollar. For accounting purposes, HealthWays, Inc. has recorded the associated value of the facility of $1,428,594 as a fixed asset and is providing for depreciation on a straight-line basis over a period of fifty years. Attached to these consolidated financial statements is a listing of other assets that have been purchased with state funds. These assets are used by HealthWays, Inc. and depreciated by them but remain the property of the state of West Virginia.

Property and equipment with a cost exceeding $1,000 and an estimated useful life of greater than one year is recorded at historical cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Depreciation expense for HealthWays, Inc. for the year ended June 30, 2012 was $206,699. Depreciation for Greenbrier Manor, Inc. for the year ended June 30, 2012 was $12,109. Depreciation expense for Brooke-Hancock Community Living, Inc. for the year ended June 30, 2012 was $35,889. Consolidated depreciation expense for the year ended June 30, 2012 was $254,697. Because HealthWays, Inc. leases from the state, the state is responsible for all major repairs and maintenance, therefore HealthWays, Inc. does not maintain a schedule for planned major repairs and maintenance.

HealthWays, Inc. reviews its investment in property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the property to the future net undiscounted cash flow expected to be generated by the property including any estimated proceeds from the eventual disposition of the property. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There were no impairment losses recognized in 2012.

Note 1 – Description of Organization and Significant Accounting Policies (continued):

Net Asset Classification - Net assets of HealthWays, Inc. and Affiliate and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met either by actions of HealthWays, Inc. and Affiliates and/or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by HealthWays, Inc. and Affiliates.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decrease in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. 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 net assets released from restrictions.

HealthWays, Inc. and Affiliates have no permanently restricted net assets at June 30, 2012. HealthWays, Inc.'s temporarily restricted net assets at June 30, 2012 were $11,893. The composition of the temporarily restricted net assets for HealthWays, Inc. as of June 30, 2012 was $11,893 related for use in the "Miracles Happen" program. Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. do not have any temporarily restricted net assets as of June 30, 2012.

Income Taxes - The Organizations are not-for-profit organizations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an Organization that is not a private foundation under 509(a)(2). The Organization's Federal Return of Organization Exempt from Income Tax (Form 990) for the tax years 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1 – Description of Organization and Significant Accounting Policies (continued):

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues, or gains, in the period received and as assets, decrease of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contribution and support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the contribution or support is received.

Functional Classification of Activities - Expenses are charged to program and support services based on the actual costs incurred. Management and general costs have been combined with program services when these amounts are not separable. Additionally, those expenses which are not directly identifiable with any other specific function but provide overall support and direction have been included as Management and General.

The classification of expenses by functional allocation is as follows:

HealthWays, Inc.

	2012
Program Services	$ 7,548,086
Management & General	1,662,298
	$ 9,210,384

Greenbrier Manor, Inc.

	2012
Program Services	$ 37,451
Management & General	12,825
	$ 50,276

Brooke-Hancock Community Living, Inc.

	2012
Program Services	$ 152,287
Management & General	10,804
	$ 163,091

Consolidated

	2012
Program Services	$ 7,737,824
Management & General	1,685,927
	$ 9,423,751

Cash and Cash Equivalents - For purposes of the consolidated statement of cash flows, HealthWays, Inc. and Affiliates consider all investments with an original maturity date of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market.

Note 1 – Description of Organization and Significant Accounting Policies (continued):

Subsequent Events - Management has evaluated subsequent events through January 18, 2013, the date the financial statements were available to be issued.

Note 2 – Retirement Plan:

During the fiscal year ended June 30, 1981, HealthWays, Inc. adopted a Simplified Employee Pension contribution agreement covering all full-time employees, age 21 and over with 18 months of service. During the fiscal year ended June 30, 1996, HealthWays elected to include part-time employees. During the fiscal year ended June 30, 2006, HealthWays adopted a 401k plan covering all eligible employees, age 21 and over with no service requirements. The 401k plan has no company contributions. HealthWays accrues an equivalent of 7% of eligible employees' gross wages on a monthly basis. For the fiscal year ended June 30, 2012, retirement plan expense related to the Simplified Employee Pension plan amounted to $150,888 of which $11,528 was unpaid and included in accrued wages and benefits on the balance sheet at June 30, 2012.

Note 3 – Investments:

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets.

At June 30, 2012 investments held were comprised of the following:

June 30, 2012	Cost	Market
Cash and Cash Equivalents	$ 20,551	$ 20,551
Equity Securities	198,158	217,546
Mutual Funds-Equity	1,821,010	1,770,478
Real Estate	101,679	102,339
Total	$ 2,141,398	$ 2,110,914

Unrealized investment (gains) losses for the years ending June 30, 2012 amounted to$(2,829).

Investment in Joint Venture - During the year ended June 30, 1996, HealthWays, Inc. along with many other mental health centers, jointly created First Choice Health Systems, Inc., a for profit corporation to enable the centers to pool their influence to expand into statewide markets. The original investment was $50,000 with an estimated value of $86,172 as of June 30, 2012.

Note 4 - Line-of-Credit:

HealthWays, Inc. has established a continuing line-of-credit with the Steel Workers Community Federal Credit Union in the amount of $200,000. There was no outstanding balance on this credit line as of June 30, 2012. The line has a variable interest rate and requires said interest to be paid monthly. Accounts receivable have been pledged as collateral.

Note 5 - Long-Term Debt

Greenbrier Manor, Inc. has a section 811 Capital Advance agreement with HUD in the amount of $378,400. This agreement is secured by a mortgage deed on the property located at 229 Greenbrier Road, Weirton, WV. As noted in the mortgage note dated July 30, 1998, the principal sum shall bear no interest nor shall repayment be required so long as the housing remains available to eligible, low-income persons with disabilities in accordance with Section 202 of the Housing Act of 1959, the Regulatory Agreements and Regulations. If default be made by the Owner, the entire principal sum shall at once become due and payable. Interest per annum at a rate equal to 6.75% shall be payable on demand with respect to the payment of principal upon default.

Brooke-Hancock Community Living, Inc. had a mortgage payable to the U.S. Department of Housing and Urban Development and later re-financed the mortgage payable through Progressive Bank. This agreement is secured by a mortgage deed on the property located at 3025 Pleasant Avenue, Wellsburg WV 26070. The mortgage bears interest at a rate of 6.99% and matures in 2030. As of June 30, 2012, the outstanding balance on this mortgage amounted to $810,135. The principal payments on mortgages and notes payable due in the next five years and thereafter are as follows:

2013	$ 23,742
2014	25,455
2015	27,293
2016	29,263
2017	31,375
Thereafter	673,007
	$ 810,135

Note 6 - Housing Assistance Payment Contract

To subsidize a portion of the tenants' monthly rental costs of the projects, Greenbrier Manor, Inc. has entered into Housing Assistance Payment (HAP) contracts with HUD, which require certain restrictions on operating policies, rental charges, and operating expenditures. Under the terms of the contracts, a "contract rent" value is assigned to each unit based on results of a market comparability study of other rental units in the regional area. The tenants' monthly rental cost is equal to 30 percent of their adjusted monthly income. The balance of the contract rent is subsidized by HUD. Subsidized rental income was $12,757 for the year ended June 30, 2012.

Note 6 - Housing Assistance Payment Contract (continued):

To subsidize a portion of the tenants' monthly rental costs of the projects, Brooke-Hancock Community Living, Inc. has entered into Housing Assistance Payment (HAP) contracts with HUD, which require certain restrictions on operating policies, rental charges, and operating expenditures. Under the terms of the contracts, a "contract rent" value is assigned to each unit based on results of a market comparability study of other rental units in the regional area. The tenants' monthly rental cost is equal to 30 percent of their adjusted monthly income. The balance of the contract rent is subsidized by HUD. Subsidized rental income was $99,916 for the year ended June 30, 2012.

Note 7 – Cash Balances in excess of FDIC and NCUA Insurance:

HealthWays, Inc. and Affiliates maintain accounts at local financial institutions. The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) insures a maximum of $250,000 per depositor. Differences do exist between financial institution and book balances due to deposits-in-transit, outstanding checks and other reconciling items. The following uninsured excess exists at June 30, 2012.

	First Choice Credit Union	WesBanco	Tin Mill Credit Union	Hancock Co. Savings Bank	Capital One
Balance as of June 30, 2012	$ 4,441,093	$ 858,215	$ 154,180	$ 266,495	$ 174
Less: FDIC &NCUA Coverage	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)
Less: Additional Coverage	(4,441,093)	-	-	-	-
Amount uninsured at June 30, 2012	$ -0-	$ 608,215	$ -0-	$ 16,495	$ -0-

Greenbrier Manor, Inc.

	United Bank	Hancock Co. Savings Bank
Balance as of June 30, 2012	$ 23,584	$ 10,952
Less: FDIC & NCUA Coverage	(250,000)	(250,000)
Less: Additional Coverage	-	-
Amount uninsured at June 30, 2012	$ -0-	$ -0-

Brooke-Hancock Community Living, Inc.

	Progressive Bank
Balance as of June 30, 2012	$ 88,041
Less: FDIC & NCUA Coverage	(250,000)
Less: Additional Coverage	-
Amount uninsured at June 30, 2012	$ -0-

The total uninsured excess as of June 30, 2012 was $624,710; management believes the credit risk associated with these deposits is minimal.

Note 8 - Fair Value Measurements

For assets and liabilities measured at fair value on a recurring basis during the period, Financial Accounting Standards Board FASB ASC 820-10-50-1 through 50-3; 820-10-50-8, requires quantitative disclosures about the fair value measurements separately for each major category of assets and liabilities. For assets, that information is as follows for the year ended June 30, 2012:

	Assets at Fair Value as of June 30, 2012		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:	$ 20,551.00	$ -	$ -
Equity Securities:			
Healthcare	27,729.00	-	-
Financial	29,699.00	-	-
Technology	51,762.00	-	-
Services	38,742.00	-	-
Basic Materials	30,792.00	-	-
Consumer Goods	22,768.00	-	-
Utilities	3,429.00	-	-
Industrial Goods	7,339.00	-	-
Conglomerates	5,287.00	-	-
Equity Mutual Funds:			
Mid-cap growth	31,369.00	-	-
Diversified Emerging Markets	39,930.00	-	-
Emerging Markets	40,923.00	-	-
Large Blend	48,064.00	-	-
Intermediate Term	411,315.00	-	-
High Yield	65,838.00	-	-
Foreign Large Value	90,758.00	-	-
Small Growth	23,642.00	-	-
Real	37,341.00	-	-
Moderate Allocation	981,297.00	-	-
Real Estate Investment Trust	-	102,339.00	-
Total investments	$ 2,008,575.00	$ 102,339.00	$ -

Note 9 - HUD Restricted Deposits

Under the terms of the Regulatory and Loan Agreements, Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. are required to maintain certain deposit accounts to be held for specified purposes. Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. are required to make monthly deposits to a replacement reserve account for the future repair and replacement of property and equipment. Additionally, any surplus cash existing at year-end is required to be deposited into a residual receipts account. Withdrawals from the replacement reserve and residual receipts accounts are subject to approval by HUD. Balances in restricted funds as of June 30, 2012 were as follows:

Greenbrier Manor, Inc.	Balance
Replacement Reserve	$ 22,464
Residual Receipts	4,833
Tenant Security Deposits	2,067

Brooke-Hancock Community Living , Inc.	Balance
Replacement Reserve	$ 46,926
Tenant Security Deposits	5,088

Note 10 - Rent Increases

Under the regulatory agreement, Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. may not increase rents charged to tenants without HUD approval.

Note 11 - Related Party Transactions

HealthWays, Inc., which has majority control of the board of directors of both Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc., is the management agent of the Projects. During the year ended June 30, 2012, Greenbrier Manor, Inc. paid $10,259 in management and bookkeeping fees and $1,891 in other reimbursements to HealthWays, Inc. There are no amounts payable to or receivable from Greenbrier Manor, Inc. as of June 30, 2012. Brooke-Hancock Community Living, Inc. paid $5,676 in management fees and $4,703 in other reimbursements to HealthWays, Inc. There were no receivables from or amounts payable to related parties as of June 30, 2012. There is an amount payable to HealthWays, Inc in regards to management fees of $1,039 as of June 30, 2012.

Note 12 – Legal Proceedings

HealthWays and Affiliates are involved in legal actions in the ordinary course of business. Although the outcome of any litigation cannot be predicted with certainty, management believes that any unfavorable settlements or decisions will either be covered by insurance or not materially affect HealthWays and Affiliates financial position or results of operation.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of
HealthWays, Inc & Affiliates

We have audited the consolidated financial statements of HealthWays, Inc. & Affiliates as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013, which expressed an unqualified opinion on those financial statements, which appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The statements of financial position, statements of activities and changes in net assets, and statements of cash flows for HealthWays, Inc. for the years ended June 30, 2012 and 2011 (shown on pages 18-20) the schedule of property and equipment purchases with BHHF administered funding (shown on pages 21-22) and the schedule of expenditures of federal and state awards (shown on pages 23-24) are presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The statement of financial position, statement of activities and changes in net assets (deficit), statement of cash flows for Greenbrier Manor, Inc. for the year ended June 30, 2012 and supplemental data required by HUD (shown on pages 25-30), are also presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. The statement of financial position, statement of activities and changes in net assets (deficit), statement of cash flows for Brooke – Hancock Community Living, Inc. for the year ended June 30, 2012, and supplemental data required by HUD (shown on pages 31-36), are also presented for the purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Seachrist, Kennon & Marling, A.C.

Seachrist, Kennon, & Marling, A.C.
Wheeling, West Virginia
January 18, 2013

HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 5,649,819	$ 4,723,191
Client receivables, net	1,563,924	755,452
Contract receivables	421,625	326,732
Deposits and prepaid assets	103,384	147,734
Total current assets	7,738,752	5,953,109
Plant, property and equipment:		
Land	49,184	49,184
Buildings	3,140,271	3,134,863
Equipment	922,698	832,502
Furniture and fixtures	87,912	83,672
Vehicles	907,986	898,515
Construction in process	-	88,015
	5,108,051	5,086,751
Less accumulated depreciation	(3,410,660)	(3,224,613)
Property and equipment, net	1,697,391	1,862,138
Other assets, at cost:		
Investments	2,110,914	1,311,924
Investment in joint venture	86,172	86,172
Total other assets	2,197,086	1,398,096
Total assets	$ 11,633,229	$ 9,213,343
LIABILITIES & NET ASSETS:		
Current liabilities:		
Accounts payable	$ 591,079	$ 474,614
Provider tax payable	38,019	27,900
Accrued wages and benefits	341,072	377,652
Reserve for third party settlements	-	(1,500)
Deferred income	107,062	139,604
Total current liabilities	1,077,232	1,018,270
Total liabilities	1,077,232	1,018,270
Net assets:		
Unrestricted net assets	10,544,104	8,152,361
Temporarily restricted net assets	11,893	42,712
Total net assets	10,555,997	8,195,073
Total liabilities and net assets	$ 11,633,229	$ 9,213,343

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS:		
Support and Revenues		
Net client service revenue	$ 9,143,833	$ 7,344,336
West Virginia Department of Health and Human Resources funding	2,088,711	2,175,926
Other support	251,826	210,999
Workshops and rentals	13,757	13,108
Investment income (loss)	104,077	173,797
Management fee revenue	14,046	18,793
Other revenue	21,537	29,676
Total support and revenues	11,637,787	9,966,635
Net assets released from restrictions	30,819	-
Total support, revenues and reclassifications	11,668,606	9,966,635
Operating Expenses		
Salaries and wages	3,182,625	3,326,641
Employee benefits	1,048,444	1,109,059
Contracted services	3,357,906	3,114,871
Supplies	175,718	218,066
Transportation	251,463	229,311
Utilities and telephone	140,106	139,300
Building and equipment maintenance	164,668	162,964
Depreciation	206,699	198,319
Bad debt	87,118	133,552
Insurance	99,216	113,297
Provider tax	422,552	328,566
Investment fees	16,092	7,132
Other	57,777	112,497
Total expenses	9,210,384	9,193,575
Other Income/Expenses		
Gain (Loss) on Disposition	(66,479)	28,626
Total other income/expenses	(66,479)	28,626
Increase (decrease) in unrestricted net assets	2,391,743	801,686
TEMPORARILY RESTRICTED NET ASSETS:		
Support and Revenues		
Net assets released from restrictions	(30,819)	-
Increase (decrease) in temporarily restricted net assets	(30,819)	-
Increase (decrease) in net assets	2,360,924	801,686
Net assets, beginning of year	8,195,073	7,393,387
Net assets, end of year	$ 10,555,997	$ 8,195,073

HEALTHWAYS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows from Operating and Non-Operating Revenue Activities:		
Increase (decrease) in net assets	$ 2,360,924	$ 801,686
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:		
Depreciation	206,699	198,319
Loss on (disposals) of property and equipment	66,479	-
Realized and unrealized (gain) loss on investments	(2,829)	(104,598)
Realized (gain) loss on sale of assets	-	(28,626)
Change in assets and liabilities:		
(Increase) decrease in receivables	(903,364)	278,144
(Increase) decrease in deposits and prepaid expenses	44,350	(67,382)
Increase (decrease) in accounts payable	116,465	(56,163)
Increase (decrease) in provider tax	10,119	7,810
Increase (decrease) in accrued wages and benefits	(36,581)	25,558
Increase (decrease) in other liabilities	1,500	-
Increase (decrease) in deferred income	(32,541)	12,151
Net cash provided (used) by operating activities	1,831,221	1,066,899
Cash Flows from Investing Activities		
(Purchases) of property and equipment	(108,441)	(187,596)
(Purchases) of investments	(1,195,450)	(995,243)
Sale of investments	399,298	382,988
Proceeds from sale of assets	-	28,626
Net cash provided (used) in investing activities	(904,593)	(771,225)
Net increase (decrease) in cash	926,628	295,674
Cash at beginning of the year	4,723,191	4,427,517
Cash at end of the year	$ 5,649,819	$ 4,723,191
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest expense	$ -	$ -
Income taxes	$ -	$ -

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASES WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2012

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
1 Autogenic Feedback Myograph	N/A	4/1/1982	$ 1,316.54	N/A	N/A
Biofeedback equipment	N/A	7/1/1984	4,266.50	N/A	N/A
Riding mower and attachments	N/A	7/1/1984	4,510.00	N/A	N/A
Refrigerator/ice maker	N/A	7/1/1984	1,195.88	N/A	N/A
Vesta conference table	N/A	7/1/1984	2,911.45	N/A	N/A
1 1992 Ford Club Wagon	N/A	7/12/1993	17,295.00	N/A	N/A
1 1995 Dodge Caravan	N/A	4/15/1996	15,700.00	N/A	N/A
Intel computer	N/A	11/1/1996	2,750.42	N/A	N/A
Computer	N/A	11/1/1996	1,712.20	N/A	N/A
Computer	N/A	4/1/1997	1,349.42	N/A	N/A
Computer and peripherals	Infotel Distributing	8/5/1998	4,929.30	8793-1999-2885-096-252	6314877
Computers and peripherals (2)	Infotel Distributing	3/3/1999	3,035.00	8793-1999-2886-096-252	6930200
Computer and peripherals	Infotel Distributing	9/15/1998	2,713.79	8793-1999-2890-096-252	6313810
Computer and peripherals	Infotel Distributing	3/3/1999	3,024.00	8793-1999-2890-096-252	6908521
Computer and peripherals	Infotel Distributing	8/5/1998	2,736.40	8793-1999-2892-096-252	6314930
Computer	Infotel Distributing, Inc.	3/8/2000	2,493.75	8793-2000-2886-096-128	N/A
Copier	Comdoc	5/24/1999	8,542.00	8793-2000-2885-096-128	N/A
Projector	Infotel Distributing, Inc.	6/20/2000	3,191.60	8793-2000-2890-096-128	N/A
Computers (4)	Dell	7/1/2004	4,201.84	8793-2005-2885-096-128-10596	78185618
Computers (2)	Dell	7/1/2004	2,100.90	0525-2005-3426-219-252/258	78185528
Computer	Dell	7/1/2004	1,050.46	8793-2005-2892-096-128-10596	78185399
Furniture	Office Furniture Warehouse	8/16/2004	6,479.05	8793-2005-2885-096-128-10596	H08114
Furniture	Carolina Office Furniture	8/19/2004	11,292.92	Various	10863
Projector	Dell	8/30/2004	1,292.14	8793-2005-2885-096-128-10596	86776104
Projector	Dell	8/31/2004	1,292.14	8793-2005-2892-096-128-10596	86776104
Projector	Dell	8/31/2004	1,292.14	8794-2004-2915-096-128-09184	86776104
Computers (3)	Dell	8/31/2004	3,151.37	8793-2005-2885-096-128-10596	86776261
Laptop computer	Dell	8/31/2004	1,259.28	8794-2004-2915-096-128-09184	17150793
Laptop computer	Dell	8/31/2004	1,259.28	8793-2005-2892-096-128-10596	86776164
Laptop computer	Dell	8/31/2004	1,259.28	8794-2005-2852-096-128-10555	86776164
Furniture	Office Furniture Warehouse	8/31/2004	6,197.86	0525-2005-3426-219-252/258	N/A
2005 Dodge Carivan	New City Auto Sales	8/31/2004	21,061.87	8794-2005-2852-096-128-10555	N/A
2005 Chevy Express Van	Bob Robinson Chevrolet	8/31/2004	28,500.00	Various	N/A
Building	Various	10/11/2004	264,734.17	Various	Various
Phone system	Advanced Communications	10/12/2004	1,574.10	Various	111004
Phone system	Advanced Communications	11/19/2004	1,616.50	0525-2005-3426-219-252/258	21333
Building additions	Various	1/28/2005	189,549.00	Various	Various
Appliances	Lowes	2/28/2005	4,676.86	Various	N/A
Cleaning equipment	Ohio Valley Chemical	3/31/2005	1,661.49	Various	58104
Furniture	Carolina Office Furniture	3/31/2005	4,123.43	Various	N/A
Building improvements	Colaianni Construction	3/31/2005	49,616.00	Various	N/A
Copier	Office Systems of Wheeling	4/15/2005	5,194.00	Various	138
Copier	AMCOM	6/30/2005	1,671.62	0525-2005-3426-219-252/258	08208A
Building improvements	Steele Construction	6/30/2005	7,602.00	Various	N/A
Fixtures	Triveri Aluminum	6/30/2005	4,550.00	Various	6115105
Vehicle	Jim Robinson	8/1/2005	10,000.00	Various	N/A
Vehicle	Jim Robinson	8/9/2005	3,115.98	Various	N/A

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASES WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2012

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
Computer	Dell	1/29/2006	1,499.21	Various	N/A
Computer	Dell	2/2/2006	1,281.54	Various	N/A
Vehicle	N/A	2/23/2006	9,239.20	Various	N/A
Computer server	Tiger Direct	7/16/2006	2,024.00	Various	EQOB0049
Laptop computer	Dell	9/20/2006	1,169.81	Various	EQOB0051
Fax machine	Office Systems of Wheeling	2/23/2007	1,313.34	Various	EQOB0053
Computers (2)	Dell	3/12/2007	2,159.67	Various	EQOB0054
Building	Weaver Barns	5/31/2007	4,876.00	Various	BGOB0004
Flooring	Bennett's Flooring	5/31/2007	1,605.38	Various	IMOB0003
Flooring	Bennett's Flooring	5/31/2007	4,809.17	Various	IMOB0004
Scanner/fax machine	Office Systems of Wheeling	6/7/2007	2,046.86	Various	EQOB0055
Computers (8)	N/A	10/26/2007	6,631.28	Various	EQOB0056 - 63
Laptop computers (2)	N/A	10/26/2007	1,823.21	Various	EQOB0064 & 65
Lot Sealing	N/A	5/29/2008	1,700.00	Various	IMOB0009
Vehicle (3 door)	N/A	6/4/2008	1,639.70	Various	VEOB0009
Furniture	N/A	6/27/2008	3,678.24	Various	Various
Television	N/A	6/27/2008	1,860.63	Various	FFOB0008
Stove	N/A	6/27/2008	1,986.41	Various	FFOB0007
Furniture	N/A	6/30/2008	3,551.37	Various	FFOB009
Computers (2)	N/A	6/30/2008	2,240.84	Various	EQOB0066 & 67
Vehicles	N/A	6/30/2008	23,098.90	Various	VEOB0010-11
Paint Offices	N/A	5/14/2010	3,800.00	Various	N/A
Generator	N/A	2/9/2010	1,175.00	Various	N/A
Desk	N/A	6/25/2010	1,661.00	Various	N/A
AC Repair	N/A	5/27/2010	1,222.05	Various	N/A
Vehicle	Enterprise	9/2/2010	16,997.21	0525-2012-2891-219-252/258	N/A
Carpeting	Flooring America	5/16/2011	4,901.18	0525-2012-2891-219-252/258	N/A
Furniture	National	6/29/2011	1,550.06	0525-2012-2885-219-252/258	N/A
Laptop computer	Dell	6/22/2011	1,100.39	0525-2012-2851-219-252-7219	N/A
Laptop computer	Dell	8/25/2008	1,223.22	8723-2009-2849-096-128-14014	EQOB0068
Rooftop furnace	Johnson Boilerworks	11/14/2008	5,625.00	Various	FFOB0010
Laptop computer	Dell	6/12/2009	1,181.64	8723-2009-2849-096-128-14014	EQOB0069
Server/Hardware	Dell	6/29/2009	12,505.79	8723-2009-2849-096-128-14014	EQHW0206
Security Cameras	Burke Security	8/17/2011	3,171.29	0525-2012-2891-219-252	FFOB0017
Mattress	Sams Club	7/31/2011	1,068.61	0525-2012-2891-219-252	FFOB0018
Computer	Dell	5/24/2012	1,225.81	0525-2012-2884-219-252	EQOB0071
			$ 863,691.94		

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Program Title	Account Number	Federal CFDA #	Current Revenue Earned	Expenditures
SA Services	8793-2012-2884-096-128	93.959	$ 240,019	$ 240,019
SA Adolescent Services	8793-2012-2892-096-128	93.959	18,852	18,852
SA Residential Services	8793-2012-2891-096-128	93.959	84,474	84,474
DIG	8723-2012-2849-096-128	93.243	9,500	9,500
			$ 352,845	$ 352,845

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Healthways Inc. under programs of the federal government for the year ended June 30, 2012. Because the schedule presents only a selected portion of the operations of HealthWays, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of HealthWays, Inc.

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Program Title	Account Numbers	Federal CFDA #	Current Revenue Earned	Expenditures
Uncompensated Care	0525-2012-3065-219-252	N/A	$ 168,206	$ 168,206
Support Services	0525-2012-3041-219-252	N/A	142,204	142,204
Case Management	0525-2012-2851-219-252	N/A	295,159	295,159
Family Support Services	0525-2012-2870-221-252	N/A	65,609	65,609
Client Core Services	0525-2012-2870-219-252	N/A	68,769	68,769
Community Support Improvement	0525-2012-3702-219-252	N/A	104,565	104,565
SA Adult Outpatient	0525-2012-2884-219-252	N/A	56,526	56,526
SA Adult Residential Treatment	0525-2012-2891-219-252	N/A	520,000	520,000
SA Adolescent Outpatient	0525-2012-2892-219-252	N/A	98,678	98,678
Care Coordinators Improvement	0525-2012-3701-219-252	N/A	62,858	62,858
Co - Occurring	0525-2010-3701-219-252	N/A	4,044	4,044
			$ 1,586,618	$ 1,586,618

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Healthways Inc. under programs of the federal government for the year ended June 30, 2012. Because the schedule presents only a selected portion of the operations of HealthWays, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of HealthWays Inc.

Expenditures reported on the Schedule are reported on the accrual basis of accounting

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

		2012
ASSETS:		
Current Assets:		
Cash	$	4,373
Prepaid insurance		715
Total current assets		5,088
Deposits Held in Trust - Funded:		
Tenant security deposits		2,067
Restricted Deposits and Funded Reserves:		
Reserve for replacements		22,464
Residual reserve		4,833
Total restricted deposits		27,297
Property and Equipment:		
Land		30,000
Building and improvements		468,605
Furniture and fixtures		20,409
Total property and equipment		519,014
Less - accumulated depreciation		(169,355)
Net property and equipment		349,659
Total assets	$	384,111
LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities:		
Accounts payable	$	6,665
Total current liabilities		6,665
Deposit and Prepayment Liabilities:		
Tenant security deposits		1,713
Long-Term Liabilities:		
Mortgage payable		378,400
Total liabilities		386,778
Net Assets:		
Unrestricted net assets (deficit)		(2,667)
Total liabilities and net assets (deficit)	$	384,111

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2012

	2012
REVENUES:	
Rental income	$ 29,827
Tenant assistance payments	12,757
Investment income - residual receipts	4
Investment income - replacement reserve	72
Investment income - other	2
Tenant charges	1,452
Other income	228
Total revenues	44,342
EXPENSES:	
Office expense	1,168
Management fee	3,936
Bookkeeping expense	8,551
Miscellaneous administrative expenses	2,946
Total administrative expenses	16,601
Electric	3,427
Water	3,010
Gas	1,996
Total utilities	8,433
Supplies	3,103
Contracts	4,822
Garbage and Trash Removal	926
Snow Removal	740
Total operating & maintenance expenses	9,591
Property Insurance	3,204
Dishonesty bond insurance	338
Total taxes & insurance	3,542
Total expenses before depreciation	38,167
Increase (decrease) in net assets before depreciation	6,175
Depreciation	12,109
Increase (decrease) in net assets	(5,934)
Net assets (deficit), beginning of year	3,267
Net assets (deficit), end of year	$ (2,667)

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

		2012
Cash Flows from Operating Activities		
Rental receipts	$	42,584
Interest receipts		78
Other operating receipts		1,680
Total recipts		44,342
Administrative		(12,749)
Management fee		(3,936)
Utilities		(8,433)
Operating and maintenance		(9,077)
Property insurance		(3,456)
Tenant security deposits		(2)
Total Disbursements		(37,653)
Net cash provided (used) by operating activities		6,689
Cash Flows from Investing Activities		
Net (deposits to) withdrawls from reserve for replacement account		(2,472)
Net (deposits to) withdrawls from other reserves		6,866
(Purchases) of fixed assets		(6,870)
Net cash provided (used) by investing activities		(2,476)
Net increase (decrease) in cash		4,213
Cash at beginning of the year		160
Cash at end of the year	$	4,373
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$	(5,934)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation expense		12,109
(Increase) decrease in prepaid expenses		86
(Increase) decrease in tenant security deposit account		(2)
Increase (decrease) in accounts payable		430
Total adjustments		12,623
Net cash provided (used) by operating activities	$	6,689

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2012

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM TENANTS):
There are no accounts or notes receivable as of June 30, 2012

DELINQUENT TENANT ACCOUNTS RECEIVABLE:
There are no significant deliquent tenant accounts receivable as of June 30, 2012.

TENANT SECURITY DEPOSITS:
Tenant security deposits are held in a separate bank account in the name of the project. The security cash account balance as of June 30, 2012 is $2,067. Interest from funds held in the security deposit account is allocated to tenant security deposits. There is no unfunded liability as of June 30, 2012.

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2011	$	19,992
Monthly deposits		2,400
Interest earned		72
Authorized withdrawals		-
Ending balance, June 30, 2012	$	22,464

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2011	$	11,699
Interest income		4
Authorized withdrawals		(6,870)
Ending balance, June 30, 2012	$	4,833

ACCOUNTS PAYABLE (OTHER THAN TRADE CREDITORS):
There are no accounts payable for amounts other than creditors as of June 30, 2012.

ACCRUED TAXES:
There are no accrued taxes payable as of June 30, 2012.

COMPENSATION OF OWNERS:
There was no compensation paid to the owners during the period ended June 30, 2012.

SCHEDULE OF UNAUTHORIZED DISTRIBUTIONS OF PROJECT INCOME:
There was no unauthorized distribution of project income during the period ended June 30, 2012.

SCHEDULE OF NOTES PAYABLE (OTHER THAN MORTGAGES):
There were no notes payable other than mortgages as of June 30, 2012.

CHANGES IN OWNERSHIP:
There were no changes in ownership during the period ended June 30, 2012.

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE OF FUNDS IN FINANCIAL INSTITUTIONS:

Funds in financial institutions as of June 30, 2012 consist of the following:

Funds held by United National Bank - regular operating account	$	5,186
Funds held by United National Bank - tenant security deposits		2,067
Funds held by United National Bank - reserve fund for replacements		11,498
Funds held by United National Bank - residual receipts		4,833
Funds held by Hancock County Savings Bank - residual receipts		-
Funds held by Hancock County Savings Bank - reserve fund for replacements		10,952
Total funds in financial institutions	$	34,536

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	6,440
Total cash		6,440
Current Obligations:		
Accounts payable - 30 days		2,265
Accrued expenses payable		4,400
Tenant security deposit liability		1,713
Total current obligations		8,378
Surplus cash (deficiency) at June 30, 2012	$	(1,938)
Deposit due residual receipts	$	-

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2012

CHANGES IN FIXED ASSET ACCOUNTS:

	Assets			
	Balance 06/30/11	Additions	Disposals	Balance 06/30/12
Land	$ 30,000	$ -	$ -	$ 30,000
Building and improvements	461,735	6,870	-	468,605
Furniture and fixtures	20,409	-	-	20,409
Total	$ 512,144	$ 6,870	$ -	$ 519,014
Accumulated Depreciation	157,246	12,109	-	169,355
Book Value	$ 354,898	$ (5,239)	$ -	$ 349,659

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

		2012
ASSETS:		
Current Assets:		
Cash	$	35,540
Prepaid insurance		1,060
Total current assets		36,600
Deposits Held in Trust - Funded:		
Tenant security deposits		5,088
Restricted Deposits and Funded Reserves:		
Reserve for replacements		46,926
Total restricted deposits		46,926
Property and Equipment:		
Land		32,783
Building and improvements		961,181
Building equipment		36,043
Furnishings		42,616
Total property and equipment		1,072,623
Less - accumulated depreciation		(711,339)
Net property and equipment		361,284
Other Assets:		
Deferred financing costs		6,127
Total other assets		6,127
Total assets	$	456,025
LIABILITIES AND NET ASSETS (DEFICIT):		
Current Liabilities:		
Accounts payable	$	13,343
Accrued interest payable		4,654
Mortgage payable - current portion		23,742
Total current liabilities		41,739
Deposit and Prepayment Liabilities:		
Tenant security deposits		3,821
Long-Term Liabilities:		
Mortgage payable		786,393
Total liabilities		831,953
Net Assets:		
Unrestricted net assets (deficit)		(375,928)
Total liabilities and net assets (deficit)	$	456,025

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2012

		2012
REVENUES:		
Rental income	$	65,514
Tenant assistance payments		99,916
Financial revenue-project operations		45
Investment income - replacement reserve		328
Laundry and vending revenue		2,282
Other income		3,760
Total revenues		171,845
EXPENSES:		
Office expense		516
Management fees		6,715
Auditing expense		2,050
Bookkeeping fees		2,040
Miscellaneous administrative expenses		3,162
Total administrative expenses		14,483
Electric		9,697
Water		8,685
Gas		1,873
Total utilities		20,255
Supplies		17,760
Contracts		9,367
Garbage and trash removal		1,887
Heating/cooling repairs and maintenance		1,399
Total operating and maintenance		30,413
Property insurance		3,922
Miscellaneous taxes, licenses, permits and insurance		174
Total taxes and insurance		4,096
Interest-mortgage		57,507
Total expenses before depreciation		126,754
Increase (decrease) in net assets before depreciation		45,091
Depreciation		35,889
Amortization Expense		448
Increase (decrease) in net assets		8,754
Net assets (deficit), beginning of year		(384,682)
Net assets (deficit), end of year	$	(375,928)

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2012

		2012
Cash Flows from Operating Activities		
Rental receipts	$	165,430
Interest receipts		373
Other operating receipts		6,042
Total receipts		171,845
Administrative		(5,771)
Management fee		(6,715)
Utilities		(18,258)
Operating and maintenance		(28,417)
Property insurance		(5,156)
Tenant security deposits		160
Interest on first mortgage		(57,633)
Total disbursements		(121,790)
Net cash provided (used) by operating activities		50,055
Cash Flows from Investing Activites		
Net (deposits to) withdrawals from the reserve for replacement account		(11,492)
Purchase of fixed assets		(7,861)
Net cash provided (used) by investing activities		(19,353)
Cash Flows from Financing Activities		
Principal payments on first mortgage		(21,943)
Net cash provided (used) by financing activities		(21,943)
Net increase (decrease) in cash		8,759
Cash at beginning of the year		26,781
Cash at end of the year	$	35,540

Cash Flows from Operating Activities		
Increase (decrease) in net assets	$	8,754
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense		36,337
(Increase) decrease in accounts receivable		-
(Increase) decrease in prepaid expenses		(1,060)
(Increase) decrease in tenant security deposit account		(13)
Increase (decrease) in accounts payable		5,990
Increase (decrease) in accrued interest payable		(126)
Increase (decrease) in tenant security deposits held in trust		173
Total adjustments		41,301
Net cash provided (used) by operating activities	$	50,055

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2012

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM TENANTS):
There are no accounts or notes receivable as of June 30, 2012

DELINQUENT TENANT ACCOUNTS RECEIVABLE:
There are no significant deliquent tenant accounts receivable as of June 30, 2012.

TENANT SECURITY DEPOSITS:
Tenant security deposits are held in a separate bank account in the name of the project. The security account balance as of June 30, 2012 is $5,088. Interest from funds held in the security deposit account is allocated to tenant security deposits. There is no unfunded liability as of June 30, 2012.

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2011	$	35,434
Monthly deposits		11,165
Interest earned		327
Authorized withdrawals		-
Ending balance, June 30, 2012	$	46,926

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2011	$	-
Interest income		-
Authorized withdrawals		-
Ending balance, June 30, 2012	$	-

ACCOUNTS PAYABLE (OTHER THAN TRADE CREDITORS):
There is a related party payable to Healthways in regard to management fees of $1,039 at June 30, 2012. All other accounts payable are for amounts to creditors.

ACCRUED TAXES:
There are no accrued taxes payable as of June 30, 2012.

COMPENSATION OF OWNERS:
There was no compensation paid to the owners during the period ended June 30, 2012.

SCHEDULE OF UNAUTHORIZED DISTRIBUTIONS OF PROJECT INCOME:
There was no unauthorized distribution of project income during the period ended June 30, 2012.

SCHEDULE OF NOTES PAYABLE (OTHER THAN MORTGAGES):
There were no notes payable other than mortgages as of June 30, 2012.

CHANGES IN OWNERSHIP:
There were no changes in ownership during the period ended June 30, 2012.

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE OF FUNDS IN FINANCIAL INSTITUTIONS:

Funds in financial institutions as of June 30, 2012 consist of the following:

Funds held by WesBanco Bank - regular operating account	$	4
Funds held by Progressive Bank - regular operating account		36,019
Funds held by Progressive Bank - reserve fund for replacements		46,926
Funds held by Progressive Bank- tenant security deposits		5,088
Total funds in financial institutions	$	88,037

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	40,628
Total cash		40,628
Current Obligations:		
Accounts payable - 30 days		(13,343)
Accrued expenses payable		(4,654)
Tenant security deposit liability		(3,821)
Total current obligations		(21,818)
Surplus cash (deficiency) at June 30, 2012	$	18,810
Deposit due residual receipts	$	18,810

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2012

CHANGES IN FIXED ASSET ACCOUNTS:

	Assets			
	Balance 06/30/11	Additions	Disposals	Balance 06/30/12
Land	$ 32,783	$ -	$ -	$ 32,783
Building and improvements	961,181		-	961,181
Building equipment	30,806	5,237		36,043
Furniture and fixtures	39,991	2,625	-	42,616
Total	1,064,761	7,862	-	1,072,623
Accumulated Depreciation	675,450	35,889	-	711,339
Book Value	$ 389,311	$ (28,027)	$ -	$ 361,284

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
HealthWays, Inc. & Affiliates
Weirton, West Virginia

We have audited the consolidated financial statements of HealthWays, Inc. & Affiliates (nonprofit organizations) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of HealthWays, Inc. & Affiliates is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered HealthWays, Inc. & Affiliates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HealthWays, Inc. & Affiliates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. See Findings 12-1 through 12-6.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ABC Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing*. See Finding 12-7

HealthWays, Inc. & Affiliates' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit HealthWays, Inc. & Affiliates' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Seachrist, Kennon & Marling, A.C.

Seachrist, Kennon, & Marling, A.C.
Wheeling, West Virginia
January 18, 2013

Finding 12-1: Material Weakness - HealthWays, Inc. and Brooke-Hancock Community Living, Inc.

Financial Statement Preparation – Financial Statement Finding:

Condition: The Organization currently requires assistance from the auditors to prepare its financial statements, complete with required footnote disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Criteria: Effective internal control over financial reporting requires that the Organization prepare its own financial statements and related footnotes or designate an employee with the knowledge to oversee the preparation of, and identify material misstatements in, the financial statements prepared by the auditor.

Effect: A likelihood exists that the Organization may issue financial statements and related footnotes that contain a misstatement that will not be prevented or detected by the Organization's internal control.

Recommendation: We recommend that the Organization designate an employee with the knowledge to oversee the preparation of, and review for material misstatements, the financial statements and related footnotes as prepared by the auditor. Additionally we recommend that management should assess the adequacy of the design of its policies and procedures related to the reconciliation of the general ledger accounts.

Response: Both the CFO and CEO review the financial statements and related footnotes presented by the Auditor. Healthways does reconcile the general ledger however last year a group of accounts were not reconciled because of the demands of changing accounting software and the state of West Virginia making major changes in the Waiver and Charity Care Programs.

Finding 12-2: Material Weakness – HealthWays, Inc. and Brooke-Hancock Community Living, Inc.

General Ledger Reconciliation – Financial Statement Finding:

Condition: Subsidiary ledgers and records supporting accounts are not being reconciled to the general ledger and certain account classifications are not being properly reflected.

Criteria: Effective internal control over financial reporting requires that the Organization reconcile subsidiary ledgers and records supporting accounts to the general ledger.

Effect: A likelihood exists that the Organization may issue financial statements that contain a misstatement that will not be prevented or detected by the organization's internal control.

Recommendation: We recommend that the Organization perform routine reconciliations of all general ledger accounts.

Response: Management realizes the need to reconcile general ledger accounts and to present financial statements to the Board of Directors that are free of misstatements. Most all accounts were reconciled but a group of accounts were missed and the CFO did not notice that a group of accounts was not reconciled during his review. However we had major changes in our business that required administrative and accounting staff.

Most of the new accounting software, Great Plains, became operational 07/01/11. The fixed assets program became operational in August 2011. We had to create allocation tables, spreadsheets and reports as we became familiar with the software.

The new Waiver manual went into effect 10/01/2011 and created a number of problems. Waiver changed and added service codes after 10/01/2011. Instead of converting all clients to the new waiver, the state decided to convert the clients at their annual meeting, or at critical junctures or at the client request. This left us dealing with old and new budgets throughout the year creating problems in billing.

Healthways kick off for electronic medicals records was October 2011. We spent countless hours preparing spreadsheets and entering information on employees, payees, service activity codes rate schedules etc., in preparation for have EMR with Qualifacts up and running by 07/01/2012.

Charity Care funding went from a grant to fee for service on 01/01/2012. Billing codes and rates needed checked and added, and files needed checked for documentation. Business processes for billing needed developed and put in place. Many problems occurred in billing and a number of telephone meeting were held between the state and the Behavioral Health Centers. Problems are still present and the state continues to have meetings on charity care.

The state changed the federal reporting forms and requires this information on all clients effective 07/01/2012. Only substance abuse clients needed a federal reporting form before July. Staff needed trained on this form and all staff needed trained on the changes. Healthways received a grant from DHHR for $9,500.00 to help with the costs of implementing the changes.

The electronic format for billing Medicaid, Medicare, Mt. State Blue Cross and Blue Shield, and the other insurances changed 07/01/2012. Accounting staff had to keep resubmitting billings until our systems person finally corrected all the problem in September 2012.

Finding 12-3: Material Weakness – HealthWays, Inc.

Financial Statement Preparation – Financial Statement Finding:

Condition: Certain material adjustments were required to be made to the accounting records including adjustments to assist in converting the accounting records from the cash basis to the accrual basis so the financial statements could be prepared in conformity with U.S. generally accepted accounting principles.

Criteria: Effective internal control over financial reporting requires that the Organization prepare its own financial statements and related footnotes or designate an employee with the knowledge to oversee the preparation of, and identify material misstatements in, the financial statements prepared by the auditor.

Effect: A likelihood exists that the Organization may issue financial statements and related footnotes that contain a misstatement that will not be prevented or detected by the Organization's internal controls.

Recommendation: We recommend that the Organization designate an employee with the knowledge to oversee the preparation of, and review for material misstatements, the financial statements and related footnotes as prepared by the auditor.

Response: Both the CFO and CEO review the financial statements and related footnotes presented by the Auditor. Both are aware that HealthWays uses the accrual method of accounting, which require all transactions to be recorded in the period in which they incur and not the period in which the money is received or paid.

Finding 12-4: Material Weakness – HealthWays, Inc.

Financial Statement Preparation – Financial Statement Finding:

Condition: We believe that a material weakness in internal control over financial reporting exists in the Organization's financial statement closing process for preparing its year-end financial statements, including (a) ineffective controls to ensure timely review of all account reconciliations and significant financial statement accounts, and (b) ineffective controls over the review of the year-end financial statements.

Criteria: Effective internal controls over financial reporting requires the Organization to have effective controls to ensure review of all account reconciliations and related financial statements.

Effect: A likelihood exists that the Organization may issue financial statements that contain a material misstatement that will not be prevented or detected by the Organization's internal controls.

Recommendation: We recommend that the Organization develop adequate internal controls over financial reporting and the financial statement closing process.

Response: Healthways does have procedures in place and the CFO does know it is his responsibility to review all account reconciliations.

HEALTHWAYS, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Finding 12-5: Material Weakness – HealthWays, Inc.

Financial Statement Preparation - Control Environment

Condition: There are five components of internal control: control environment, risk assessment, control activities, information and communication systems, and monitoring. Internal control is a process effected by those charged with governance and management designed to provide reasonable assurance about the achievement of the Organization's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. During our consideration of internal control over the preparation of financial statements for the purpose of planning our audit, we noted that internal controls related to information and communication were not effectively designed or implemented.

Criteria: Information and communication is the Organization's manual or automated procedures used to initiate, record, process and report on the Organization's transactions and maintain accountability for assets, liabilities and equity. .

Effect: The lack of an effective information and communication system results in a likelihood that financial reporting is not reliable.

Recommendation: We recommend the Organization evaluate the information and communication system internal controls over financial reporting. Information and communication systems include the accounting system and its manual or automated procedures and records used to initiate, record, process, and report the company's transactions, events, and conditions and to maintain accountability for the related assets, liabilities, and equity.

Response: Healthways is a small company so there is a constant exchange of information between administration and accounting. Even more so last year because of all the changes that occurred at Healthways. Lost in all the changes was the reconciliation of some accounts. The CFO will make sure all accounts are reconciled.

Finding 12-6: Material Weaknesses – Brooke-Hancock Community Living, Inc.

Documentation for Disbursements – Financial Statement Finding:

Condition: A random sample of 60 disbursements for the year ended June 30, 2012 was selected for testing. 3 of the disbursements tested were not supported by appropriate documentation.

Criteria: The Organization should require adequate documentation (original invoices, receipts, etc.) be provided to support all disbursements.

Effect: A likelihood exists that the Organization may not have adequate records to support certain transactions.

Response: It has always been the policy of Healthways that supporting documentation must exist for the payment to be issued, because of the change in managers at Shiloh; we believe the documentation exists but they were unable to locate it. We will have the manager submit documentation to the Board of Directors along with the accounts payable checks.

Finding 12-7: Noncompliance – Brooke-Hancock Community Living, Inc.

Department of Housing and Urban Development – Residual Receipts

Condition: The Department of Housing and Urban Development (HUD) and the Regulatory Agreement require that any residual receipts realized from the operations of the property be deposited in a residual receipts account within 60 days after the end of the fiscal year. Our examination of residual receipts for the year ended June 30, 2011 disclosed that the funds realized from operations for the period then ended had not been deposited into a residual receipts account as of the date of our fieldwork.

Criteria: The Regulatory Agreement for Brooke-Hancock Community Living, Inc. requires that any residual receipts realized from the operations of the property be deposited in a residual receipts account within 60 days after the end of the fiscal year.

Effect: A likelihood exists that the Organization may fail to make the required deposit of realized residual receipts in accordance with The Department of Housing and Urban Development (HUD) and the Regulatory Agreement.

Recommendation: We recommend that the Organization review and revise their policies and procedures related to timely deposits of any realized residual receipts.

Response: Healthways is now using Peach Tree accounting software for Shiloh, and will review the residual receipts from operations and deposit into a residual receipts account within sixty days of the end of the fiscal year.