HEALTHWAYS, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

DHHR - Finance

JUN 2 2014

Date Received

Optimizing Your Business Value and Creating Wealth

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

SEACHRIST, KENNON & MARLING, A.C.
Certified Public Accountants & Business Consultants

Craig K. Seachrist, CPA, CVA
Ronnie L. Marling, CPA, CFE
Chantelle S. Horvath, CPA
Sara France, CPA

Members of:
American Institute of Certified Public Accountants
Governmental Audit Quality Center
Employee Benefit Plan Audit Quality Center

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of HelathWays, Inc. & Affiliates (nonprofit organizations), which comprise the combined statement of financial position as of June 30, 2013, and the related consolidated statements of activities and changes in net assets (deficit) and the consolidated statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

21 Warden Run Road • Wheeling, WV 26003 • Phone: (304) 233-0141 • Fax: (304) 233-1226
www.skmcpa.com • E-mail: cpa@skmcpa.com

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthWays, Inc. and affiliates as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2014, on our consideration of HealthWays, Inc. and 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* in considering HealthWays, Inc. and affiliates internal control over financial reporting and compliance.

Seachrist, Kennon & Marling, A.C.

Seachrist, Kennon, & Marling, A.C.
Wheeling, West Virginia
January 29, 2014

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combined 2013
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 6,904,702	$ 10,628	$ 28,732	$ 6,944,062
Client receivables, net	1,249,454	-	-	1,249,454
Accounts and notes receivable	-	-	-	-
Contract receivables	470,810	-	-	470,810
Prepaid insurance	-	1,027	1,023	2,050
Deposits and prepaid assets	162,274	-	-	162,274
Total current assets	8,787,240	11,655	29,755	8,828,650
Deposits held in trust-funded	-	2,068	5,103	7,171
Restricted Deposits and Funded Reserves		29,508	44,744	74,252
Plant, property and equipment:				
Land	49,184	30,000	32,783	111,967
Buildings	3,155,110	468,605	986,409	4,610,124
Equipment	860,270	-	36,043	896,313
Furniture and fixtures	87,912	21,426	42,616	151,954
Vehicles	849,338	-	-	849,338
Construction in process	295,614	-	-	295,614
	5,297,428	520,031	1,097,851	6,915,310
Less accumulated depreciation	(3,386,754)	(181,501)	(748,576)	(4,316,831)
Property and equipment, net	1,910,674	338,530	349,275	2,598,479
Other assets, at cost:				
Investments	3,282,530	-	-	3,282,530
Investment in joint venture	90,957	-	-	90,957
Deferred Financing Costs	-	-	5,678	5,678
Total other assets	3,373,487	-	5,678	3,379,165
Total assets	$ 14,071,401	$ 381,761	$ 434,555	$ 14,887,717
LIABILITIES & NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable	$ 634,357	$ 7,270	$ 7,402	$ 649,029
Provider tax payable	40,351	-	-	40,351
Accrued wages and benefits	324,075	-	-	324,075
Deferred income	163,015		-	163,015
Tenant security deposits	-	1,713	3,601	5,314
Accrued interest payable	-	-	4,219	4,219
Mortgage payable-current portion	-	-	25,455	25,455
Total current liabilities	1,161,798	8,983	40,677	1,211,458
Long-Term Liabilities:				
Mortgage payable	-	378,400	761,299	1,139,699
Total liabilities	1,161,798	387,383	801,976	2,351,157
Net assets (deficit):				
Unrestricted net assets (deficit)	12,894,170	(5,622)	(367,421)	12,521,127
Temporarily restricted net assets	15,433	-	-	15,433
Total net assets (deficit)	12,909,603	(5,622)	(367,421)	12,536,560
Total liabilities and net assets (deficit)	$ 14,071,401	$ 381,761	$ 434,555	$ 14,887,717

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, 2013

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2013
UNRESTRICTED NET ASSETS:					
Support and Revenues					
Net client service revenue - Note 1	$ 9,375,911	$ -	$ -	$ -	$ 9,375,911
Rental income	-	28,969	66,621	-	95,590
Tenant assistance payments	-	17,614	101,383	-	118,997
West Virginia Department of Health and Human Resources funding	2,085,640	-	-	-	2,085,640
Other support	304,546	-	-	-	304,546
Workshops and rentals	16,760	-	-	-	16,760
Investment income (loss)	257,409	11	297	-	257,717
Management fee revenue	16,377	-	-	(8,573)	7,804
Tenant charges	-	1,410	-	-	1,410
Other revenue	41,114	-	3,051	-	44,165
Total support and revenues	12,097,757	48,004	171,352	(8,573)	12,308,540
Net assets released from restrictions	2,540	-	-	-	2,540
Total revenues and reclassifications	12,100,297	48,004	171,352	(8,573)	12,311,080
Operating Expenses					
Salaries and wages	3,250,681	-	-	-	3,250,681
Employee benefits	1,069,707	-	-	-	1,069,707
Contracted services	3,645,958	14,003	27,217	-	3,687,178
Supplies	213,377	2,951	9,092	-	225,420
Transportation	256,105	-	-	-	256,105
Utilities and telephone	141,974	9,814	20,673	-	172,461
Maintenance	174,262	1,981	2,681	-	178,924
Depreciation and amortization	200,351	12,145	37,685	-	250,181
Bad debt	68,217	-	-	-	68,217
Insurance	109,309	3,195	4,197	-	116,701
Interest expense	-	-	55,758	-	55,758
Provider tax	441,283	-	-	-	441,283
Management fees	-	3,936	4,637	(8,573)	-
Investment fees	19,923	-	-	-	19,923
Other	155,703	2,934	905	-	159,542
Total expenses	9,746,850	50,959	162,845	(8,573)	9,952,081
Other Income/Expenses					
Gain (Loss) on Disposition	(3,381)	-	-	-	(3,381)
Total other income/expenses	(3,381)	-	-	-	(3,381)
Increase (decrease) in unrestricted net assets	2,350,066	(2,955)	8,507	-	2,355,618

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, 2013

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2013
TEMPORARILY RESTRICTED NET ASSETS:					
Support and Revenues					
Grants	6,080	-	-	-	6,080
Net assets released from restrictions	(2,540)	-	-	-	(2,540)
Increase (decrease) in temporarily restricted net assets	3,540	-	-	-	3,540
Increase (decrease) in net assets	2,353,606	(2,955)	8,507	-	2,359,158
Net assets (deficit), beginning of year	10,555,997	(2,667)	(375,928)	-	10,177,402
Net assets (deficit), end of year	$ 12,909,603	$ (5,622)	$ (367,421)	$ -	$ 12,536,560

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2013
Cash Flows from Operating and Non-Operating Revenue Activities:					
Increase (decrease) in net assets	$ 2,353,606	$ (2,955)	$ 8,507	$ -	$ 2,359,158
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:					
Depreciation	200,351	12,145	37,685	-	250,181
(Disposals) of property and equipment	(256,866)	-	-		(256,866)
Realized and unrealized (gain) loss on investments	(134,697)	-	-	-	(134,697)
(Gain) loss on disposal of fixed assets	-	-			-
Realized (gain) loss on sale of assets	(3,381)	-	-	-	(3,381)
Change in assets and liabilities:					
(Increase) decrease in receivables	265,285	-	-	-	265,285
(Increase) decrease in deposits and prepaid expenses	(80,027)	(312)	37	-	(80,302)
(Increase) decrease in other assets	-	-		-	-
(Increase) decrease in other joint venture	(4,785)	-			(4,785)
Increase (decrease) in accounts payable	43,277	605	(5,941)	-	37,941
Increase (decrease) in provider tax	2,332	-		-	2,332
Increase (decrease) in accrued wages and benefits	(16,997)	-		-	(16,997)
Increase (decrease) in tenant security deposits	-		(235)	-	(235)
Increase (decrease) in other liabilities	-	-	(435)	-	(435)
Increase (decrease) in deferred income	55,953	-	-	-	55,953
Net cash provided (used) by operating activities	2,424,051	9,483	39,618	-	2,473,152
Cash Flows from Investing Activities					
(Purchases) of property and equipment	(132,249)	(1,017)	(25,228)	-	(158,494)
(Purchases) of investments	(3,033,292)	-	-	-	(3,033,292)
Sale of investments	1,996,373	-	-	-	1,996,373
Net (deposits) withdrawls in residial receipts	-	(2)	-	-	(2)
Net (deposits to) withdrawals from the residual receipts account	-	-	6,374		6,374
Net (deposits) to withdrawls from the reserve for replacement	-	(2,209)	(4,192)	-	(6,401)
Net cash provided (used) in investing activities	(1,169,168)	(3,228)	(23,046)	-	(1,195,442)
Cash Flows from Financing Activities					
Principal (payments) on first mortgage	-	-	(23,380)	-	(23,380)
Net cash provided (used) in financing activities	-	-	(23,380)	-	(23,380)
Net increase (decrease) in cash	1,254,883	6,255	(6,808)	-	1,254,330
Cash and cash equivalents at beginning of the year	5,649,819	4,373	35,540	-	5,689,732
Cash and cash equivalents at end of the year	$ 6,904,702	$ 10,628	$ 28,732	$ -	$ 6,944,062
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.

HEALTHWAYS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

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 using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation - The consolidated financial statements as of June 30, 2013 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, 2013, allowances and discounts totaled $1,327,903.

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, 2013 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.

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.

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

Property and Equipment (Continued) - 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, 2013 was $200,351. Depreciation for Greenbrier Manor, Inc. for the year ended June 30, 2013 was $12,145. Depreciation expense for Brooke-Hancock Community Living, Inc. for the year ended June 30, 2013 was $37,237. Consolidated depreciation expense for the year ended June 30, 2013 was $250,181. 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 2013.

Client Receivables - Client receivables have been reported net of allowances for uncollectibles and contractual adjustments of $410,419 as of June 30, 2013. Past due accounts are written off in the period management deems them to be uncollectible. 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.

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

Net Asset Classification - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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 may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization or Trustee. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

Net assets with voluntary designations by the governing board of the Organization is considered to be unrestricted.

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, 2013. HealthWays, Inc.'s temporarily restricted net assets at June 30, 2013 were $15,433. The composition of the temporarily restricted net assets for HealthWays, Inc. as of June 30, 2013 was $15,433 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, 2013.

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 2009, 2010, and 2011 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, 2013, 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.

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

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.

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.

	2013
Program Services	$ 8,022,145
Management & General	1,724,705
	$ 9,746,850

Greenbrier Manor, Inc.

	2013
Program Services	$ 38,814
Management & General	8,209
	$ 47,023

Brooke-Hancock Community Living, Inc.

	2013
Program Services	$ 148,611
Management & General	9,957
	$ 158,208

Consolidated

	2013
Program Services	$ 8,209,570
Management & General	1,742,511
	$ 9,952,081

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

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 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, 2013, retirement plan expense related to the Simplified Employee Pension plan amounted to $155,780 of which $-0- was unpaid and included in accrued wages and benefits on the balance sheet at June 30, 2013.

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, 2013 investments held were comprised of the following:

June 30, 2013	Cost	Market
Cash and Cash Equivalents	$ 39,918	$ 39,918
Equity Securities	475,288	527,601
Mutual Funds-Equity	2,599,056	2,591,059
Real Estate	108,503	123,952
Total	$ 3,222,765	$ 3,282,530

Unrealized investment (gains) losses for the year ending June 30, 2013 amounted to$(90,382).

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 $90,957 as of June 30, 2013.

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, 2013. The line has a variable interest rate and requires said interest to be paid monthly.

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, 2013, the outstanding balance on this mortgage amounted to $786,754. The principal payments on mortgages and notes payable due in the next five years and thereafter are as follows:

2014	$ 25,455
2015	27,293
2016	29,263
2017	31,375
2018	33,639
Thereafter	639,729
	$ 786,754

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 $17,614 for the year ended June 30, 2013.

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 $101,383 for the year ended June 30, 2013.

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, 2013.

	First Choice Credit Union	WesBanco	Tin Mill Credit Union	Hancock Co. Savings Bank
Balance as of June 30, 2013	$ 5,768,240	$ 865,599	$ 154,464	$ 276,543
Less: FDIC &NCUA Coverage	(250,000)	(250,000)	(250,000)	(250,000)
Less: Additional Coverage	(5,581,240)	-	-	-
Amount uninsured at June 30, 2013	$ -0-	$ 615,599	$ -0-	$ 26,543

Greenbrier Manor, Inc.

	United Bank	Hancock Co. Savings Bank
Balance as of June 30, 2013	$ 23,584	$ 10,952
Less: FDIC & NCUA Coverage	(250,000)	(250,000)
Less: Additional Coverage	-	-
Amount uninsured at June 30, 2013	$ -0-	$ -0-

Brooke-Hancock Community Living, Inc.

	Progressive Bank
Balance as of June 30, 2013	$ 78,579
Less: FDIC & NCUA Coverage	(250,000)
Less: Additional Coverage	-
Amount uninsured at June 30, 2013	$ -0-

The total uninsured excess as of June 30, 2013 was $642,142; 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, 2013:

	Assets at Fair Value as of June 30, 2013		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:	$ 39,918	$ -	$ -
Equity Securities:			
Healthcare	80,914	-	-
Financial	98,022	-	-
Technology	81,551	-	-
Basic Materials	14,289	-	-
Consumer Goods	90,784	-	-
Communications	22,336	-	-
Energy	41,948	-	-
Industrial Goods	39,759	-	-
Utilities	11,761	-	-
Real Estate	27,419	-	-
Index	18,818	-	-
Equity Mutual Funds:			
Mid-cap growth	18,094	-	-
Diversified Emerging Markets	80,427	-	-
Emerging Markets	80,688	-	-
Large Blend	18,751	-	-
Intermediate Term	570,993	-	-
High Yield Bond	137,621	-	-
Large Value	46,805	-	-
Small Blend	18,698	-	-
Real Estate	27,500	-	-
Short Term Bond Fund	112,722	-	-
Large Growth	46,628	-	-
Multisector Bond	36,462	-	-
International Multi Cap Value	57,099	-	-
Small Growth	23,250	-	-
Moderate Allocation	1,315,318	-	-
Real Estate	-	123,955	-
Total investments	$ 3,158,575	$ 123,955	$ -

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, 2013 were as follows:

Greenbrier Manor, Inc.	**Balance**
Replacement Reserve	$ 24,673
Residual Receipts	4,835
Tenant Security Deposits	2,068
Brooke-Hancock Community Living , Inc.	**Balance**
Replacement Reserve	$ 43,606
Residual Receipts	1,138
Tenant Security Deposits	5,103

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, 2013, Greenbrier Manor, Inc. paid $8,370 in management and bookkeeping fees and $1,965 in other reimbursements to HealthWays, Inc. There are no amounts payable to or receivable from Greenbrier Manor, Inc. as of June 30, 2013. Brooke-Hancock Community Living, Inc. paid $4,637 in management fees and $2,191 in other reimbursements to HealthWays, Inc. There were no receivables from or amounts payable to related parties as of June 30, 2013. There are no amount payable to HealthWays, Inc in regards to management fees as of June 30, 2013.

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.

Subsequent Events - Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the organization through January 29, 2014, (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTARY INFORMATION

SEACHRIST, KENNON & MARLING, A.C.
Certified Public Accountants & Business Consultants

Craig K. Seachrist, CPA, CVA
Ronnie L. Marling, CPA, CFE
Chantelle S. Horvath, CPA
Sara France, CPA

Members of:
American Institute of Certified Public Accountants
Governmental Audit Quality Center
Employee Benefit Plan Audit Quality Center

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY 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, 2013, and have issued our report thereon dated January 29, 2014, which expressed an unmodified opinion on those financial statements, which appears on pages 1-2. 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, 2013 and 2012 (shown on pages 20-22) the schedule of property and equipment purchases with BHHF administered funding (shown on pages 23-24) and the schedule of expenditures of federal and state awards (shown on pages 25-26) 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, 2013 and supplemental data required by HUD (shown on pages 27-32), 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, 2013, and supplemental data required by HUD (shown on pages 33-38), 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 29, 2014

21 Warden Run Road • Wheeling, WV 26003 • Phone: (304) 233-0141 • Fax: (304) 233-1226
www.skmcpa.com • E-mail: cpa@skmcpa.com

HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 6,904,702	$ 5,649,819
Client receivables, net	1,249,454	1,563,924
Contract receivables	470,810	421,625
Deposits and prepaid assets	162,274	82,247
Total current assets	8,787,240	7,717,615
Plant, property and equipment:		
Land	49,184	49,184
Buildings	3,155,110	3,140,271
Equipment	860,270	922,698
Furniture and fixtures	87,912	87,912
Vehicles	849,338	907,986
Construction in process	295,614	21,137
	5,297,428	5,129,188
Less accumulated depreciation	(3,386,754)	(3,410,660)
Property and equipment, net	1,910,674	1,718,528
Other assets, at cost:		
Investments	3,282,530	2,110,914
Investment in joint venture	90,957	86,172
Total other assets	3,373,487	2,197,086
Total assets	$ 14,071,401	$ 11,633,229
LIABILITIES & NET ASSETS:		
Current liabilities:		
Accounts payable	$ 634,357	$ 591,079
Provider tax payable	40,351	38,019
Accrued wages and benefits	324,075	341,072
Reserve for third party settlements	-	-
Deferred income	163,015	107,062
Total current liabilities	1,161,798	1,077,232
Total liabilities	1,161,798	1,077,232
Net assets:		
Unrestricted net assets	12,894,170	10,544,104
Temporarily restricted net assets	15,433	11,893
Total net assets	12,909,603	10,555,997
Total liabilities and net assets	$ 14,071,401	$ 11,633,229

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
UNRESTRICTED NET ASSETS:		
Support and Revenues		
Net client service revenue	$ 9,375,911	$ 9,143,833
West Virginia Department of Health and Human Resources funding	2,085,640	2,088,711
Other support	304,546	251,826
Workshops and rentals	16,760	13,757
Investment income (loss)	257,409	104,077
Management fee revenue	16,377	14,046
Other revenue	41,114	21,537
Total support and revenues	12,097,757	11,637,787
Net assets released from restrictions	2,540	30,819
Total support, revenues and reclassifications	12,100,297	11,668,606
Operating Expenses		
Salaries and wages	3,250,681	3,182,625
Employee benefits	1,069,707	1,048,444
Contracted services	3,645,958	3,357,906
Supplies	213,377	175,718
Transportation	256,105	251,463
Utilities and telephone	141,974	140,106
Building and equipment maintenance	174,262	164,668
Depreciation	200,351	206,699
Bad debt	68,217	87,118
Insurance	109,309	99,216
Provider tax	441,283	422,552
Investment fees	19,923	16,092
Other	155,703	57,777
Total expenses	9,746,850	9,210,384
Other Income/Expenses		
Gain (Loss) on Disposition	(3,381)	(66,479)
Total other income/expenses	(3,381)	(66,479)
Increase (decrease) in unrestricted net assets	2,350,066	2,391,743
TEMPORARILY RESTRICTED NET ASSETS:		
Support and Revenues		
Donations	6,080	-
Net assets released from restrictions	(2,540)	(30,819)
Increase (decrease) in temporarily restricted net assets	3,540	(30,819)
Increase (decrease) in net assets	2,353,606	2,360,924
Net assets, beginning of year	10,555,997	8,195,073
Net assets, end of year	$ 12,909,603	$ 10,555,997

HEALTHWAYS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows from Operating and Non-Operating Revenue Activities:		
Increase (decrease) in net assets	$ 2,353,606	$ 2,360,924
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:		
Depreciation	200,351	206,699
Loss on (disposals) of property and equipment	(256,866)	66,479
Realized and unrealized (gain) loss on investments	(134,697)	(2,829)
(Gain) loss on disposal of fixed assets		-
Realized (gain) loss on sale of assets	(3,381)	-
Change in assets and liabilities:		
(Increase) decrease in receivables	265,285	(903,364)
(Increase) decrease in deposits and prepaid expenses	(80,027)	44,350
(Increase) decrease in other assets	-	-
(Increase) decrease in joint venture	(4,785)	-
Increase (decrease) in accounts payable	43,277	116,465
Increase (decrease) in provider tax	2,332	10,119
Increase (decrease) in accrued wages and benefits	(16,997)	(36,581)
Increase (decrease) in other liabilities	-	1,500
Increase (decrease) in deferred income	55,953	(32,541)
Net cash provided (used) by operating activities	2,424,051	1,831,221
Cash Flows from Investing Activities		
(Purchases) of property and equipment	(132,249)	(108,441)
(Purchases) of investments	(3,033,292)	(1,195,450)
Sale of investments	1,996,373	399,298
Net cash provided (used) in investing activities	(1,169,168)	(904,593)
Net increase (decrease) in cash	1,254,883	926,628
Cash at beginning of the year	5,649,819	4,723,191
Cash at end of the year	$ 6,904,702	$ 5,649,819
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, 2013

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, 2013

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, 2013

Federal Grantor/ Program Title	Account Number	Federal CFDA #	Current Revenue Earned	Expenditures
SA Services	8793-2013-2884-130-128	93.959	$ 46,825	$ 46,825
SA Adolescent Services	8793-2013-2892-130-128	93.959	1,803	1,803
DIG	8723-2013-2886-130-128	93.243	40,477	40,477
			$ 89,105	$ 89,105

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 2013. 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.

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

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

State Grantor/ Program Title	Account Numbers	Federal CFDA #	Current Revenue Earned	Expenditures
Uncompensated Care	0525-2013-3065-219-258	N/A	$ 40,538	$ 40,538
Support Services	0525-2013-3041-219-258	N/A	142,204	142,204
Indigent Care	0525-2010-3065-219-258	N/A	40,538	40,538
Family Support Services	0525-2013-2867-221-258	N/A	63,903	63,903
Client Core Services	0525-2013-2851-219-2588	N/A	68,769	68,769
Community Support Improvement	0525-2013-3702-219-258	N/A	11,268	11,268
SA Adult Outpatient	0525-2013-2884-219-258	N/A	226,366	226,366
SA Adult Residential Treatment	0525-2013-2891-219-258	N/A	511,738	511,738
SA Adolescent Outpatient	0525-2013-2892-219-258	N/A	106,072	106,072
Care Coordinators Improvement	0525-2013-3701-219-258	N/A	178,839	178,839
Co - Occurring	0525-2013-3747-219-258	N/A	15,711	15,711
Childrens Clinical Outreach Service	0525-2013-2919-219-258	N/A	50,121	50,121
ADT Serv- Cat B	0525-2013-2851-219-2588	N/A	103,403	103,403
Crisis Service	0525-2013-2851-219-2588	N/A	83,561	83,561
Behavoiral Health Court	0525-2013-2852-219-258	N/A	43,050	43,050
			$ 1,686,081	$ 1,686,081

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, 2013. 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, 2013

		2013
ASSETS:		
Current Assets:		
Cash	$	10,628
Prepaid insurance		1,027
Total current assets		11,655
Deposits Held in Trust - Funded:		
Tenant security deposits		2,068
Restricted Deposits and Funded Reserves:		
Reserve for replacements		24,673
Residual reserve		4,835
Total restricted deposits		29,508
Property and Equipment:		
Land		30,000
Building and improvements		468,605
Furniture and fixtures		21,426
Total property and equipment		520,031
Less - accumulated depreciation		(181,501)
Net property and equipment		338,530
Total assets	$	381,761
LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities:		
Accounts payable	$	7,270
Total current liabilities		7,270
Deposit and Prepayment Liabilities:		
Tenant security deposits		1,713
Long-Term Liabilities:		
Mortgage payable		378,400
Total liabilities		387,383
Net Assets:		
Unrestricted net assets (deficit)		(5,622)
Total liabilities and net assets (deficit)	$	381,761

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2013

	2013
REVENUES:	
Rental income	$ 28,969
Tenant assistance payments	17,614
Investment income - residual receipts	2
Investment income - replacement reserve	8
Investment income - other	1
Tenant charges	1,410
Total revenues	48,004
EXPENSES:	
Office expense	527
Management fee	3,936
Bookkeeping expense	7,534
Miscellaneous administrative expenses	3,105
Total administrative expenses	15,102
Electric	3,673
Water	2,432
Gas	3,011
Total utilities	9,116
Supplies	2,951
Contracts	6,469
Garbage and Trash Removal	561
Snow Removal	1,420
Total operating & maintenance expenses	11,401
Property Insurance	2,857
Dishonesty bond insurance	338
Total taxes & insurance	3,195
Total expenses before depreciation	38,814
Increase (decrease) in net assets before depreciation	9,190
Depreciation	12,145
Increase (decrease) in net assets	(2,955)
Net assets (deficit), beginning of year	(2,667)
Net assets (deficit), end of year	$ (5,622)

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	2013
Cash Flows from Operating Activities	
Rental receipts	$ 46,583
Interest receipts	-
Other operating receipts	1,421
Total recipts	48,004
Administrative	(10,163)
Management fee	(3,936)
Utilities	(9,116)
Operating and maintenance	(11,798)
Property insurance	(3,507)
Tenant security deposits	(1)
Total Disbursements	(38,521)
Net cash provided (used) by operating activities	9,483
Cash Flows from Investing Activities	
Net (deposits to) withdrawls from reserve for replacement account	(2,209)
Net (deposits to) withdrawls from other reserves	(2)
(Purchases) of fixed assets	(1,017)
Net cash provided (used) by investing activities	(3,228)
Net increase (decrease) in cash	6,255
Cash at beginning of the year	4,373
Cash at end of the year	$ 10,628
Cash Flows from Operating Activities	
Increase (decrease) in net assets	$ (2,955)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation expense	12,145
(Increase) decrease in prepaid expenses	(312)
Increase (decrease) in accounts payable	605
Total adjustments	12,438
Net cash provided (used) by operating activities	$ 9,483

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2013

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM TENANTS):

There are no accounts or notes receivable as of June 30, 2013

DELINQUENT TENANT ACCOUNTS RECEIVABLE:

There are no significant deliquent tenant accounts receivable as of June 30, 2013.

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, 2013 is $2,068. Interest from funds held in the security deposit account is allocated to tenant security deposits. There is no unfunded liability as of June 30, 2013.

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2012	$	22,464
Monthly deposits		2,201
Interest earned		8
Authorized withdrawals		-
Ending balance, June 30, 2013	$	24,673

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2012	$	4,833
Interest income		2
Authorized withdrawals		-
Ending balance, June 30, 2013	$	4,835

ACCOUNTS PAYABLE (OTHER THAN TRADE CREDITORS):

There are no accounts payable for amounts other than creditors as of June 30, 2013.

ACCRUED TAXES:

There are no accrued taxes payable as of June 30, 2013.

COMPENSATION OF OWNERS:

There was no compensation paid to the owners during the period ended June 30, 2013.

SCHEDULE OF UNAUTHORIZED DISTRIBUTIONS OF PROJECT INCOME:

There was no unauthorized distribution of project income during the period ended June 30, 2013.

SCHEDULE OF NOTES PAYABLE (OTHER THAN MORTGAGES):

There were no notes payable other than mortgages as of June 30, 2013.

CHANGES IN OWNERSHIP:

There were no changes in ownership during the period ended June 30, 2013.

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE OF FUNDS IN FINANCIAL INSTITUTIONS:

Funds in financial institutions as of June 30, 2013 consist of the following:

Funds held by United National Bank - regular operating account	$	10,628
Funds held by United National Bank - tenant security deposits		2,068
Funds held by United National Bank - reserve fund for replacements		13,704
Funds held by United National Bank - residual receipts		4,835
Funds held by Hancock County Savings Bank - residual receipts		-
Funds held by Hancock County Savings Bank - reserve fund for replacements		10,969
Total funds in financial institutions	$	42,204

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	12,696
Total cash		12,696
Current Obligations:		
Accounts payable - 30 days		1,470
Accrued expenses payable		5,800
Tenant security deposit liability		1,713
Total current obligations		8,983
Surplus cash (deficiency) at June 30, 2013	$	3,713
Deposit due residual receipts	$	-

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2013

CHANGES IN FIXED ASSET ACCOUNTS:

	Assets			
	Balance 06/30/12	Additions	Disposals	Balance 06/30/13
Land	$ 30,000	$ -	$ -	$ 30,000
Building and improvements	468,605	-	-	468,605
Furniture and fixtures	20,409	1,017	-	21,426
Total	$ 519,014	$ 1,017	$ -	$ 520,031
Accumulated Depreciation	169,356	12,145	-	181,501
Book Value	$ 349,658	$ (11,128)	$ -	$ 338,530

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

	2013
ASSETS:	
Current Assets:	
Cash	$ 28,732
Prepaid insurance	1,023
Total current assets	29,755
Deposits Held in Trust - Funded:	
Tenant security deposits	5,103
Restricted Deposits and Funded Reserves:	
Reserve for replacements	43,606
Residual reserve	1,138
Total restricted deposits	44,744
Property and Equipment:	
Land	32,783
Building and improvements	986,409
Building equipment	36,043
Furnishings	42,616
Total property and equipment	1,097,851
Less - accumulated depreciation	(748,576)
Net property and equipment	349,275
Other Assets:	
Deferred financing costs	5,678
Total other assets	5,678
Total assets	$ 434,555
LIABILITIES AND NET ASSETS (DEFICIT):	
Current Liabilities:	
Accounts payable	$ 7,402
Accrued interest payable	4,219
Mortgage payable - current portion	25,455
Total current liabilities	37,076
Deposit and Prepayment Liabilities:	
Tenant security deposits	3,601
Long-Term Liabilities:	
Mortgage payable	761,299
Total liabilities	801,976
Net Assets:	
Unrestricted net assets (deficit)	(367,421)
Total liabilities and net assets (deficit)	$ 434,555

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, 2013

	2013
REVENUES:	
Rental income	$ 66,621
Tenant assistance payments	101,383
Financial revenue-project operations	41
Investment income - replacement reserve	256
Laundry and vending revenue	2,081
Other income	970
Total revenues	171,352
EXPENSES:	
Office expense	151
Management fees	4,637
Bookkeeping fees	9,597
Miscellaneous administrative expenses	3,341
Total administrative expenses	17,726
Electric	8,265
Water	7,578
Gas	2,243
Total utilities	18,086
Supplies	9,092
Contracts	17,620
Garbage and trash removal	1,729
Heating/cooling repairs and maintenance	952
Total operating and maintenance	29,393
Property insurance	4,197
Total taxes and insurance	4,197
Interest-mortgage	55,758
Total expenses before depreciation	125,160
Increase (decrease) in net assets before depreciation	46,192
Depreciation	37,237
Amortization Expense	448
Increase (decrease) in net assets	8,507
Net assets (deficit), beginning of year	(375,928)
Net assets (deficit), end of year	$ (367,421)

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2013

		2013
Cash Flows from Operating Activities		
Rental receipts	$	168,004
Interest receipts		297
Other operating receipts		3,051
Total receipts		171,352
Administrative		(15,070)
Management fee		(4,637)
Utilities		(20,066)
Operating and maintenance		(31,373)
Property insurance		(4,160)
Tenant security deposits		(235)
Interest on first mortgage		(56,193)
Total disbursements		(131,734)
Net cash provided (used) by operating activities		39,618
Cash Flows from Investing Activites		
Net (deposits to) withdrawals from the reserve for replacement account		(4,192)
Net (deposits to) withdrawals from the residual receipts account		6,374
Purchase of fixed assets		(25,228)
Net cash provided (used) by investing activities		(23,046)
Cash Flows from Financing Activities		
Principal payments on first mortgage		(23,380)
Net cash provided (used) by financing activities		(23,380)
Net increase (decrease) in cash		(6,808)
Cash at beginning of the year		35,540
Cash at end of the year	$	28,732

Cash Flows from Operating Activities		
Increase (decrease) in net assets	$	8,507
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense		37,685
(Increase) decrease in prepaid expenses		37
(Increase) decrease in tenant security deposit account		(220)
Increase (decrease) in accounts payable		(5,941)
Increase (decrease) in accrued interest payable		(435)
Increase (decrease) in tenant security deposits held in trust		(15)
Total adjustments		31,111
Net cash provided (used) by operating activities	$	39,618

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2013

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM TENANTS):

There are no accounts or notes receivable as of June 30, 2013

DELINQUENT TENANT ACCOUNTS RECEIVABLE:

There are no significant deliquent tenant accounts receivable as of June 30, 2013.

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, 2013 is $5,103. Interest from funds held in the security deposit account is allocated to tenant security deposits. There is no unfunded liability as of June 30, 2013.

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2012	$	39,414
Monthly deposits		3,979
Interest earned		213
Authorized withdrawals		-
Ending balance, June 30, 2013	$	43,606

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2012	$	7,512
Interest income		43
Authorized withdrawals		(25,228)
Deposits		18,811
Ending balance, June 30, 2013	$	1,138

ACCOUNTS PAYABLE (OTHER THAN TRADE CREDITORS):

There is a related party payable to Healthways in regard to management fees of $-0- at June 30, 2013. All other accounts payable are for amounts to creditors.

ACCRUED TAXES:

There are no accrued taxes payable as of June 30, 2013.

COMPENSATION OF OWNERS:

There was no compensation paid to the owners during the period ended June 30, 2013.

SCHEDULE OF UNAUTHORIZED DISTRIBUTIONS OF PROJECT INCOME:

There was no unauthorized distribution of project income during the period ended June 30, 2013.

SCHEDULE OF NOTES PAYABLE (OTHER THAN MORTGAGES):

There were no notes payable other than mortgages as of June 30, 2013.

CHANGES IN OWNERSHIP:

There were no changes in ownership during the period ended June 30, 2013.

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2013

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		28,728
Funds held by Progressive Bank - reserve fund for replacements		43,606
Funds held by Progressive Bank- tenant security deposits		5,103
Total funds in financial institutions	$	77,441

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	33,835
Total cash		33,835
Current Obligations:		
Accounts payable - 30 days		(7,402)
Accrued expenses payable		(4,219)
Tenant security deposit liability		(3,601)
Total current obligations		(15,222)
Surplus cash (deficiency) at June 30, 2013	$	18,613
Deposit due residual receipts	$	18,613

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2013

CHANGES IN FIXED ASSET ACCOUNTS:

	Assets			
	Balance 06/30/12	Additions	Disposals	Balance 06/30/13
Land	$ 32,783	$ -	$ -	$ 32,783
Building and improvements	961,181	25,228	-	986,409
Building equipment	36,043	-		36,043
Furniture and fixtures	42,616	-	-	42,616
Total	1,072,623	25,228	-	1,097,851
Accumulated Depreciation	711,339	37,237	-	748,576
Book Value	$ 361,284	$ (12,009)	$ -	$ 349,275

SEACHRIST, KENNON & MARLING, A.C.

Certified Public Accountants & Business Consultants

Craig K. Seachrist, CPA, CVA
Ronnie L. Marling, CPA, CFE
Chantelle S. Horvath, CPA
Sara France, CPA

Members of:
American Institute of Certified Public Accountants
Governmental Audit Quality Center
Employee Benefit Plan Audit Quality Center

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of HelathWays, Inc. & Affiliates (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HealthWays, Inc. & Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 13-1 and 13-2.

21 Warden Run Road • Wheeling, WV 26003 • Phone: (304) 233-0141 • Fax: (304) 233-1226
www.skmcpa.com • E-mail: cpa@skmcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HealthWays, Inc. & Affiliates' financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item See Finding 13-2.

Healthways, Inc. & Affiliates' Responses to Findings

HealthWays, Inc. & Affiliates' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. HealthWays, Inc. & Affiliates' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seachrist, Kennon & Marling, A.C.

Seachrist, Kennon, & Marling, A.C.
Wheeling, West Virginia
January 29, 2014

HEALTHWAYS, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Finding 13-1: Material Weakness - Brooke-Hancock Community Living, Inc.

Documentation for Disbursements – Financial Statement Finding:

Condition: A random sample of 60 disbursements for the year ended June 30, 2013 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: HealthWays, Inc. has a policy that all supporting accounting documentation must be kept for five years. A problem occurred when the new manager of Shiloh could not find records filed by the previous manager. HealthWays, Inc. instructed Shiloh to keep all invoices and file them in the month they were paid. HealthWays, Inc. will randomly check some disbursements to see if this policy is being followed.

Finding 13-2: Material Weaknesses – Brooke-Hancock Community Living, Inc.

Segregation of Duties:

Condition: The Association currently does not have properly designed and implemented internal controls that would be preferred to ensure optimum segregation of duties.

Criteria: Effective internal control over financial reporting necessitates segregation of duties among unrelated employees of the Association, or direct involvement of the board of directors or other supervisory committee, in order to minimize the risk of financial statement misstatements caused by error or fraud.

Effect: A likelihood exists that the Association may issue financial statements and related footnotes that contain misstatements caused by error or fraud due to lack of segregation of duties.

Recommendation: We recommend that management assess the adequacy of the controls and design appropriate controls, as necessary, to rectify any inadequacies noted.

Response: HealthWays, Inc. has segregated some duties such as staff at Shiloh collect the rents and the manager deposits the money but staff at HelathWays, Inc. are responsible for entering rents and receipts into the software program. The manager of Shiloh writes checks and those checks must be accompanied by supporting documentation for signature and then HealthWays, Inc. Staff enter the expenses and disbursements into the software program. HealthWays, Inc. will continue to look for ways to segregate duties at Shiloh.