

HEALTHWAYS, INC. AND AFFILIATE

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017**

DHHR - Finance

JUN 26 2019

Date Received



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

**HEALTHWAYS, INC. AND AFFILIATE
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JUNE 30, 2017**

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
HealthWays, Inc. & Affiliate

We have audited the accompanying combined financial statements of HealthWays, Inc. & Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities and changes in net assets (deficit), and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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.

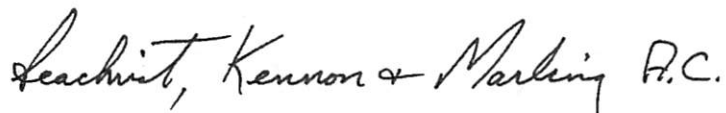
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of HealthWays, Inc. & Affiliate as of June 30, 2017, 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 October 4, 2018, on our consideration of HealthWays, Inc.'s 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HealthWays, Inc.'s 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.'s internal control over financial reporting and compliance.



Seachrist, Kennon & Marling, A.C.
Wheeling, West Virginia
October 4, 2018

DHHR - Finance

JUN 26 2019

Date Received

**HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>HealthWays, Inc.</u>	<u>Brooke-Hancock Community Living, Inc.</u>	<u>Combining Entries</u>	<u>Combined 2017</u>
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 10,274,714	\$ 5,300	\$ -	\$ 10,280,014
Client receivables, net	1,342,579	-	-	1,342,579
Contract receivables	1,080,809	-	-	1,080,809
Prepaid insurance	-	2,157	-	2,157
Deposits and prepaid assets	133,015	-	-	133,015
Total current assets	<u>12,831,117</u>	<u>7,457</u>	<u>-</u>	<u>12,838,574</u>
Deposits held in trust-funded	-	5,123	-	5,123
Restricted Deposits and Funded Reserves	-	28,036	-	28,036
Plant, property and equipment:				
Land	49,184	32,783	-	81,967
Buildings	3,206,658	1,127,722	-	4,334,380
Equipment	939,199	36,043	-	975,242
Furniture and fixtures	146,339	44,203	-	190,542
Vehicles	1,071,544	-	-	1,071,544
Construction in process	103,218	-	-	103,218
	5,516,142	1,240,751	-	6,756,893
Less accumulated depreciation	(4,117,129)	(896,758)	-	(5,013,887)
Property and equipment, net	<u>1,399,013</u>	<u>343,993</u>	<u>-</u>	<u>1,743,006</u>
Other assets:				
Investments	4,718,859	-	-	4,718,859
Investment in joint venture	133,376	-	-	133,376
Total other assets	<u>4,852,235</u>	<u>-</u>	<u>-</u>	<u>4,852,235</u>
Total assets	<u>\$ 19,082,365</u>	<u>\$ 384,609</u>	<u>\$ -</u>	<u>\$ 19,466,974</u>
LIABILITIES & NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable	\$ 447,835	\$ 18,057	\$ -	\$ 465,892
Accrued wages and benefits	402,618	-	-	402,618
Deferred income	167,138	-	-	167,138
Due to client	12,914	-	-	12,914
Tenant security deposits	-	3,440	-	3,440
Accrued interest payable	-	1,587	-	1,587
Mortgage payable-current portion	-	44,665	-	44,665
Total current liabilities	<u>1,030,505</u>	<u>67,749</u>	<u>-</u>	<u>1,098,254</u>
Long-Term Liabilities				
Mortgage Payable	-	677,272	-	677,272
Total liabilities	<u>1,030,505</u>	<u>745,021</u>	<u>-</u>	<u>1,775,526</u>
Net assets (deficit):				
Unrestricted net assets (deficit)	18,016,199	(360,412)	-	17,655,787
Temporarily restricted net assets	35,661	-	-	35,661
Total net assets (deficit)	<u>18,051,860</u>	<u>(360,412)</u>	<u>-</u>	<u>17,691,448</u>
Total liabilities and net assets (deficit)	<u>\$ 19,082,365</u>	<u>\$ 384,609</u>	<u>\$ -</u>	<u>\$ 19,466,974</u>

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

HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>HealthWays, Inc.</u>	<u>Brooke-Hancock Community Living, Inc.</u>	<u>Combining Entries</u>	<u>Combined 2017</u>
UNRESTRICTED NET ASSETS:				
<u>Support and Revenues</u>				
Net client service revenue - Note 1	\$ 8,171,621	\$ -	\$ -	\$ 8,171,621
Rental income	-	76,208	-	76,208
Tenant assistance payments	-	100,369	-	100,369
West Virginia Department of Health and Human Resources funding	1,379,285	-	-	1,379,285
Other support	274,145	-	-	274,145
Workshops and rentals	12,581	-	-	12,581
Investment income (loss)	512,110	56	-	512,166
Management and bookkeeping fee revenue	23,905	-	(16,869)	7,036
Other revenue (expense)	51,762	(535)	-	51,227
Total support and revenues	<u>10,425,409</u>	<u>176,098</u>	<u>(16,869)</u>	<u>10,584,638</u>
Net assets released from restrictions	<u>1,043</u>	<u>-</u>	<u>-</u>	<u>1,043</u>
Total revenues and reclassifications	<u>10,426,452</u>	<u>176,098</u>	<u>(16,869)</u>	<u>10,585,681</u>
<u>Operating Expenses</u>				
Salaries and wages	3,680,871	-	-	3,680,871
Employee benefits	1,413,006	-	-	1,413,006
Contracted services	2,963,483	23,103	(11,193)	2,975,393
Supplies	147,744	24,670	-	172,414
Transportation	268,879	-	-	268,879
Utilities and telephone	151,785	25,914	-	177,699
Maintenance	203,314	2,836	-	206,150
Depreciation and amortization	214,156	38,579	-	252,735
Bad debt	355,338	-	-	355,338
Insurance	123,552	8,804	-	132,356
Interest expense	-	40,661	-	40,661
Management fees	-	5,676	(5,676)	-
Investment fees	37,261	-	-	37,261
Other	104,428	6,768	-	111,196
Total expenses	<u>9,663,817</u>	<u>177,011</u>	<u>(16,869)</u>	<u>9,823,959</u>
<u>Other Income/Expenses</u>				
Gain (Loss) on impairment of software	<u>(222,000)</u>	<u>-</u>	<u>-</u>	<u>(222,000)</u>
Total other income/expenses	<u>(222,000)</u>	<u>-</u>	<u>-</u>	<u>(222,000)</u>
Increase (decrease) in unrestricted net assets	<u>540,635</u>	<u>(913)</u>	<u>-</u>	<u>539,722</u>

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

**HEALTHWAYS, INC. AND AFFILIATE
 COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
 FOR THE YEAR ENDED JUNE 30, 2017**

	<u>HealthWays, Inc.</u>	<u>Brooke-Hancock Community Living, Inc.</u>	<u>Combining Entries</u>	<u>Combined 2017</u>
TEMPORARILY RESTRICTED NET ASSETS:				
<u>Support and Revenues</u>				
Net assets released from restrictions	(1,043)	-	-	(1,043)
Increase (decrease) in temporarily restricted net assets	(1,043)	-	-	(1,043)
Increase (decrease) in net assets	539,592	(913)	-	538,679
Net assets (deficit), beginning of year	17,512,268	(359,499)	-	17,152,769
Net assets (deficit), end of year	<u>\$ 18,051,860</u>	<u>\$ (360,412)</u>	<u>\$ -</u>	<u>\$ 17,691,448</u>

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

**HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>HealthWays, Inc.</u>	<u>Brooke-Hancock Community Living, Inc.</u>	<u>Combining Entries</u>	<u>Combined 2017</u>
<u>Cash Flows from Operating and Non-Operating Revenue Activities:</u>				
Increase (decrease) in net assets	\$ 539,592	\$ (913)	\$ -	\$ 538,679
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:				
Depreciation	214,156	38,579	-	252,735
Realized and unrealized (gain) loss on investments	(274,773)	-	-	(274,773)
(Gain) loss on impairment of asset	222,000	-	-	222,000
Change in assets and liabilities:				
(Increase) decrease in receivables	468,890	-	-	468,890
(Increase) decrease in deposits and prepaid expenses	11,701	66	-	11,767
(Increase) decrease in other joint venture	(10,428)	-	-	(10,428)
Increase (decrease) in accounts payable	(42,555)	2,651	-	(39,904)
Increase (decrease) in provider tax	(34,482)	-	-	(34,482)
Increase (decrease) in accrued wages and benefits	(6,645)	-	-	(6,645)
Increase (decrease) in tenant security deposits	-	(7)	-	(7)
Increase (decrease) in other liabilities	-	(122)	-	(122)
Increase (decrease) in deferred income	25,972	-	-	25,972
Net cash provided (used) by operating activities	<u>1,113,428</u>	<u>40,254</u>	<u>-</u>	<u>1,153,682</u>
<u>Cash Flows from Investing Activities</u>				
(Purchases) of property and equipment	(79,168)	(2,634)	-	(81,802)
(Purchases) of investments	(1,295,731)	-	-	(1,295,731)
Sale of investments	1,145,796	-	-	1,145,796
Net (deposits) withdrawals in residual receipts	-	3,810	-	3,810
Net (deposits) to withdrawals from the reserve for replacement	-	(2,430)	-	(2,430)
Net cash provided (used) in investing activities	<u>(229,103)</u>	<u>(1,254)</u>	<u>-</u>	<u>(230,357)</u>
<u>Cash Flows from Financing Activities</u>				
Principal (payments) on first mortgage	-	(38,884)	-	(38,884)
Loan proceeds (repayments)	-	(2,000)	-	(2,000)
Net cash provided (used) in financing activities	<u>-</u>	<u>(40,884)</u>	<u>-</u>	<u>(40,884)</u>
Net increase (decrease) in cash	884,325	(1,884)	-	882,441
Cash and cash equivalents at beginning of the year	<u>9,390,389</u>	<u>7,184</u>	<u>-</u>	<u>9,397,573</u>
Cash and cash equivalents at end of the year	<u>\$ 10,274,714</u>	<u>\$ 5,300</u>	<u>\$ -</u>	<u>\$ 10,280,014</u>
Supplemental disclosure for cash flow information:				
Cash paid during the period for:				
Interest expense	<u>\$ -</u>	<u>\$ 40,783</u>	<u>\$ -</u>	<u>\$ 40,783</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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 ending June 30, 2011 Health Ways, Inc. obtained a controlling interest in Brooke-Hancock Community Living, Inc.

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 21unit 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 combined 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 combined financial statements as of June 30, 2017 include the accounts of HealthWays, Inc. and its controlled Affiliate: Brooke-Hancock Community Living, Inc. All intercompany transactions have been eliminated from the combined financial statements.

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, 2017, allowances and discounts totaled \$1,212,907.

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 HealthWays.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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

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, 2017 have been reduced by such allowances.

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 HealthWay’s, Inc. 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 these areas can, therefore, significantly influence HealthWays, Inc.’s ability to collect fees for services rendered.

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 combined 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.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 was \$214,156. Depreciation expense for Brooke-Hancock Community Living, Inc. for the year ended June 30, 2017 was \$38,579. Combined depreciation expense for the year ended June 30, 2017 was \$252,735. 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. An impairment loss of \$222,000 on proprietary software was recognized in 2017.

Client Receivables - Client receivables have been reported net of allowances for uncollectible and contractual adjustments of \$1,690,211 as of June 30, 2017. 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, Inc. 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, Inc. 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, Inc. 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, Inc. 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.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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 Affiliate have no permanently restricted net assets at June 30, 2017. HealthWays, Inc.'s temporarily restricted net assets at June 30, 2017 were \$35,661. The composition of the temporarily restricted net assets for HealthWays, Inc. as of June 30, 2017 was \$35,661 related for use in the "Miracles Happen" program. Brooke-Hancock Community Living, Inc. does not have any temporarily restricted net assets as of June 30, 2017.

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 2013, 2014, and 2015 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, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combined financial statements.

**HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Advertising – The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2017 was \$59,757.

Estimates - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.	
	2017
Program Services	\$ 7,091,131
Management & General	2,572,686
	<u>\$ 9,663,817</u>

Brooke-Hancock Community Living, Inc.	
	2017
Program Services	\$ 23,876
Management & General	153,135
	<u>\$ 177,011</u>

Combined	
	2017
Program Services	\$ 7,115,007
Management & General	2,708,952
	<u>\$ 9,823,959</u>

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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

Cash and Cash Equivalents - For purposes of the combined statement of cash flows, HealthWays, Inc. and Affiliate 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

The HealthWays, Inc. 401(k) Plan was originally formed January 1, 2005. It was amended and restated effective January 1, 2012. The Plan is a defined contribution plan covering all employees of the Company who are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The 401 (k) does not match employee contributions. HealthWays, Inc. made a discretionary match of eligible employees' gross wages. For the fiscal year ended June 30, 2017, retirement plan expenses related to the 401(k) plan amounted to \$186,794.

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, 2017 investments held were comprised of the following:

<u>June 30, 2017</u>	<u>Cost</u>	<u>Market</u>
Cash and Cash Equivalents	\$ 93,283	\$ 93,283
Equity Securities	1,021,049	1,192,848
Equity Mutual Funds	1,936,481	2,026,656
Fixed Income	1,414,105	1,406,072
Total	<u>\$ 4,464,918</u>	<u>\$ 4,718,859</u>

Unrealized investment (gains) losses for the year ending June 30, 2017 amounted to \$(231,977).

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 expertise to expand into statewide markets. The original investment was \$50,000 with an estimated value of \$133,376 as of June 30, 2017.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017. The line has a variable interest rate and requires said interest to be paid monthly.

Note 5 - Long-Term Debt

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 through Progressive Bank was re-financed on July 14, 2014 and bears interest at a rate of 4.99% and matures in 2029. As of June 30, 2017, the outstanding balance on this mortgage amounted to \$721,937. The principal payments on mortgages and notes payable due in the next five years and thereafter are as follows:

2018	\$ 44,665
2019	46,945
2020	49,342
2021	51,861
2022	54,509
Thereafter	<u>474,615</u>
	<u>\$ 721,937</u>

Note 6 - Housing Assistance Payment Contract

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 \$100,369 for the year ended June 30, 2017.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

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

HealthWays, Inc. and Affiliate 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, 2017.

Healthways, Inc.

	<u>First Choice Credit Union</u>	<u>WesBanco</u>	<u>Tin Mill Credit Union</u>	<u>Hancock Co. Savings Bank</u>
Balance as of June 30, 2017	\$ 9,117,735	\$ 884,645	\$ 155,161	\$ 302,713
Less: FDIC & NCUA Coverage	(250,000)	(250,000)	(250,000)	(250,000)
Less: Additional Coverage	(10,737,000)	-	-	-
Amount uninsured at June 30, 2017	<u>\$ -0-</u>	<u>\$ 634,645</u>	<u>\$ -0-</u>	<u>\$ 52,713</u>

Brooke-Hancock Community Living, Inc.

	<u>Progressive Bank</u>
Balance as of June 30, 2017	\$ 41,174
Less: FDIC & NCUA Coverage	(250,000)
Less: Additional Coverage	-
Amount uninsured at June 30, 2017	<u>\$ -0-</u>

The total uninsured excess as of June 30, 2017 was \$687,358; management believes the credit risk associated with these deposits is minimal.

Note 8 - Fair Value Measurements

The Organization's investments are reported at fair value in the accompanying statement of financial position. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. Level 2 inputs consist of quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for the asset or liability. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

Note 8 – Fair Value Measurements (continued)

<u>Recurring fair value measurements</u>	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Cash and cash equivalents:	\$ 93,283	\$ 93,283	\$ -	\$ -	\$ -
Equity Securities:					
Healthcare	68,455	68,455	-	-	-
Financial	794,190	794,190	-	-	-
Technology	102,916	102,916	-	-	-
Basic Materials	10,915	10,915	-	-	-
Consumer Goods	88,867	88,867	-	-	-
Industrial Goods	77,512	77,512	-	-	-
Utilities	6,058	6,058	-	-	-
Telecommunications	11,961	11,961	-	-	-
Energy	31,975	31,975	-	-	-
Equity Mutual Funds:					
Diversified Emerging Markets	36,956	36,956	-	-	-
Foreign Large Blend	95,053	95,053	-	-	-
Large Value	92,164	92,164	-	-	-
Small Blend	29,409	29,409	-	-	-
Large Growth	101,050	101,050	-	-	-
Large Blend	1,654,009	1,654,009	-	-	-
Mid Cap Blend	18,016	18,016	-	-	-
Fixed Income :					
Intermediate Term Bond	492,594	492,594	-	-	-
High Yield Bond	127,349	127,349	-	-	-
Inflation Protected Bond	14,975	14,975	-	-	-
Short Term Bond	214,160	214,160	-	-	-
Multisector Bond	407,062	407,062	-	-	-
Corporate Bond	48,175	48,175	-	-	-
Long Government Bond	29,298	29,298	-	-	-
Emerging Markets Bond	72,457	72,457	-	-	-
Total Investments	4,718,859	4,718,859	-	-	-
Other Assets :					
Investment in Joint Venture	133,376	-	-	133,376	10,428
Total Investments and Other Assets	\$4,852,235	\$ 4,718,859	\$ -	\$ 133,376	\$ 10,428

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

Note 8 – Fair Value Measurements (continued)

All assets have been valued using a market approach, with the exception of Level 3 assets. Level 3 assets are valued using the income approach. Fair values for assets in Level 1 are based on unadjusted quoted market prices within active markets. Fair values for assets in Level 2 are based primarily on quoted prices for similar assets in active or inactive markets. Fair values for assets in Level 3 are calculated using assumptions about discounted cash flow and other present value techniques. There were no changes in valuation techniques during the current year.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Total	Investment in Joint Venture
July 1, 2016	\$ 122,948	\$ 122,948
Total gains or (losses) (realized and unrealized)	10,428	10,428
Purchases, issuances, and settlements	-0-	-0-
Transfers in and/or out of Level 3	-0-	-0-
June 30, 2017	<u>\$ 133,376</u>	<u>\$ 133,376</u>

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

Note 9 - HUD Restricted Deposits

Under the terms of the Regulatory and Loan Agreements Brooke-Hancock Community Living, Inc. is required to maintain certain deposit accounts to be held for specified purposes. Brooke-Hancock Community Living, Inc. is 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, 2017 were as follows:

<u>Brooke-Hancock Community Living , Inc.</u>	<u>Balance</u>
Replacement Reserve	\$ 22,190
Residual Receipts	5,846
Tenant Security Deposits	5,123

Note 10 - Rent Increases

Under the regulatory agreement, 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 Brooke-Hancock Community Living, Inc., is the management agent of the Projects. During the year ended June 30, 2017, Brooke-Hancock Community Living, Inc. paid \$5,676 in management fees to HealthWays, Inc. The amount of funds paid to the organization was \$19,540, this included repayment of loan, management fees and bookkeeping fees.

Note 12 - Legal Proceedings

HealthWays, Inc. and Affiliate 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, Inc. and Affiliate financial position or results of operation.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017

Note 13 – Subsequent Events

Events that occur after the balance sheet date but before the combined 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 combined 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 October 4, 2018 (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

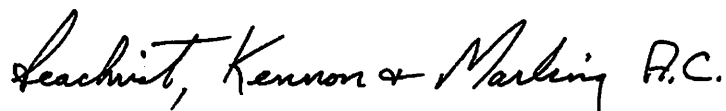
Craig K. Seachrist, CPA
Ronnie L. Marling, CPA

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
HealthWays, Inc. & Affiliate

We have audited the combined financial statements of HealthWays, Inc. & Affiliate as of and for the year ended June 30, 2017, and our report thereon dated October 4, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of financial position as of June 30, 2017 and 2016, statements of activities and changes in net assets, and cash flows for HealthWays, Inc. for the years ended June 30, 2017 and 2016 (shown on pages 20 – 22), the schedule of property and equipment purchased with BHHF administered funding (shown on pages 23 – 24) and the schedule of expenditures of state awards (shown on page 25) are presented for purposes of additional analysis and are not a required part of the combined financial statements. The statement of financial position as of June 30, 2017, statements of activities and changes in net assets (deficit), and cash flows for Brooke-Hancock Community Living, Inc. for the year ended June 30, 2017, and the supplemental information required by HUD (shown on pages 26 – 30) are also presented for the purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Seachrist, Kennon & Marling, A.C.
Wheeling, West Virginia
October 4, 2018

HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS:		
<u>Current assets:</u>		
Cash and cash equivalents	\$ 10,274,714	\$ 9,390,389
Client receivables, net	1,342,579	1,549,907
Contract receivables	1,080,809	1,340,371
Deposits and prepaid assets	133,015	144,716
Loan to Brooke-Hancock Community Living, Inc.	-	2,000
Total current assets	12,831,117	12,427,383
 <u>Plant, property and equipment:</u>		
Land	49,184	49,184
Buildings	3,206,658	3,196,015
Equipment	939,199	936,397
Furniture and fixtures	146,339	136,429
Vehicles	1,071,544	1,021,179
Construction in process	103,218	321,343
	5,516,142	5,660,547
Less accumulated depreciation	(4,117,129)	(3,904,546)
Property and equipment, net	1,399,013	1,756,001
 <u>Other assets:</u>		
Investments	4,718,859	4,294,151
Investment in joint venture	133,376	122,948
Total other assets	4,852,235	4,417,099
Total assets	\$ 19,082,365	\$ 18,600,483
 LIABILITIES & NET ASSETS:		
<u>Current liabilities:</u>		
Accounts payable	\$ 447,835	\$ 490,390
Provider tax payable	-	34,482
Accrued wages and benefits	402,618	409,263
Deferred income	167,138	141,166
Due to client	12,914	12,914
Total current liabilities	1,030,505	1,088,215
Total liabilities	1,030,505	1,088,215
 <u>Net assets:</u>		
Unrestricted net assets	18,016,199	17,475,564
Temporarily restricted net assets	35,661	36,704
Total net assets	18,051,860	17,512,268
Total liabilities and net assets	\$ 19,082,365	\$ 18,600,483

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS:		
<u>Support and Revenues</u>		
Net client service revenue	\$ 8,171,621	\$ 8,779,977
West Virginia Department of Health and Human Resources funding	1,379,285	1,441,185
Other support	274,145	248,579
Workshops and rentals	12,581	14,432
Investment income (loss)	512,110	13,629
Management and bookkeeping fee revenue	23,905	24,378
Other revenue	51,762	22,184
Total support and revenues	<u>10,425,409</u>	<u>10,544,364</u>
Net assets released from restrictions	<u>1,043</u>	<u>286</u>
Total support, revenues and reclassifications	<u>10,426,452</u>	<u>10,544,650</u>
<u>Operating Expenses</u>		
Salaries and wages	3,680,871	3,413,299
Employee benefits	1,413,006	1,146,773
Contracted services	2,963,483	3,128,256
Supplies	147,744	167,546
Transportation	268,879	262,630
Utilities and telephone	151,785	141,135
Building and equipment maintenance	203,314	203,376
Depreciation	214,156	171,789
Bad debt	355,338	247,480
Insurance	123,552	144,686
Provider tax	-	387,284
Investment fees	37,261	36,922
Other	104,428	200,585
Total expenses	<u>9,663,817</u>	<u>9,651,761</u>
<u>Other Income/Expenses</u>		
Gain (Loss) on impairment of proprietary software	<u>(222,000)</u>	<u>-</u>
Total other income/expenses	<u>(222,000)</u>	<u>-</u>
Increase (decrease) in unrestricted net assets	<u>540,635</u>	<u>892,889</u>
TEMPORARILY RESTRICTED NET ASSETS:		
<u>Support and Revenues</u>		
Donations	-	-
Net assets released from restrictions	<u>(1,043)</u>	<u>(286)</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,043)</u>	<u>(286)</u>
Increase (decrease) in net assets	539,592	892,603
Net assets, beginning of year	<u>17,512,268</u>	<u>16,619,665</u>
Net assets, end of year	<u>\$ 18,051,860</u>	<u>\$ 17,512,268</u>

HEALTHWAYS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
<u>Cash Flows from Operating and Non-Operating</u>		
<u>Revenue Activities:</u>		
Increase (decrease) in net assets	\$ 539,592	\$ 892,603
 Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:		
Depreciation	214,156	171,789
Realized and unrealized (gain) loss on investments	(274,773)	244,653
(Gain) loss on impairment of asset	222,000	-
 Change in assets and liabilities:		
(Increase) decrease in receivables	468,890	(1,067,609)
(Increase) decrease in deposits and prepaid expenses	11,701	(68,188)
(Increase) decrease in joint venture	(10,428)	(20,228)
Increase (decrease) in accounts payable	(42,555)	(131,477)
Increase (decrease) in provider tax	(34,482)	6,726
Increase (decrease) in accrued wages and benefits	(6,645)	(10,457)
Increase (decrease) in deferred income	25,972	4,531
Increase (decrease) in due to client	-	12,914
Net cash provided (used) by operating activities	1,113,428	35,257
 <u>Cash Flows from Investing Activities</u>		
(Purchases) of property and equipment	(79,168)	(183,764)
(Purchases) of investments	(1,295,731)	(964,126)
Sale of investments	1,145,796	791,238
Net cash provided (used) in investing activities	(229,103)	(356,652)
 Net increase (decrease) in cash	884,325	(321,395)
 Cash at beginning of the year	9,390,389	9,711,784
 Cash at end of the year	\$ 10,274,714	\$ 9,390,389
 Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest expense	\$ -	\$ -
 Income taxes	\$ -	\$ -

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASED WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2017

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	1,923.88	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
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
Building	Various	10/11/2004	264,734.17	Various	Various
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	Colaanni 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
Computer	Dell	1/29/2006	1,499.21	Various	N/A

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASED WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2017

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
Computer	Dell	2/2/2006	1,281.54	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
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	FFOB0009
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
Transmission	Jim Robinson	3/17/2014	3,185.54	Various	VEOB0015
Copier	Hughes	4/29/2014	5,323.94	Various	EQOB0072
Activity Room Floor	Flooring America	5/28/2014	2,605.48	Various	FFOB0019
Furniture	Chris Miller Furniture	7/29/2014	5,004.44	Various	FFOB0020-1-1
Furniture	Carolina Furniture	12/24/2014	8,505.09	Various	FFOB0022-1
Storage Shed	Lowe's	2/9/2015	1,011.75	Various	FFOB0025-1
Activity Room Floor	Flooring America	3/2/2015	4,577.50	Various	FFOB0024-1
Cameras	Burke Security	6/30/2015	3,076.00	Various	FFOB0023-1
Vehicle Exhaust	Jim Robinson	8/31/2015	1,059.34	Various	VEOB0017-1
Laptop	Lenovo	9/30/2015	1,608.03	Various	EQOB0073-1
Server/Hardware	Lenovo	9/30/2015	10,584.00	Various	EQOB0074-1
Office Furniture	National Business Furniture	9/30/2015	9,806.33	Various	FFOB0026-1
Remove Trees	Acorn Tree Service	3/31/2017	9,292.95	N/A	N/A
Phone System	World Radio	6/23/2017	4,375.69	N/A	N/A
			<u>\$ 857,173.90</u>		

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

State Grantor/ Program Title	Grant Number	Amount Awarded	Accounts Receivable 6/30/16	Deferred Revenue 6/30/16	Current Revenue Earned	Expenditures	Advanced Billing	Deferred Revenue 6/30/2016	Accounts Receivable 6/30/2016	Collected (Returned) Through 6/30/2017
Community Engagement Specialist	0525-2016-3701-219-3256-0000	\$ 295,416	\$ 259,404	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 259,404
Community Engagement Specialist	0525-2017-3701-219-3256-0000	295,416	-	-	284,893	284,893	-	-	217,754	67,139
JRI Outpatient/Intensive Outpatient Services	5207-2016-2884-099-3256-0000	50,000	50,000	-	-	-	-	-	-	50,000
Client Core Services	0525-2015-2851-219-3206-3950	397,937	9,730	-	-	-	-	-	-	9,730
Residential Services	0525-2016-2891-219-3256-0000	510,397	510,397	-	-	-	-	-	-	510,397
Residential Services	0525-2017-2891-219-3256-0000	701,375	-	-	568,633	568,633	-	-	469,628	99,005
Developmental Disabilities Community Support Services	0525-2015-2870-219-3256-0000	162,926	162,926	-	-	-	-	-	-	162,926
Developmental Disabilities Community Support Services	0525-2017-2870-219-3256-0000	162,926	-	-	162,926	162,926	-	-	122,964	39,962
Continuum Enhancement Funds	0525-2016-2851-219-3256-0000	388,690	388,690	-	-	-	-	-	-	388,690
Continuum Enhancement Funds	0525-2017-2851-219-3256-0000	302,834	-	-	302,833	302,833	-	-	226,602	76,231
Children's Clinical Outreach Service	0525-2015-2916-219-3256-0000	60,000	60,000	-	-	-	-	-	-	60,000
Children's Clinical Outreach Service	0525-2016-2916-219-3256-0000	60,000	-	-	60,000	60,000	-	-	43,861	16,139
		<u>\$ 3,387,917</u>	<u>\$ 1,441,147</u>	<u>\$ -</u>	<u>\$ 1,379,285</u>	<u>\$ 1,379,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,080,809</u>	<u>\$ 1,739,623</u>

The accompanying schedule of expenditures of state awards includes the state grant activity of HealthWays Inc. under programs of the state government for the year ended June 30, 2017. 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

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

	2017
ASSETS:	
<u>Current Assets:</u>	
Cash	\$ 5,300
Prepaid insurance	2,157
Total current assets	7,457
 <u>Deposits Held in Trust - Funded:</u>	
Tenant security deposits	5,123
 <u>Restricted Deposits and Funded Reserves:</u>	
Reserve for replacements	22,190
Residual reserve	5,846
Total restricted deposits	28,036
 <u>Property and Equipment:</u>	
Land	32,783
Building and improvements	1,127,722
Building equipment	36,043
Furnishings	44,203
Total property and equipment	1,240,751
Less - accumulated depreciation	(896,758)
Net property and equipment	343,993
Total assets	\$ 384,609
 LIABILITIES AND NET ASSETS (DEFICIT):	
<u>Current Liabilities:</u>	
Accounts payable	\$ 18,057
Accrued interest payable	1,587
Mortgage payable - current portion	44,665
Total current liabilities	64,309
 <u>Deposit and Prepayment Liabilities:</u>	
Tenant security deposits	3,440
 <u>Long-Term Liabilities:</u>	
Mortgage payable	677,272
Total liabilities	745,021
 <u>Net Assets:</u>	
Unrestricted net assets (deficit)	(360,412)
Total liabilities and net assets (deficit)	\$ 384,609

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, 2017

	2017
REVENUES:	
Rental income	\$ 76,208
Tenant assistance payments	100,369
Investment income - replacement reserve	56
Other income	(535)
Total revenues	176,098
EXPENSES:	
Office expense	30
Management fees	5,676
Bookkeeping fees and accounting fees	16,424
Miscellaneous administrative expenses	8,773
Total administrative expenses	30,903
Electric	11,103
Water	11,391
Gas	1,385
Total utilities	23,879
Supplies	24,670
Contracts	6,679
Garbage and trash removal	2,836
Total operating and maintenance	34,185
Property insurance	8,804
Total taxes and insurance	8,804
Interest-mortgage	40,661
Total expenses before depreciation	138,432
Increase (decrease) in net assets before depreciation	37,666
Depreciation	38,579
Total depreciation and amortization	38,579
Increase (decrease) in net assets	(913)
Net assets (deficit), beginning of year	(359,499)
Net assets (deficit), end of year	\$ (360,412)

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	2017
<u>Cash Flows from Operating Activities</u>	
Rental receipts	\$ 176,577
Interest receipts	56
Total receipts	176,633
Administrative	(24,878)
Management fee	(5,676)
Utilities	(22,996)
Operating and maintenance	(33,301)
Property insurance	(8,738)
Tenant security deposits	(7)
Interest on first mortgage	(40,783)
Total disbursements	(136,379)
Net cash provided (used) by operating activities	40,254
<u>Cash Flows from Investing Activities</u>	
Net (deposits to) withdrawals from the reserve for replacement account	(2,430)
Net (deposits to) withdrawals from the residual receipts account	3,810
(Purchase) of fixed assets	(2,634)
Net cash provided (used) by investing activities	(1,254)
<u>Cash Flows from Financing Activities</u>	
Other Financing Activities (Repayment to Healthways)	(2,000)
Net Proceeds (Payments) Mortgage Loans	(38,884)
Net cash provided (used) by financing activities	(40,884)
Net increase (decrease) in cash	(1,884)
Cash at beginning of the year	7,184
Cash at end of the year	\$ 5,300
<u>Cash Flows from Operating Activities</u>	
Increase (decrease) in net assets	\$ (913)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization expense	38,579
(Increase) decrease in prepaid expenses	66
(Increase) decrease in tenant security deposit account	(7)
Increase (decrease) in accounts payable	2,651
Increase (decrease) in accrued interest payable	(122)
Net cash provided (used) by operating activities	\$ 40,254

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2016	\$ 19,760
Monthly deposits	4,271
Interest earned	25
Authorized withdrawals	(1,866)
Ending balance, June 30, 2017	<u>\$ 22,190</u>

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2016	\$ 9,657
Interest income	14
Authorized withdrawals	(3,825)
Deposits	-
Ending balance, June 30, 2017	<u>\$ 5,846</u>

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:

Cash on hand and in banks	\$ 10,423
Total cash	<u>10,423</u>

Current Obligations:

Accounts payable - 30 days	(18,057)
Tenant security deposit liability	(3,440)
Accrued expenses payable	(1,587)
Total current obligations	<u>(23,084)</u>

Surplus cash (deficiency) at June 30, 2017 \$ (12,661)

Deposit due residual receipts \$ -

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2017

CHANGES IN FIXED ASSET ACCOUNTS:

	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/17</u>
Land	\$ 32,783	\$ -	\$ -	\$ 32,783
Building and improvements	1,125,088	2,634	-	1,127,722
Building equipment	36,043	-	-	36,043
Furniture and fixtures	44,203	-	-	44,203
	<u>1,238,117</u>	<u>2,634</u>	<u>-</u>	<u>1,240,751</u>
Total	1,238,117	2,634	-	1,240,751
Accumulated Depreciation	<u>858,180</u>	<u>38,579</u>	<u>-</u>	<u>896,758</u>
Book Value	<u>\$ 379,937</u>	<u>\$ (35,945)</u>	<u>\$ -</u>	<u>\$ 343,993</u>

SEACHRIST, KENNON & MARLING, A.C.

Certified Public Accountants & Business Consultants

Craig K. Seachrist, CPA
Ronnie L. Marling, CPA

Members of:
American Institute of Certified Public Accountants
Government 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 COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
HealthWays, Inc. & Affiliate

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 HealthWays, Inc. & Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities and changes in net assets (deficit) and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 4, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered HealthWays, Inc. & Affiliate's 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of HealthWays, Inc. & Affiliate's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HealthWays, Inc. & Affiliate's internal control over financial reporting.

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 have not been 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. Finding 2017-001, 2017-002, 2017-003, and 2017-006.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. Finding 2017-004 and 2017-005.

Compliance and Other Matters

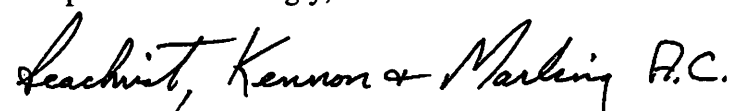
As part of obtaining reasonable assurance about whether HealthWays, Inc. & Affiliate's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 items 2017-003 and 2017-006.

HealthWays, Inc. & Affiliate's Response to Findings

HealthWays, Inc. & Affiliate's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. HealthWays, Inc. & Affiliate's 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.
Wheeling, West Virginia
October 4, 2018

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2017

Finding 2017-001 Material Weakness- HealthWays, Inc.

Internal Control

Condition: When services exceeded the first page of a pre-numbered Service Activity Log, the second page attached was manually numbered 99999. This is a repeat finding, as noted in the report for the fiscal year ended June 30, 2016. Also, billing staff sometimes entered Service Activity Logs numbered 111111 into the Organization's software when a service was to be re-billed under a different billing code. The original service is not deleted.

Criteria: Company policy is to use pre-numbered Service Activity Logs to record all services provided by staff of the Organization in order determine that all services have been captured in the billing software.

Effect: By not using the pre-numbered Service Activity Log the Organization cannot be certain at the end of any period that all services have been recorded as there is no control to determine if there are any missing Service Activity Logs that should have been recorded. Also, the use of Service Activity Logs numbered 111111 creates duplicate entries in the software, causing revenue and accounts receivable to be overstated.

Recommendation: We recommend that management enforce the policy that all services are recorded on a single pre-numbered Service Activity Log. With this policy in place, and operating effectively, management can run a report to determine if there are any missing Service Activity Logs that need to be located, and properly recorded.

Response: Management agrees that data entry need to enter Sals according to company policy. Staff will be instructed and trained on proper data entry.

Finding 2017-002 Material Weakness- HealthWays, Inc.

Internal Control

Conditions: The Organization required material audit adjustments to accurately report financial statements. In addition, the annual audit was not conducted on a timely basis.

Criteria: Effective internal control over financial reporting requires that the Organization have implemented internal control procedures to prevent, detect and correct material misstatements on a timely basis. This includes designating an individual with the expertise required to timely adjust all account balances to the proper year-end amounts. All major general ledger accounts should be maintained throughout the year in order to provide accurate interim financial statements to management.

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2017

Finding 2017-002 Material Weakness- HealthWays, Inc. (Continued)

Effect: The Organization's internal financial statements that were used by management during the year required material adjustments that may have impacted decisions made by management based on the use of incorrect amounts. In addition, material revenue was lost because the accounts receivable ledger was not reconciled to the general ledger on a timely basis, which prevented effective follow-up on outstanding receivables.

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

Response: CFO acknowledges that 2017 financials were overstated because of some uncollectible receivables. However when combined with the 2018 financials it gave a reasonably accurate accounting of that 2 year period. Only because of the lateness of the audit were the auditors able to identify the account receivables write off and add them to fiscal year 2017.

Management is confident that going forward this will not be a issue, historically Healthways has always collected a very high percentage of waiver billing, usually better than 98%. However a person with a background in waiver billing was hired to oversee waiver. Assurances were made that we could increase our waiver billing. With this person in change Healthways submitted budgets higher than the clients assigned budget with the hope of getting the budgets raised through the appeal process. The appeal process is a long drawn out affair that carried into the next year, as we exhausted our appeals the budgets were reduced in that month as a write off, being that a lot of these services should have been rebilled as a lesser ratio. If that would have happened the effects on the financials would have been minimal. The person who was responsible has left Healthways employment and this will not be an issue going forward.

Finding 2017-003 Material Weakness- HealthWays, Inc.

Internal Control; Compliance

Condition: Program revenue received in connection with the grant programs was not deducted from reimbursable expenses before submission of the grant billings.

Criteria: The grant contracts require that the Organization agrees to comply with the uniform administrative requirements set forth within 2 CFR 200 Subparts B through D. These sections stipulate that service revenue received must be subtracted from incurred expenses in calculating the amount of expenses to be submitted for reimbursement. Although program revenue was not considered when preparing expenses for grant billing, audit testing provided assurance that adequate expenses net of program revenue were incurred to support the grant billings.

Effect: Possible loss of revenue or cancellations of the grant contracts themselves may occur due to noncompliance with laws and regulations.

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2017

Finding 2017-003 Material Weakness- HealthWays, Inc. (Continued)

Recommendation: We recommend tracking and deducting of service revenue from incurred expenses prior to submission of the monthly contract billings.

Response: Grant Revenue was not deducted from state grant because Healthways has an email from Deputy Commissioner that money generated from the grant program could be used for purchases for the program that weren't covered by the grant. This is what was done therefore the grant was charged appropriately for expenses.

Finding 2017-004 Significant Deficiency- HealthWays, Inc.

Internal Control

Conditions: Human Resources files on employees are not up to date. During our current audit it was noted that all employees received an equal raise and yet no individual file reviewed contained information related to the raise. There was simply a single note stating that raises have been given.

Criteria: All employee personnel files should be kept up to date with complete and current approved pay rates. Personnel files are the source document for such items as current pay rate, pension contribution and insurance coverage. It is imperative for any organization to maintain well organized personnel files.

Effect: Management is unable to confirm based on the human resources files that employees are receiving their correct pay rates.

Recommendation: We recommend that a concerted effort be undertaken to bring all personnel files up to date.

Response: Human resources will be instructed in the importance of keeping employees records current and accurate.

Finding 2017-005 Significant Deficiency – HealthWays, Inc.

Internal Control

Condition: During the audit, material errors were noted in the general ledger, which we believe was the direct result of the inability of the fiscal department to obtain timely and accurate reports relative to items such as medical records, billing, collections and accounts receivable subsidiary detail for posting to the general ledger. The current software in use has had limited upgrades, and there is only one person who can operate the current system with any additional training not be offered by the vendor.

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2017

Finding 2017-005 Significant Deficiency – HealthWays, Inc. (Continued)

Criteria: The size and complexity of HealthWays, Inc. requires an up to date software package that will provide a complete timely and accurate medical records, billing, collections and accounts receivable subsidiary detail along with vendor training so employees can be cross trained to use all aspects of the program.

Effect: Due to the absence of timely and accurate reporting of the current software, the finance department could not provide adequate oversight of certain aspects of the financial and grant reporting process contributing to other weaknesses in internal control noted in this report. These weaknesses included the need for material audit adjustments and the delay in being prepared for the Fiscal Year End 2017 annual audit (Finding 2017-002) and the inadequate tracking and reporting for reimbursement grants (Finding 2017-003).

Recommendation: We recommend that management and the Board form a committee to review available software that will meet the needs of the Organization and acquire an appropriate package as soon as possible.

Response: Management agrees new software for medical records and billing is needed. This is an issue that Healthways has addressed in the past by purchasing 2 different software programs, but those programs didn't live up to their promises. Management will seek assistance from the board of directors in replacing the current software.

No part of the grant billing or expenses are reported in this software, so this should not be an issue.

Finding 2017-006 Material Weakness – HealthWays, Inc.

Internal Control; Compliance

Condition: Based on our audit procedures performed and inquiries made, it appears that the Board is not actively engaged to provide oversight and guidance to management.

Criteria: The Board of Directors has a fiduciary responsibility to oversee the financial affairs of the Organization and to ensure that the Organization is in compliance with laws and regulations. Membership on a not-for-profit board requires members to be actively involved in the ongoing operations of the Organization through committee assignments such as the Finance and Personnel committees. Committees should take an active role in providing guidance to management to work as a team to accomplish the mission of the Organization effectively and efficiently.

Effect: The absence of an active board leaves management on its own not only to oversee the day-to-day operations of the Organization, but also leaves just a few individuals to deal with important finance and personnel issues that could be addressed more effectively and efficiently with board assistance and input.

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2017

Finding 2017-006 Material Weakness – HealthWays, Inc. (Continued)

Recommendation: We recommend that the Board of Directors become more engaged and provide management with input to improve the overall performance and reporting of the Organization.

Response: Management believes the Board of Directors is active and helpful in directing the company. The finance committee have historically met monthly and have met with auditors, bankers, insurance agents and investment advisors. Building and grounds committee has been very active the last 2 years reviewing properties. There were issues over the last 2 years that required numerous meetings of the executive committee.

Management wishes to thank all Board members for their time and dedication.