




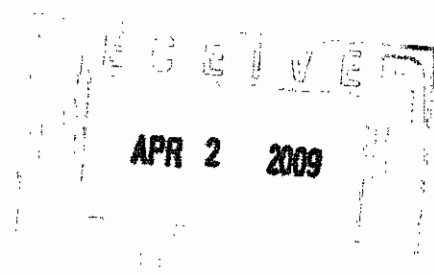
WV DHHR Office of Accountability and Management Reporting
ATTN: Division of Compliance and Monitoring
State Capitol Complex, Building 3, Room 550
Charleston, WV 25305

March 30, 2009

Dear Reathel Cottrell,

We are enclosing an audited financial statement for Fiscal Year ending June 30, 2008. This should complete our grant reporting requirements for that year. If additional information is needed, please contact me


David M. Szeligo
Healthways Inc. \Controller



HEALTHWAYS, INC.
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JUNE 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of HealthWays, Inc. (a nonprofit corporation) as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, statements of cash flows, and the schedules of expenditures of federal and state awards for the years then ended. These financial statements are the responsibility of HealthWays, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HealthWays, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, 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 to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Seachrist, Kennon E. M. Pulding, A.C.

Wheeling, West Virginia
November 17, 2008

APR 2 2009

HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	2008	2007
Assets		
<u>Current assets:</u>		
Cash and cash equivalents	\$ 3,699,398	\$ 2,715,665
Client receivables, net	756,906	1,121,474
Contract receivables	295,144	301,860
Deposits and prepaid assets	26,085	50,813
Total current assets	4,777,533	4,189,812
<u>Plant, property and equipment:</u>		
Land	49,184	49,184
Buildings	3,052,329	3,050,629
Equipment	815,522	766,496
Furniture and fixtures	54,586	41,256
Vehicles	738,158	667,409
	4,709,779	4,574,974
Less accumulated depreciation	(2,652,526)	(2,440,826)
Property and equipment, net	2,057,253	2,134,148
<u>Other assets, at cost:</u>		
Investments	651,169	698,055
Investment in joint venture	37,593	42,057
Total other assets	688,762	740,112
 Total assets	 \$ 7,523,548	 \$ 7,064,072

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

HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Liabilities and Net Assets		
<u>Current liabilities:</u>		
Accounts payable	\$ 605,941	\$ 554,962
Provider tax payable	26,828	24,207
Accrued wages and benefits	395,566	401,061
Reserve for third party settlements	31,226	-
Deferred income	87,127	87,772
Total current liabilities	<u>1,146,688</u>	<u>1,068,002</u>
 Total liabilities	 <u>1,146,688</u>	 <u>1,068,002</u>
 <u>Net assets:</u>		
Unrestricted net assets	6,328,973	5,955,183
Temporarily restricted net assets	47,887	40,887
Total net assets	<u>6,376,860</u>	<u>5,996,070</u>
 Total liabilities and net assets	 <u><u>\$ 7,523,548</u></u>	 <u><u>\$ 7,064,072</u></u>

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

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Unrestricted Net Assets:		
<u>Support and Revenues</u>		
Net client service revenue	\$ 7,194,550	\$ 6,581,686
West Virginia Department of Health and Human Resources funding	2,017,227	2,061,859
Other support	194,894	193,945
Workshops and rentals	27,199	23,108
Investment income (loss)	47,254	97,454
Other revenue	15,211	10,391
Total support and revenues	<u>9,496,335</u>	<u>8,968,443</u>
 Net assets released from restrictions	 -	 2,859
 Total support, revenues and reclassifications	 <u>9,496,335</u>	 <u>8,971,302</u>
 <u>Operating Expenses</u>		
Salaries and wages	3,299,985	2,952,594
Employee benefits	1,061,559	1,018,793
Contracted services	3,325,836	3,046,886
Supplies	195,474	246,086
Transportation	76,700	70,181
Utilities and telephone	127,505	130,055
Building and equipment maintenance	172,686	148,749
Depreciation	259,801	238,629
Bad debt	72,355	293,172
Insurance	116,030	111,580
Provider tax	327,300	300,794
Investment fees	7,170	4,009
Other	80,144	104,736
Total expenses	<u>9,122,545</u>	<u>8,666,264</u>
 Increase (decrease) in unrestricted net assets	 <u>373,790</u>	 <u>305,038</u>

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

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Temporarily Restricted Net Assets:		
<u>Support and Revenues</u>		
Donations	<u>7,000</u>	<u>2,500</u>
Net assets released from restrictions	<u>-</u>	<u>(2,859)</u>
Increase (decrease) in temporarily restricted net assets	<u>7,000</u>	<u>(359)</u>
Increase (decrease) in net assets	380,790	304,679
Net assets, beginning of year	<u>5,996,070</u>	<u>5,691,391</u>
Net assets, end of year	<u>\$ 6,376,860</u>	<u>\$ 5,996,070</u>

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

HEALTHWAYS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Cash Flows from Operating and Non-Operating</u>		
<u>Revenue Activities:</u>		
Increase (decrease) in net assets	\$ 380,790	\$ 304,679
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:		
Depreciation	259,801	238,629
Realized and unrealized (gain) loss on investments	90,543	(45,129)
Change in assets and liabilities:		
(Increase) decrease in receivables	371,284	(339,256)
(Increase) decrease in deposits and prepaid expenses	24,728	2,951
(Increase) decrease in other assets	4,464	-
Increase (decrease) in accounts payable	50,979	40,654
Increase (decrease) in provider tax	2,621	1,793
Increase (decrease) in accrued wages and benefits	(5,495)	50,650
Increase (decrease) in other liabilities	31,226	-
Increase (decrease) in deferred income	(645)	18,046
Net cash provided (used) by operating activities	<u>1,210,296</u>	<u>273,017</u>
<u>Cash Flows from Investing Activities</u>		
Purchases of property and equipment	(182,909)	(90,527)
Purchases of investments	(478,823)	(219,443)
Sale of investments	435,167	89,739
Net cash provided (used) in investing activities	<u>(226,565)</u>	<u>(220,231)</u>
Net increase (decrease) in cash	983,731	52,786
Cash at beginning of the year	<u>2,715,665</u>	<u>2,662,879</u>
Cash at end of the year	<u>\$ 3,699,396</u>	<u>\$ 2,715,665</u>
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest expense	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

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

HEALTHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

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.

Basis of Financial Reporting

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

Net Client Service Revenue

Revenues from services rendered to clients are recorded by HealthWays 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 years ended June 30, 2008 and 2007, allowances and discounts totaled \$2,197,156 and \$2,256,071, respectively.

Economic Dependency

HealthWays 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.

Client Receivables

Client receivables have been reported net of allowances for uncollectibles and contractual adjustments of \$473,890 and \$500,249 as of June 30, 2008 and 2007, respectively.

Property and Equipment

HealthWays 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 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 financial statements is a listing of other assets that have been purchased with state funds. These assets are used by HealthWays and depreciated by them but remain the property of the State of West Virginia. Property and equipment with a cost exceeding \$1,000 and an estimated useful life of greater than one year is recorded at historical cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Depreciation expense for the years ended June 30, 2008 and 2007 was \$259,801 and \$238,629, respectively. Because the client leases from the state, the state is responsible for all major repairs and maintenance, therefore the client does not maintain a schedule for planned major repairs and maintenance.

HEALTHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

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

Net Asset Classification

Net assets of HealthWays and changes therein are classified and reported as follows:

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

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

Permanently restricted net assets – net assets subject to donor/grantor-imposed stipulations that they be maintained permanently by HealthWays.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor/grantor-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/grantor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor/grantor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

HealthWays had no permanently restricted net assets at June 30, 2008 or June 30, 2007. Temporarily restricted net assets at June 30, 2008 and 2007 were \$47,887 and \$40,887, respectively; these assets are relegated for use in the "Miracles Happen" program.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies 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).

Estimates

The preparation of 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.

HEALTHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

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

Contributions

The Organization adopted SFAS No. 116 Accounting for Contributions Received and Contributions Made. In accordance with this, 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.

Expenses were incurred for:

	<u>2008</u>	<u>2007</u>
Program Services	\$8,001,421	\$7,542,515
Management and General	<u>1,121,124</u>	<u>1,123,749</u>
Total	<u>\$9,122,545</u>	<u>\$8,666,264</u>

Cash and Cash Equivalents

For purposes of the statements of cash flows, HealthWays considers 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.

HEALTHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

Note 2 – Retirement Plan:

During the fiscal year ended June 30, 1981, HealthWays 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 years ended June 30, 2008 and 2007, retirement plan expense related to the Simplified Employee Pension plan amounted to \$142,403 and \$133,744, respectively of which \$11,918 and \$14,529 was unpaid and included in accrued wages and benefits on the balance sheets.

Note 3 – Investments:

Investments

HealthWays, Inc. accounts for its investments in accordance with SFAS 124 Accounting for Certain Investments Held by Not-For-Profit Organizations. Under SFAS 124, 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, 2008 and 2007 investments held were comprised of the following:

Unrestricted June 30, 2008:	Market Value	Cost	Appreciation (Depreciation)
Marketable securities	\$ 651,169	\$ 683,533	\$ 32,363
Unrestricted June 30, 2007:	Market Value	Cost	Appreciation (Depreciation)
Marketable securities	\$ 698,055	\$ 631,349	\$ 66,706

Realized and unrealized investment gains (losses) for the years ending June 30, 2008 and 2007 amounted to \$(90,543) and \$45,129, respectively.

HEALTHWAYS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

Note 3 – Investments (continued):

Investment in Joint Venture

During the year ended June 30, 1996, HealthWays 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 \$37,593 and \$42,057 in 2008 and 2007, respectively.

Note 4 - Line-of-Credit:

HealthWays 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, 2008 and 2007. The line has a variable interest rate and requires said interest to be paid monthly. Accounts receivable have been pledged as collateral.

Note 5 – Cash Balances in excess of FDIC and NCUA Insurance:

HealthWays maintains accounts at local financial institutions. The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) insures a maximum of \$100,000 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, 2008.

	<u>Balance Per Bank</u>
WesBanco	\$ 952,150
First Choice America Community Federal Credit Union	3,084,029
Progressive Bank	<u>117,883</u>
	4,154,062
Less: FDIC and NCUA limits	300,000
Additional Coverage	<u>3,492,629</u>
Uninsured Deposits	<u>\$ 361,433</u>

Management believes the credit risk associated with these deposits is minimal.

SCHEDULES OF AWARDS

HEALTHWAYS, INC.
NOTE TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2008

Note 1 – Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards, which includes the federal and state grant activity of HealthWays, Inc. and the Schedule of Property and Equipment Purchases with BHHF Administered Funding, which lists capital expenditures purchased with BHHF administered funds, are presented on the accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/ Program Title	Account Number	Federal CFDA #	Award Amount	Accounts Receivable 06/30/07	Deferred Revenue 06/30/07	Current Revenue Earned	Expenditures	Advance Billing	Deferred Revenue 06/30/08	Accounts Receivable 06/30/08	Collected Through 06/30/08
Department of Health and Human Services											
Alcohol and Drug Abuse and Mental Health Services:											
SA Services	8792-2008-2885-096-128	93.959	\$ 255,268	\$ -	\$ -	\$ 255,268	\$ 255,268	\$ -	\$ -	\$ 59,608	\$ 195,660
SA Services	8793-2007-2885-096-128	93.959	309,736	96,163	-	15,653	15,653	-	-	-	111,816
SA Adolescent Services	8793-2008-2892-096-128	93.959	44,172	-	-	44,172	44,172	-	-	22,978	21,194
SA Adolescent Services	8793-2007-2892-096-128	93.959	62,340	24,926	-	-	-	-	-	-	24,926
MI Child Community Based Service	8794-2007-2914-096-128	93.958	1,500	250	-	-	-	-	-	-	250
SA Prevention	8793-2008-2891-096-128	93.958	84,474	-	-	84,474	84,474	-	-	-	84,474
SA Prevention	8793-2007-2891-096-128	93.959	84,474	22,108	-	-	-	-	-	-	22,108
				<u>\$ 143,447</u>	<u>\$ -</u>	<u>\$ 399,567</u>	<u>\$ 399,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,586</u>	<u>\$ 460,428</u>

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

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/ Program Title	Account Numbers	Federal CFDA #	Award Amount	Accounts Receivable 06/30/07	Deferred Revenue 06/30/07	Current Revenue Earned	Expenditures	Advanced Billing	Deferred Revenue 06/30/08	Accounts Receivable 6/30/08	Collected Through 6/30/08
Uncompensated Care	0525-2008-3065-219-252	N/A	\$ 256,176	\$	\$	\$ 256,176	\$ 256,176	\$	\$ -	\$	\$ 256,176
Support Services	0525-2008-3041-219-252	N/A	142,204			142,204	142,204		-	-	142,204
MI Client Services	0525-2008-2851-219-252/258	N/A	103,403			103,403	103,403				103,403
MI Client Services	0525-2007-2851-219-252/258	N/A	303,664	18,008		-					18,008
Crisis Improvement	0525-2008-2851-219-252	N/A	83,561			83,561	83,561		-		83,561
Case Management	0525-2008-2851-219-252	N/A	116,700			113,483	113,483			26,579	86,904
DD Client	0525-2008-2867-219-252/258	N/A	68,769		-	68,769	68,769			-	68,769
Family Support Services	0525-2008-2870-221-252/258	N/A	68,912		-	60,899	60,899		-	14,229	46,670
Family Support Services	0525-2007-2870-221-252	N/A	65,000	5,518		4,072	4,072			-	9,590
Adolescent IOP	0525-2008-2884-219-252/258	N/A	20,871		-	20,871	20,871		-	20,871	
Residential Services	0525-2004-2874-803-252	N/A	11,040	6,128	-	-				-	6,128
Community Support Improvement	0525-2007-3702-219-252	N/A	73,814	21,151	-	-					21,151
Community Support Improvement	0525-2008-3702-219-252	N/A	138,814		-	73,458	73,458		-	11,290	62,168
SA Adolescent Services	5207-2007-2885-099-252	N/A	9,227	9,227	-	-			-	-	9,227
SA Core Discretionary	0525-2008-2885-219-252	N/A	56,526		-	56,526	56,526		-	17,289	39,237
SA Adult Residential Treatment	0525-2008-2891-219-252	N/A	520,000		-	514,208	514,208			105,949	408,260
SA Adult Residential Treatment	0525-2007-2891-219-252	N/A	470,500	98,382	-	893	893		-	-	99,275
SA Adolescent Outpatient	0525-2008-2892-219-252	N/A	118,661		-	118,861	118,861		-	16,563	102,298
				<u>\$ 158,414</u>	<u>\$ -</u>	<u>\$ 1,617,384</u>	<u>\$ 1,617,384</u>	<u>\$</u>	<u>\$ -</u>	<u>\$ 212,770</u>	<u>\$ 1,563,029</u>

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

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASES WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDING JUNE 30, 2008

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 Caravan	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	Lowe's	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

HEALTHWAYS, INC.
 SCHEDULE OF PROPERTY AND EQUIPMENT
 PURCHASES WITH BHHF - ADMINISTERED FUNDING
 FOR THE YEAR ENDING JUNE 30, 2008

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
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	Triven 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
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	10/26/2008	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	Adjusting entry
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
			<u>\$ 805,283.69</u>		

SEACHRIST, KENNON & MARLING, A.C.

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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.
Weirton, West Virginia

We have audited the financial statements of HealthWays, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. See finding numbers 08-1 through 08-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 08-1 through 08-5 are also material weaknesses.

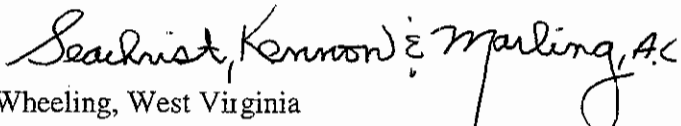
Compliance and Other Matters

As part of obtaining reasonable assurance about whether HealthWays, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of HealthWays, Inc. in a separate letter dated November 17, 2008.

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

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


Wheeling, West Virginia
November 17, 2008

HEALTHWAYS, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 08-1: Control Environment

Condition: There are five components of internal control: control environment, risk assessment, control activities, information and communication systems, and monitoring. Internal control is a process effected by those charged with governance and management designed to provide reasonable assurance about the achievement of the Organization's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. During our consideration of internal control over the preparation of financial statements for the purpose of planning our audit, management was unable to provide information pertaining to the Organization's risk assessment component. Additionally, we observed the lines of communication between the Organization's personnel and management are not operating effectively. The upstream and downstream lines of communication between these groups are not adequate to address issues relevant to financial reporting.

Criteria: Risk assessment is the Organization's identification and analysis of relevant risks to achievement of its objectives and forming a basis for determining how the risks should be managed. Communication is the exchange of information in a form and time that enables people to carry out their responsibilities.

Effect: The lack of a risk assessment may prevent the Organization from identifying external and internal risks that could affect financial reporting. Effective communication is required to identify, capture, process and distribute relevant financial information to support the achievement of financial reporting objectives.

Recommendation: We recommend the Organization evaluate the following internal controls over financial reporting.

a. *Control environment* sets the tone of the company, influencing the control consciousness of personnel. It includes matters such as integrity and ethical values, commitment to competence, board of directors participation, organization structure, management's philosophy and operating style, assignment of authority and responsibility, and human resource policies and participation.

b. *Risk assessment* includes the company's identification and analysis of external and internal risks relevant to the preparation of financial statements, such as changes in operating environment, new personnel, new or revamped information systems, rapid growth, new products, activities, or technology, etc.

c. *Control activities* are the policies and procedures that help ensure that management directives are carried out. They include segregation of duties, information processing, reviews and approvals, physical controls, etc.

HEALTHWAYS, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 08-1: Control Environment - (continued)

d. *Information and communication systems* include the accounting system and its manual or automated procedures and records used to initiate, record, process, and report the company's transactions, events, and conditions and to maintain accountability for the related assets, liabilities, and equity.

e. *Monitoring* is a process that assesses whether controls are operating as intended, takes corrective action for deficiencies noted, and modifies control as appropriate for changed conditions. Monitoring can be accomplished through ongoing activities by management personnel who have direct knowledge of the company's business activities, separate evaluations, or as a combination of the two. Also, some monitoring may be provided by controls built into information technology.

Response: Management agrees to continue to evaluate internal controls over financial reporting. As problems are identified, management will enact policies and procedures to correct any deficiencies. Management recognizes the limitations of the current accounting software and acknowledges the need to perform certain tasks in Microsoft excel. Management will continue to explore other accounting software and provide training as needed on the current software.

Finding 08-2: Segregation of Duties

Condition: The small size of the Organization currently precludes certain internal controls that would be preferred to ensure optimum segregation of duties in the areas of cash disbursements and payroll

Criteria: Effective internal control over financial reporting necessitates segregation of duties among unrelated employees of the organization, 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 Organization 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 certain functions of the accounting department be assigned to another individual for proper segregation of duties.

HEALTHWAYS, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 08-2: Segregation of Duties - (continued)

Response: In order to have better internal control over fiscal operations, management agrees that segregation of duties is important. The fiscal department will send accounts payable invoices when checks are presented to executives for signatures. The CFO will do unannounced cash counts during the course of normal operations. Management will have a designated employee of the H. R. department verify the accuracy of the payroll data before payroll checks are printed.

Finding 08-3: Financial Statement Preparation

Condition: The Organization currently requires assistance from the auditors to prepare its financial statements and related footnotes.

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

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

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

Response: Management acknowledges a remote likelihood exists that the Organization may produce financial statements with a misstatement that would not be detected by the organization's internal controls. We recommend the Board of Directors consider using an independent CPA to prepare compiled financial statements.

Finding 08-4: Year-End Trial Balance and General Ledger Account Reconciliation

Condition: The year-end trial balance that management prepared and presented to us to audit contained material misstatements. Based on our consideration of internal control over the preparation of financial statements for the purpose of planning our audit we believe that the cause of the material misstatements was inadequately designed control policies and procedures related to the reconciliation of general ledger accounts.

HEALTHWAYS, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 08-4: Year-End Trial Balance and General Leger Account Reconciliation - (continued)

Criteria: Effective controls over the preparation of the year-end trial balance is a necessary step to ensure the Organization's financial statements are fairly stated.

Effect: The lack of controls over the preparation of the year-end trial balance may result in material misstatements of the Organization's trial balance and financial statements

Recommendation: Management should assess the adequacy of the design of its policies and procedures related to the reconciliation general ledger accounts and the preparation of financial statements and design appropriate controls as necessary to rectify any inadequacies noted. When developing control policies and procedures management should consider where errors or fraud could occur that would cause a material misstatement and which policies and procedures, if operating properly, would prevent or detect the error or fraud on a timely basis. In addition, to ensure the accuracy of supporting documentation used in account reconciliations, we would recommend that the parameters and calculations underlying the supporting documentation be reviewed periodically and updated as necessary.

Response: Management does use various spreadsheets outside of the current accounting system for compiling data for the trial balance and account reconciliation. One such spreadsheet did have missing formulas that resulted in an overstatement of our bad debts. This spreadsheet has been repaired and was used by the auditors in determining accounts receivable. All programs used by the fiscal department will be reviewed periodically and updated as necessary.

Finding 08-5: Approval of Medicaid Waiver Service Provider Sheets

Condition: Our audit procedures included testing the controls in place for the process of Medicaid waiver payments. Our tests indicated that the service provider sheets used in calculating the Medicaid waiver payment do not always contain documentation of approval by service coordinators.

Criteria: The service provider sheets are the source document supporting the Organization's Medicaid wavier payments and approval of these sheets is the only control in place to ensure the sheets are being completed accurately and in compliance with laws and regulations.

Effect: The lack of review and approval of service provider sheets by service coordinators may result in inaccurate or noncompliant completion of the provider sheets thus resulting in inaccurate or denied waiver payments.

HEALTHWAYS, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 08-5: Approval of Medicaid Waiver Service Provider Sheets - (continued)

Recommendation: Since the service provider sheets are the source document supporting the Organization's Medicaid waiver payments, we recommend that service coordinators be required to sign the service provider sheets as evidence of their review and approval. Knowledge that the service provider sheets will be reviewed by the service coordinator will encourage those filling out the sheets to complete them accurately. The review will also assist in determining that the recorded time and activities appear appropriate and reasonable.

Response: The fiscal department does use data provided by the MR/DD to issue checks to the service providers for services rendered. Management will assign the appropriate MR/DD staff to review these documents and to sign the sheets as evidence of their review and approval.