HEALTHWAYS, INC. AND AFFILIAT
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JUNE 30, 2011

285582

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of HealthWays, Inc. and Affiliates (non-profit organizations) as of June 30, 2011, and the related consolidated statement of activities and changes in net assets, and consolidated statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of HealthWays, Inc. and Affiliates' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthWays, Inc. and Affiliates as of June 30, 2011, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2012, on our consideration of HealthWays, Inc.'s and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 & Marling, A.C.

Wheeling, West Virginia
April 24, 2012

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HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2011

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combined 2011
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 4,723,191	$ 160	$ 26,781	$ 4,750,132
Client receivables, net	755,452	-	-	755,452
Contract receivables	326,732	-	-	326,732
Prepaid insurance	-	801	-	801
Deposits and prepaid assets	147,734	-	-	147,734
Total current assets	5,953,109	961	26,781	5,980,851
Deposits held in trust-funded	-	2,065	5,075	7,140
Restricted Deposits and Funded Reserves	-	31,691	35,434	67,125
Plant, property and equipment:				
Land	49,184	30,000	32,783	111,967
Buildings	3,134,863	461,735	961,181	4,557,779
Equipment	832,502	-	30,806	863,308
Furniture and fixtures	83,672	20,409	39,991	144,072
Vehicles	898,515	-	-	898,515
Construction in process	88,015	-	-	88,015
	5,086,751	512,144	1,064,761	6,663,656
Less accumulated depreciation	(3,224,613)	(157,246)	(675,450)	(4,057,309)
Property and equipment, net	1,862,138	354,898	389,311	2,606,347
Other assets, at cost:				
Investments	1,311,924	-	-	1,311,924
Investment in joint venture	86,172	-	-	86,172
Deferred Financing Costs	-	-	6,575	6,575
Total other assets	1,398,096	-	6,575	1,404,671
Total assets	$ 9,213,343	$ 389,615	$ 463,176	$ 10,066,134
LIABILITIES & NET ASSETS:				
Current liabilities:				
Accounts payable	$ 474,614	$ 6,235	$ 7,352	$ 488,201
Provider tax payable	27,900	-	-	27,900
Accrued wages and benefits	377,652	-	-	377,652
Reserve for third party settlements	(1,500)	-	-	(1,500)
Deferred income	139,604	-	-	139,604
Tenant security deposits	-	1,713	3,648	5,361
Accrued interest payable	-	-	4,780	4,780
Mortgage payable-current portion	-	-	22,143	22,143
Total current liabilities	1,018,270	7,948	37,923	1,064,141
Long-Term Liabilities:				
Mortgage payable	-	378,400	809,935	1,188,335
Total liabilities	1,018,270	386,348	847,858	2,252,476
Net assets:				
Unrestricted net assets (deficit)	8,152,361	3,267	(384,682)	7,770,946
Temporarily restricted net assets	42,712	-	-	42,712
Total net assets	8,195,073	3,267	(384,682)	7,813,658
Total liabilities and net assets	$ 9,213,343	$ 389,615	$ 463,176	$ 10,066,134

The accompanying notes are an integral part of these financial statements

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	HealthWays, Inc	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2011
UNRESTRICTED NET ASSETS:					
Support and Revenues					
Net client service revenue	$ 7,344,336	$ -	$ -	$ -	$ 7,344,336
Rental income	-	31,085	72,229	-	103,314
Tenant assistance payments	-	10,993	88,699	-	99,692
West Virginia Department of Health and Human Resources funding	2,175,926	-	-	-	2,175,926
Other support	210,999	-	-	-	210,999
Workshops and rentals	13,108	-	-	-	13,108
Investment income (loss)	173,797	91	337	-	174,225
Management fee revenue	18,793	-	-	(9,612)	9,181
Tenant charges	-	1,488	-	-	1,488
Other revenue	29,676	655	4,510	-	34,841
Total support and revenues	9,966,635	44,312	165,775	(9,612)	10,167,110
Net assets released from restrictions	-	-	-	-	-
Total revenues and reclassifications	9,966,635	44,312	165,775	(9,612)	10,167,110
Operating Expenses					
Salaries and wages	3,326,641	-	-	-	3,326,641
Employee benefits	1,109,059	-	-	-	1,109,059
Contracted services	3,114,871	17,379	13,812	-	3,146,062
Supplies	218,066	2,358	11,482	-	231,906
Transportation	229,311	-		-	229,311
Utilities and telephone	139,300	11,325	22,304	-	172,929
Maintenance	162,964	2,203	2,254	-	167,421
Depreciation	198,319	11,954	34,939	-	245,212
Bad debt	133,552	-	-	-	133,552
Insurance	113,297	4,037	6,126	-	123,460
Interest expense	-	-	58,842		58,842
Provider tax	328,566	-	-	-	328,566
Management fees	-	3,936	5,676	(9,612)	-
Investment fees	7,132	-	-	-	7,132
Other	112,497	3,097	6,265	-	121,859
Total expenses	9,193,575	56,289	161,700	(9,612)	9,401,952
Other Income/Expenses					
Gain (Loss) on Disposition	28,626	-	-	-	28,626
Total other income/expenses	28,626	-	-	-	28,626
Increase (decrease) in unrestricted net assets	801,686	(11,977)	4,075	-	793,784

The accompanying notes are an integral part of these financial statements

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	HealthWays, Inc.	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc	Combining Entries	Combined 2011
TEMPORARILY RESTRICTED NET ASSETS:					
Support and Revenues					
Grants	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	-	-	-	-	-
Increase (decrease) in net assets	801,686	(11,977)	4,075	-	793,784
Net assets (deficit), beginning of year	7,393,387	15,244	(388,757)	-	7,019,874
Net assets (deficit), end of year	$ 8,195,073	$ 3,267	$ (384,682)	$ -	$ 7,813,658

The accompanying notes are an integral part of these financial statements

HEALTHWAYS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	HealthWays, Inc	Greenbrier Manor, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2011
Cash Flows from Operating and Non-Operating Revenue Activities:					
Increase (decrease) in net assets	$ 801,686	$ (11,977)	$ 4,075	$ -	$ 793,784
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:					
Depreciation	198,319	11,954	34,939	-	245,212
Realized and unrealized (gain) loss on investments	(104,598)	-		-	(104,598)
Realized (gain) loss on sale of assets	(28,626)	-	-	-	(28,626)
Change in assets and liabilities:					
(Increase) decrease in receivables	278,144	-		-	278,144
(Increase) decrease in deposits and prepaid expenses	(67,382)	296		-	(67,086)
(Increase) decrease in other assets	-	-		-	-
(Increase) decrease in other joint venture	-				
Increase (decrease) in accounts payable	(56,163)	(1,718)	270	-	(57,611)
Increase (decrease) in provider tax	7,810	-		-	7,810
Increase (decrease) in accrued wages and benefits	25,558	-		-	25,558
Increase (decrease) in tenant security deposits	-	-	(13)	-	(13)
Increase (decrease) in other liabilities	-	-	(119)	-	(119)
Increase (decrease) in deferred income	12,151	-		-	12,151
Net cash provided (used) by operating activities	1,066,899	(1,445)	39,152	-	1,104,606
Cash Flows from Investing Activities					
(Purchases) of property and equipment	(187,596)	-	(11,706)	-	(199,302)
(Purchases) of investments	(995,243)	-	-	-	(995,243)
Sale of investments	382,988	-	-	-	382,988
Net (deposits) withdrawls in reserves and residial receipts	-	(2,491)	12,968	-	10,477
Proceeds from sale of assets	28,626	-	-	-	28,626
Net cash provided (used) in investing activities	(771,225)	(2,491)	1,262	-	(772,454)
Cash Flows from Financing Activities					
Principal (payments) on first mortgage	-	-	(20,615)	-	(20,615)
Net cash provided (used) in financing activities	-	-	(20,615)	-	(20,615)
Net increase (decrease) in cash	295,674	(3,936)	19,799	-	311,537
Cash and cash equivalents at beginning of the year	4,427,517	4,096	6,982	-	4,438,595
Cash and cash equivalents at end of the year	$ 4,723,191	$ 160	$ 26,781	$ -	$ 4,750,132
Supplemental disclosure for cash flow information:					
Cash paid during the period for:					
Interest expense	$ -	$ -	$ -	$ -	$ -
Income taxes	$ -	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements

HEALTHWAYS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 – Description of Organization and Significant Accounting Policies:

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

Greenbrier Manor, Inc. (Greenbrier Manor) is a not-for-profit corporation organized under the laws of the State of West Virginia, to acquire real property located in Weirton, WV and to construct and operate thereon an 8 unit apartment complex in accordance with Section 202 of the National Housing Act of 1959. 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.

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

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

Principles of Consolidation - The consolidated financial statements as of June 30, 2011 include the accounts of HealthWays, Inc. and its controlled affiliates: Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. All intercompany transactions have been eliminated from the consolidated financial statements.

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

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

Revenues from services rendered to clients are recorded by HealthWays, Inc. at the full-established rates, with estimated amounts uncollectible by reason of charity allowances and contractual adjustments recorded as revenue deductions. Net amounts are reported on the statement of activities. For the year ended June 30, 2011, allowances and discounts totaled $2,163,328.

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

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

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

Deductions from Revenue – HealthWays' policy is to charge for services at standard billing rates and to record sliding fee adjustments and contractual allowances as a deduction from revenue. Accordingly, accounts receivable as of June 30, 2011 have been reduced by such allowances.

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

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

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

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

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

Client Receivables - Client receivables have been reported net of allowances for uncollectibles and contractual adjustments of $468,226 as of June 30, 2011. Past due accounts are written off in the period management deems them to be uncollectible.

HEALTHWAYS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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

Property and equipment with a cost exceeding $1,000 and an estimated useful life of greater than one year is recorded at historical cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Depreciation expense for HealthWays, Inc. for the year ended June 30, 2011 was $198,319. Depreciation for Greenbrier Manor, Inc. for the year ended June 30, 2011 was $11,954. Depreciation expense for Brooke-Hancock Community Living, Inc. for the year ended June 30, 2011 was $34,939. Consolidated depreciation expense for the year ended June 30, 2011 was $245,212. Because HealthWays, Inc. leases from the state, the state is responsible for all major repairs and maintenance, therefore HealthWays, Inc. does not maintain a schedule for planned major repairs and maintenance.

HealthWays, Inc. reviews its investment in property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the property to the future net undiscounted cash flow expected to be generated by the property including any estimated proceeds from the eventual disposition of the property. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There were no impairment losses recognized in 2011.

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

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

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

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

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

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

HealthWays, Inc. and Affiliates have no permanently restricted net assets at June 30, 2011. HealthWays, Inc.'s temporarily restricted net assets at June 30, 2011 were $42,712. The composition of the temporarily restricted net assets for HealthWays, Inc. as of June 30, 2011 was $42,712 related for use in the "Miracles Happen" program. Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. do not have any temporarily restricted net assets as of June 30, 2011.

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 2007, 2008, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

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

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

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

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

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

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.

	2011
Program Services	$ 7,732,346
Management & General	1,461,229
	$ 9,193,575

Greenbrier Manor, Inc.

	2011
Program Services	$ 43,864
Management & General	8,489
	$ 52,353

Brooke-Hancock Community Living, Inc.

	2011
Program Services	$ 151,369
Management & General	4,655
	$ 156,024

Consolidated

	2011
Program Services	$ 7,973,560
Management & General	1,428,392
	$ 9,401,952

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

Subsequent Events - Management has evaluated subsequent events through April 24, 2012, the date the financial statements were available to be issued.

Reclassifications – The Corporation's policy is to reclassify amounts reported in prior year financial statements when necessary for classifications adopted during the current year. There were no significant reclassifications during 2011.

Note 2 – Retirement Plan:

During the fiscal year ended June 30, 1981, HealthWays, Inc. adopted a Simplified Employee Pension contribution agreement covering all full-time employees, age 21 and over with 18 months of service. During the fiscal year ended June 30, 1996, HealthWays elected to include part-time employees. During the fiscal year ended June 30, 2006, HealthWays adopted a 401k plan covering all eligible employees, age 21 and over with no service requirements. The 401k plan has no company contributions. HealthWays accrues an equivalent of 7% of eligible employees gross wages on a monthly basis. For the fiscal year ended June 30, 2011, retirement plan expense related to the Simplified Employee Pension plan amounted to $162,356 of which $11,337 was unpaid and included in accrued wages and benefits on the balance sheet.

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, 2011 investments held were comprised of the following:

June 30, 2011	Cost	Market
Cash and Cash Equivalents	$ 230,108	$ 230,108
Equity Securities	66,565	69,064
Mutual Funds-Equity	890,900	861,008
Mutual Funds-Fixed Income	152,998	151,744
Total	$ 1,340,571	$ 1,311,924

Unrealized investment (gains) losses for the years ending June 30, 2011 amounted to ($104,598).

Investment in Joint Venture - During the year ended June 30, 1996, HealthWays, Inc. along with many other mental health centers, jointly created First Choice Health Systems, Inc., a for profit corporation to enable the centers to pool their influence to expand into statewide markets. The original investment was $50,000 with an estimated value of $86,172 as of June 30, 2011.

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, 2011. The line has a variable interest rate and requires said interest to be paid monthly. Accounts receivable have been pledged as collateral.

Note 5 - Long-Term Debt

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

Brooke-Hancock Community Living, Inc. had a mortgage payable to the U.S. Department of Housing and Urban Development and later re-financed the mortgage payable through Progressive Bank. This agreement is secured by a mortgage deed on the property located at 3025 Pleasant Avenue, Wellsburg WV 26070. The mortgage bears interest at a rate of 6.99% and matures in 2030. As of June 30, 2011, the outstanding balance on this mortgage amounted to $832,078. The principal payments on mortgages and notes payable due in the next five years and thereafter are as follows:

2012	$ 22,143
2013	23,742
2014	25,455
2015	27,293
2016	29,263
Thereafter	704,182
	$ 832,078

Note 6 - Housing Assistance Payment Contract

To subsidize a portion of the tenants' monthly rental costs of the projects, Greenbrier Manor, Inc. has entered into Housing Assistance Payment (HAP) contracts with HUD, which require certain restrictions on operating policies, rental charges, and operating expenditures. Under the terms of the contracts, a "contract rent" value is assigned to each unit based on results of a market comparability study of other rental units in the regional area. The tenants' monthly rental cost is equal to 30 percent of their adjusted monthly income. The balance of the contract rent is subsidized by HUD. Subsidized rental income was $10,993 for the year ended June 30, 2011.

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 $88,699 for the year ended June 30, 2011.

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

HealthWays, Inc. and Affiliates maintain accounts at local financial institutions. The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) insures a maximum of $250,000 per depositor. Differences do exist between financial institution and book balances due to deposits-in-transit, outstanding checks and other reconciling items. The following uninsured excess exists at June 30, 2011.

	First Choice Credit Union	WesBanco	Tin Mill Credit Union	Hancock Co. Savings Bank	Capital One
Balance as of June 30, 2011	$ 3,697,062	$ 849,074	$ 150,724	$ 251,177	$ 174
Less: FDIC &NCUA Coverage	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)
Less: Additional Coverage	(3,697,062)	-	-	-	-
Amount (below) above coverage	$ (250,000)	$ 599,074	$ (99,276)	$ 1,177	$ (249,826)

Greenbrier Manor, Inc.

	United Bank	Hancock Co. Savings Bank
Balance as of June 30, 2011	$ 19,861	$ 15,255
Less: FDIC & NCUA Coverage	(250,000)	(250,000)
Less: Additional Coverage	-	-
Amount (below) above coverage	($ 230,139)	($ 234,745)

Brooke-Hancock Community Living, Inc.

	WesBanco Bank	Progressive Bank
Balance as of June 30, 2011	$ 4	$ 67,669
Less: FDIC & NCUA Coverage	(250,000)	(250,000)
Less: Additional Coverage	-	-
Amount (below) above coverage	($ 249,996)	($ 182,331)

The total uninsured excess as of June 30, 2011 was $600,251; management believes the credit risk associated with these deposits is minimal.

Note 8 - Fair Value Measurements

For assets and liabilities measured at fair value on a recurring basis during the period, Financial Accounting Standards Board FASB ASC 820-10-50-1 through 50-3; 820-10-50-8, requires quantitative disclosures about the fair value measurements separately for each major category of assets and liabilities. For assets, that information is as follows for the year ended June 30, 2011:

Assets at Fair Value as of June 30, 2011

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:	$ 230,107.73	$ -	$ -
Equity Securities:			
Healthcare	8,093.69	-	-
Financial	8,211.56	-	-
Technology	13,728.98	-	-
Services	11,031.74	-	-
Basic Materials	11,205.50	-	-
Consumer Goods	7,671.67	-	-
Utilities	1,092.32	-	-
Industrial Goods	2,801.69	-	-
Index Fund	3,146.40	-	-
Conglomerates	2,080.11	-	-
Equity Mutual Funds:			
Mid-cap growth	4,708.96	-	-
Diversified Emerging Markets	13,640.67	-	-
Large Value	12,339.06	-	-
Foreign Large Value	13,795.77	-	-
Mid-cap blend	4,670.98	-	-
Small Growth	6,239.56	-	-
Real Estate	7,539.81	-	-
Foreign Large Growth	13,530.67	-	-
Moderate Allocation	784,542.27	-	-
Fixed Income Mutual Funds:	151,744.86	-	-
Total investments	$ 1,311,924.00	$ -	$ -

Note 9 - HUD Restricted Deposits

Under the terms of the Regulatory and Loan Agreements, Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. are required to maintain certain deposit accounts to be held for specified purposes. Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc. are required to make monthly deposits to a replacement reserve account for the future repair and replacement of property and equipment. Additionally, any surplus cash existing at year-end is required to be deposited into a residual receipts account. Withdrawals from the replacement reserve and residual receipts accounts are subject to approval by HUD. Balances in restricted funds as of June 30, 2011 were as follows:

Greenbrier Manor, Inc.	Balance
Replacement Reserve	$ 19,992
Residual Receipts	11,699
Tenant Security Deposits	2,065

Brooke-Hancock Community Living, Inc.	Balance
Replacement Reserve	$ 35,434
Tenant Security Deposits	5,075

Note 10 - Rent Increases

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

Note 11 - Related Party Transactions

HealthWays, Inc., which has majority control of the board of directors of both Greenbrier Manor, Inc. and Brooke-Hancock Community Living, Inc., is the management agent of the Projects. During the year ended June 30, 2011, Greenbrier Manor, Inc. paid $10,259 in management and bookkeeping fees and $1,584 in other reimbursements to HealthWays, Inc. Brooke-Hancock Community Living, Inc. paid $5,676 in management fees and $4,205 in other reimbursements to HealthWays, Inc. There were no receivables from or amounts payable to related parties as of June 30, 2011.

Note 12 – Legal Proceedings

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

SUPPLEMENTARY INFORMATION

SEACHRIST, KENNON & MARLING, A.C.

Certified Public Accountants & Business Consultants

Craig K Seachrist, CPA, CVA
Diana L Kennon, CPA, CVA
Ronnie L Marling, CPA, CFE
Julie A Kerns, CPA
Chantelle S Horvath, CPA
James M Riley, CPA

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

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of
HealthWays, Inc & Affiliates

We have audited the consolidated financial statements of HealthWays, Inc and Affiliates as of and for the year ended June 30, 2011, and have issued our report thereon dated April 24, 2012, which contained an unqualified opinion on those financial statements, appears on page 1 Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole The statements of financial position, statements of activities and changes in net assets, and statements of cash flows for HealthWays, Inc for the years ended June 30, 2011 and 2010 (shown on pages 18-20) the schedule of property and equipment purchases with BHHF administered funding (shown on pages 21-22) and the schedule of expenditures of federal awards and state awards (shown on pages 23-24) are presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements The statement of financial position, statement of activities and changes in net assets, statement of cash flows for Greenbrier Manor, Inc for the year ended June 30, 2011, and supplemental data required by HUD (shown on pages 25-30), are also presented for purposes of additional analysis and is not a required part of the consolidated financial statements The statement of financial position, statement of activities and changes in net assets (deficit), statement of cash flows for Brooke-Hancock Community Living, Inc for the year ended June 30, 2011, and supplemental data required by HUD (shown on pages 31-36), are also presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 consolidated financial statements taken as a whole.

Seachrist, Kennon + Marling, A.C.

Wheeling, West Virginia
April 24, 2012

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HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 4,723,191	$ 4,427,517
Client receivables, net	755,452	765,253
Contract receivables	326,732	595,075
Deposits and prepaid assets	147,734	80,352
Total current assets	5,953,109	5,868,197
Plant, property and equipment:		
Land	49,184	49,184
Buildings	3,134,863	3,128,451
Equipment	832,502	831,401
Furniture and fixtures	83,672	74,359
Vehicles	898,515	871,972
Construction in process	88,015	-
	5,086,751	4,955,367
Less accumulated depreciation	(3,224,613)	(3,082,506)
Property and equipment, net	1,862,138	1,872,861
Other assets, at cost:		
Investments	1,311,924	595,071
Investment in joint venture	86,172	86,172
Total other assets	1,398,096	681,243
Total assets	$ 9,213,343	$ 8,422,301
LIABILITIES & NET ASSETS:		
Current liabilities:		
Accounts payable	$ 474,614	$ 530,777
Provider tax payable	27,900	20,090
Accrued wages and benefits	377,652	352,094
Reserve for third party settlements	(1,500)	(1,500)
Deferred income	139,604	127,453
Total current liabilities	1,018,270	1,028,914
Total liabilities	1,018,270	1,028,914
Net assets:		
Unrestricted net assets	8,152,361	7,350,675
Temporarily restricted net assets	42,712	42,712
Total net assets	8,195,073	7,393,387
Total liabilities and net assets	$ 9,213,343	$ 8,422,301

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
Support and Revenues		
Net client service revenue	$ 7,344,336	$ 7,264,807
West Virginia Department of Health and Human Resources funding	2,175,926	2,107,371
Other support	210,999	247,730
Workshops and rentals	13,108	22,560
Investment income (loss)	173,797	150,604
Management fee revenue	18,793	9,612
Other revenue	29,676	7,216
Total support and revenues	9,966,635	9,809,900
Net assets released from restrictions	-	-
Total support, revenues and reclassifications	9,966,635	9,809,900
Operating Expenses		
Salaries and wages	3,326,641	3,311,547
Employee benefits	1,109,059	1,072,606
Contracted services	3,114,871	3,235,954
Supplies	218,066	193,277
Transportation	229,311	243,562
Utilities and telephone	139,300	131,576
Building and equipment maintenance	162,964	149,911
Depreciation	198,319	216,732
Bad debt	133,552	55,470
Insurance	113,297	106,062
Provider tax	328,566	310,466
Investment fees	7,132	5,984
Other	112,497	92,305
Total expenses	9,193,575	9,125,452
Other Income/Expenses		
Gain (Loss) on Disposition	28,626	200
Total other income/expenses	28,626	200
Increase (decrease) in unrestricted net assets	801,686	684,648
TEMPORARILY RESTRICTED NET ASSETS:		
Support and Revenues		
Donations	-	-
Net assets released from restrictions	-	-
Increase (decrease) in temporarily restricted net assets	-	-
Increase (decrease) in net assets	801,686	684,648
Net assets, beginning of year	7,393,387	6,708,739
Net assets, end of year	$ 8,195,073	$ 7,393,387

HEALTHWAYS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating and Non-Operating Revenue Activities:		
Increase (decrease) in net assets	$ 801,686	$ 684,648
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:		
Depreciation	198,319	216,732
Realized and unrealized (gain) loss on investments	(104,598)	(76,899)
Realized (gain) loss on sale of assets	(28,626)	(200)
Change in assets and liabilities:		
(Increase) decrease in receivables	278,144	(354,552)
(Increase) decrease in deposits and prepaid expenses	(67,382)	8,015
(Increase) decrease in joint venture	-	(2,457)
Increase (decrease) in accounts payable	(56,163)	(86,017)
Increase (decrease) in provider tax	7,810	(9,272)
Increase (decrease) in accrued wages and benefits	25,558	5,578
Increase (decrease) in other liabilities	-	(32,726)
Increase (decrease) in deferred income	12,151	11,840
Net cash provided (used) by operating activities	1,066,899	364,690
Cash Flows from Investing Activities		
(Purchases) of property and equipment	(187,596)	(136,236)
(Purchases) of investments	(995,243)	(6,241)
Sale of investments	382,988	6,241
Proceeds from sale of assets	28,626	200
Net cash provided (used) in investing activities	(771,225)	(136,036)
Net increase (decrease) in cash	295,674	228,654
Cash at beginning of the year	4,427,517	4,198,863
Cash at end of the year	$ 4,723,191	$ 4,427,517
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest expense	$ -	$ -
Income taxes	$ -	$ -

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASES WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2011

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

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASES WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2011

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
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	10/26/2007	6,631.28	Various	EQOB0056 - 63
Laptop computers (2)	N/A	10/26/2007	1,823.21	Various	EQOB0064 & 65
Lot Sealing	N/A	5/29/2008	1,700.00	Various	IMOB0009
Vehicle (3 door)	N/A	6/4/2008	1,639.70	Various	VEOB0009
Furniture	N/A	6/27/2008	3,678.24	Various	Various
Television	N/A	6/27/2008	1,860.63	Various	FFOB0008
Stove	N/A	6/27/2008	1,986.41	Various	FFOB0007
Furniture	N/A	6/30/2008	3,551.37	Various	FFOB009
Computers (2)	N/A	6/30/2008	2,240.84	Various	EQOB0066 & 67
Vehicles	N/A	6/30/2008	23,098.90	Various	VEOB0010-11
Paint Offices	N/A	5/14/2010	3,800.00	Various	N/A
Generator	N/A	2/9/2010	1,175.00	Various	N/A
Desk	N/A	6/25/2010	1,661.00	Various	N/A
AC Repair	N/A	5/27/2010	1,222.05	Various	N/A
Vehicle	Enterprise	9/2/2010	16,997.21	0525-2012-2891-219-252/258	N/A
Carpeting	Flooring America	5/16/2011	4,901.18	0525-2012-2891-219-252/258	N/A
Furniture	National	6/29/2011	1,550.06	0525-2012-2885-219-252/258	N/A
Laptop computer	Dell	6/22/2011	1,100.39	0525-2012-2851-219-252-7219	N/A
Laptop computer	Dell	8/25/2008	1,223.22	8723-2009-2849-096-128-14014	EQOB0068
Rooftop furnace	Johnson Boilerworks	11/14/2008	5,625.00	Various	FFOB0010
Laptop computer	Dell	6/12/2009	1,181.64	8723-2009-2849-096-128-14014	EQOB0069
Server/Hardware	Dell	6/29/2009	12,505.79	8723-2009-2849-096-128-14014	EQHW0206
			$ 858,226.23		

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Program Title	Account Number	Federal CFDA #	Current Revenue Earned	Expenditures
SA Services	8793-2011-2885-096-128	93.959	$ 334,673	$ 334,673
SA Adolescent Services	8793-2011-2892-096-128	93.959	40,963	40,963
			$ 375,636	$ 375,636

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Healthways Inc. under programs of the federal government for the year ended June 30, 2011. Because the schedule presents only a selected portion of the operations of HealthWays, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of HealthWays, Inc.

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

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Program Title	Account Numbers	Federal CFDA #	Current Revenue Earned	Expenditures
Uncompensated Care	0525-2011-3065-219-252	N/A	$ 371,880	$ 371,880
Support Services	0525-2011-3041-219-252	N/A	142,204	142,204
Case Management	0525-2011-2851-219-253	N/A	296,361	296,361
Family Support Services	0525-2011-2870-221-252	N/A	121,417	121,417
Community Support Improvement	0525-2011-3702-219-252	N/A	73,814	73,814
SA Core Discretionary	0525-2011-2885-219-252	N/A	47,658	47,658
SA Adult Residential Treatment	0525-2011-2891-219-252	N/A	520,000	520,000
SA Adolescent Outpatient	0525-2011-2892-219-252	N/A	114,674	114,674
Care Coordinators Improvement	0525-2011-3701-219-252	N/A	62,438	62,438
			$ 1,750,446	$ 1,750,446

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Healthways Inc under programs of the federal government for the year ended June 30, 2011 Because the schedule presents only a selected portion of the operations of HealthWays, Inc , it is not intended to and does not present the financial position, changes in net assets or cash flows of HealthWays Inc.

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

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

	2011
ASSETS:	
Current Assets:	
Cash	$ 160
Prepaid insurance	801
Total current assets	961
Deposits Held in Trust - Funded:	
Tenant security deposits	2,065
Restricted Deposits and Funded Reserves:	
Reserve for replacements	19,992
Residual reserve	11,699
Total restricted deposits	31,691
Property and Equipment:	
Land	30,000
Building and improvements	461,735
Furniture and fixtures	20,409
Total property and equipment	512,144
Less - accumulated depreciation	(157,246)
Net property and equipment	354,898
Total assets	$ 389,615
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	$ 6,235
Total current liabilities	6,235
Deposit and Prepayment Liabilities:	
Tenant security deposits	1,713
Long-Term Liabilities:	
Mortgage payable	378,400
Total liabilities	386,348
Net Assets:	
Unrestricted net assets (deficit)	3,267
Total liabilities and net assets (deficit)	$ 389,615

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	2011
REVENUES:	
Rental income	$ 31,085
Tenant assistance payments	10,993
Investment income - residual receipts	27
Investment income - replacement reserve	64
Laundry and vending revenue	655
Tenant charges	1,488
Total revenues	44,312
EXPENSES:	
Office expense	2,742
Management fee	3,936
Bookkeeping expense	8,151
Miscellaneous administrative expenses	2,224
Total administrative expenses	17,053
Electric	3,806
Water	2,327
Gas	3,323
Total utilities	9,456
Supplies	2,358
Contracts	9,228
Garbage and Trash Removal	608
Snow Removal	1,595
Total operating & maintenance expenses	13,789
Property Insurance	3,699
Dishonesty bond insurance	338
Total taxes & insurance	4,037
Total expenses before depreciation	44,335
Increase (decrease) in net assets before depreciation	(23)
Depreciation	11,954
Increase (decrease) in net assets	(11,977)
Net assets (deficit), beginning of year	15,244
Net assets (deficit), end of year	$ 3,267

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

		2011
Cash Flows from Operating Activities		
Rental receipts	$	42,078
Interest receipts		91
Other operating receipts		2,143
Total recipts		44,312
Administrative		(14,476)
Management fee		(3,936)
Utilities		(9,456)
Operating and maintenance		(14,148)
Property insurance		(3,740)
Tenant security deposits		(1)
Total Disbursements		(45,757)
Net cash provided (used) by operating activities		(1,445)
Cash Flows from Investing Activities		
Net (deposits to) withdrawls from reserve for replacement account		(2,464)
Net (deposits to) withdrawls from other reserves		(27)
Net cash provided (used) by investing activities		(2,491)
Net increase (decrease) in cash		(3,936)
Cash at beginning of the year		4,096
Cash at end of the year	$	160
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$	(11,977)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation expense		11,954
(Increase) decrease in prepaid expenses		296
Increase (decrease) in accounts payable		(1,718)
Net cash provided (used) by operating activities	$	(1,445)

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2011

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM TENANTS):
There are no accounts or notes receivable as of June 30, 2011

DELINQUENT TENANT ACCOUNTS RECEIVABLE:
There are no significant deliquent tenant accounts receivable as of June 30, 2011.

TENANT SECURITY DEPOSITS:
Tenant security deposits are held in a separate bank account in the name of the project. The security account balance as of June 30, 2011 is $2,065. Interest from funds held in the security deposit account is allocated to tenant security deposits. There is no unfunded liability as of June 30, 2011.

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2010	$	17,528
Monthly deposits		2,400
Interest earned		64
Authorized withdrawals		-
Ending balance, June 30, 2011	$	19,992

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2010	$	11,672
Interest income		27
Authorized withdrawals		-
Ending balance, June 30, 2011	$	11,699

ACCOUNTS PAYABLE (OTHER THAN TRADE CREDITORS):
There are no accounts payable for amounts other than creditors as of June 30, 2011.

ACCRUED TAXES:
There are no accrued taxes payable as of June 30, 2011.

COMPENSATION OF OWNERS:
There was no compensation paid to the owners during the period ended June 30, 2011.

SCHEDULE OF UNAUTHORIZED DISTRIBUTIONS OF PROJECT INCOME:
There was no unauthorized distribution of project income during the period ended June 30, 2011

SCHEDULE OF NOTES PAYABLE (OTHER THAN MORTGAGES):
There were no notes payable other than mortgages as of June 30, 2011.

CHANGES IN OWNERSHIP:
There were no changes in ownership during the period ended June 30, 2011

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULE OF FUNDS IN FINANCIAL INSTITUTIONS:

Funds in financial institutions as of June 30, 2011 consist of the following:

Funds held by United National Bank - regular operating account	$	1,362
Funds held by United National Bank - tenant security deposits		2,065
Funds held by United National Bank - reserve fund for replacements		9,093
Funds held by United National Bank - residual receipts		7,340
Funds held by Hancock County Savings Bank - residual receipts		4,359
Funds held by Hancock County Savings Bank - reserve fund for replacements		10,896
Total funds in financial institutions	$	35,115

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	2,225
Total cash		2,225
Current Obligations:		
Accounts payable - 30 days		1,235
Accrued expenses payable		5,000
Tenant security deposit liability		1,713
Total current obligations		7,948
Surplus cash (deficiency) at June 30, 2011	$	(5,723)
Deposit due residual receipts	$	-

GREENBRIER MANOR, INC.
HUD PROJECT NO. 045-HD015-CA
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2011

CHANGES IN FIXED ASSET ACCOUNTS:

	Assets			
	Balance 06/30/10	Additions	Disposals	Balance 06/30/11
Land	$ 30,000	$ -	$ -	$ 30,000
Building and improvements	461,735	-	-	461,735
Furniture and fixtures	20,409	-	-	20,409
Total	$ 512,144	$ -	$ -	$ 512,144
Accumulated Depreciation	145,292	11,954	-	157,246
Book Value	$ 366,852	$ (11,954)	$ -	$ 354,898

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

	2011
ASSETS:	
Current Assets:	
Cash	$ 26,781
Total current assets	26,781
Deposits Held in Trust - Funded:	
Tenant security deposits	5,075
Restricted Deposits and Funded Reserves:	
Reserve for replacements	35,434
Total restricted deposits	35,434
Property and Equipment:	
Land	32,783
Building and improvements	961,181
Building equipment	30,806
Furnishings	39,991
Total property and equipment	1,064,761
Less - accumulated depreciation	(675,450)
Net property and equipment	389,311
Other Assets:	
Deferred financing costs	6,575
Total other assets	6,575
Total assets	$ 463,176
LIABILITIES AND NET ASSETS (DEFICIT):	
Current Liabilities:	
Accounts payable	$ 7,352
Accrued interest payable	4,780
Mortgage payable - current portion	22,143
Total current liabilities	34,275
Deposit and Prepayment Liabilities:	
Tenant security deposits	3,648
Long-Term Liabilities:	
Mortgage payable	809,935
Total liabilities	847,858
Net Assets:	
Unrestricted net assets (deficit)	(384,682)
Total liabilities and net assets (deficit)	$ 463,176

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, 2011

	2011
REVENUES:	
Rental income	$ 72,229
Tenant assistance payments	88,699
Financial revenue-project operations	30
Investment income - replacement reserve	307
Laundry and vending revenue	2,221
Other income	2,289
Total revenues	165,775
EXPENSES:	
Office expense	221
Management fees	5,676
Bookkeeping fees	4,655
Miscellaneous administrative expenses	6,044
Total administrative expenses	16,596
Electric	8,690
Water	6,693
Gas	2,081
Total utilities	17,464
Supplies	16,322
Contracts	9,157
Garbage and trash removal	2,005
Heating/cooling repairs and maintenance	249
Total operating and maintenance	27,733
Property insurance	5,846
Miscellaneous taxes, licenses, permits and insurance	280
Total taxes and insurance	6,126
Interest-mortgage	58,842
Total expenses before depreciation	126,761
Increase (decrease) in net assets before depreciation	39,014
Depreciation	34,491
Amortization Expense	448
Increase (decrease) in net assets	4,075
Net assets (deficit), beginning of year	(388,757)
Net assets (deficit), end of year	$ (384,682)

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2011

		2011
Cash Flows from Operating Activities		
Rental receipts	$	160,928
Interest receipts		337
Other operating receipts		4,510
Total receipts		165,775
Administrative		(10,828)
Management fee		(5,676)
Utilities		(17,375)
Operating and maintenance		(27,644)
Property insurance		(6,126)
Tenant security deposits		(13)
Interest on first mortgage		(58,961)
Total disbursements		(126,623)
Net cash provided (used) by operating activities		39,152
Cash Flows from Investing Activites		
Net (deposits to) withdrawals from the reserve for replacement account		12,968
Purchase of fixed assets		(11,706)
Net cash provided (used) by investing activities		1,262
Cash Flows from Financing Activities		
Principal payments on first mortgage		(20,615)
Net cash provided (used) by financing activities		(20,615)
Net increase (decrease) in cash		19,799
Cash at beginning of the year		6,982
Cash at end of the year	$	26,781
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$	4,075
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense		34,939
(Increase) decrease in accounts receivable		-
(Increase) decrease in prepaid expenses		-
(Increase) decrease in tenant security deposit account		(205)
Increase (decrease) in accounts payable		270
Increase (decrease) in accrued interest payable		(119)
Increase (decrease) in tenant security deposits held in trust		192
Total adjustments		35,077
Net cash provided (used) by operating activities	$	39,152

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2011

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM TENANTS):

There are no accounts or notes receivable as of June 30, 2011

DELINQUENT TENANT ACCOUNTS RECEIVABLE:

There are no significant deliquent tenant accounts receivable as of June 30, 2011.

TENANT SECURITY DEPOSITS:

Tenant security deposits are held in a separate bank account in the name of the project. The security account balance as of June 30, 2011 is $5,075. Interest from funds held in the security deposit account is allocated to tenant security deposits. There is no unfunded liability as of June 30, 2011.

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2010	$ 48,403
Monthly deposits	3,569
Interest earned	63
Authorized withdrawals	(16,601)
Ending balance, June 30, 2011	$ 35,434

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2010	$ -
Interest income	-
Authorized withdrawals	-
Ending balance, June 30, 2011	$ -

ACCOUNTS PAYABLE (OTHER THAN TRADE CREDITORS):

There are no accounts payable for amounts other than creditors as of June 30, 2011.

ACCRUED TAXES:

There are no accrued taxes payable as of June 30, 2011.

COMPENSATION OF OWNERS:

There was no compensation paid to the owners during the period ended June 30, 2011.

SCHEDULE OF UNAUTHORIZED DISTRIBUTIONS OF PROJECT INCOME:

There was no unauthorized distribution of project income during the period ended June 30, 2011.

SCHEDULE OF NOTES PAYABLE (OTHER THAN MORTGAGES):

There were no notes payable other than mortgages as of June 30, 2011.

CHANGES IN OWNERSHIP:

There were no changes in ownership during the period ended June 30, 2011

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULE OF FUNDS IN FINANCIAL INSTITUTIONS:

Funds in financial institutions as of June 30, 2011 consist of the following:

Funds held by WesBanco Bank - regular operating account	$	4
Funds held by Progressive Bank - regular operating account		18,438
Funds held by Progressive Bank - reserve fund for replacements		44,155
Funds held by Progressive Bank- tenant security deposits		5,074
Total funds in financial institutions	$	67,671

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	31,856
Total cash		31,856
Current Obligations:		
Accounts payable - 30 days		7,352
Accrued expenses payable		4,780
Tenant security deposit liability		3,648
Total current obligations		15,780
Surplus cash (deficiency) at June 30, 2011	$	16,076
Deposit due residual receipts	$	16,076

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2011

CHANGES IN FIXED ASSET ACCOUNTS:

	Assets			
	Balance 06/30/10	Additions	Disposals	Balance 06/30/11
Land	$ 32,783	$ -	$ -	$ 32,783
Building and improvements	961,181		-	961,181
Furniture and fixtures	59,091	11,706	-	70,797
Total	$ 1,053,055	$ 11,706	$ -	$ 1,064,761
Accumulated Depreciation	640,959	34,491	-	675,450
Book Value	$ 412,096	$ (22,785)	$ -	$ 389,311

SEACHRIST, KENNON & MARLING, A.C.

Certified Public Accountants & Business Consultants

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Employee Benefit Plan Audit Quality Center

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

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

We have audited the consolidated financial statements of HealthWays, Inc. and affiliates (nonprofit organizations) as of and for the year ended June 30, 2011, and have issued our report thereon dated April 24, 2012. 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. and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HealthWays Inc. and Affiliates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. See Findings 11-1 and 11-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HealthWays Inc. and Affiliates' consolidated 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 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. See Finding 11-4.

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

This report is intended solely for the information and use of management, the Board of Directors, 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.

Seachrist, Kennon + Marling, A.C.

Wheeling, West Virginia
April 24, 2012

HEALTHWAYS, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

Finding 11-1: Material Weakness-HealthWays, Inc. and Brooke-Hancock Community Living, Inc.

Financial Statement Preparation – Financial Statement Finding:

Condition: The Organization currently requires assistance from the auditors to prepare its financial statements, complete with required footnote disclosures, in conformity with U.S. generally accepted accounting principles (GAAP). Certain material adjustments were required to be made to the accounting records so the financial statements could be prepared in conformity with U.S. generally accepted accounting principles. We believe that the cause of the material misstatements was inadequately designed control policies and procedures related to reconciliation of the general ledger accounts.

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

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

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

Response: Management acknowledges that the Center's staff does not possess the expertise required to prepare, or oversee the preparation of, the financial statements; however, due to limited resources it would not be cost beneficial to hire additional staff at this time.

HEALTHWAYS, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

Finding 11-2: Material Weakness- HealthWays, Inc.

Internal Control over Financial Reporting:

Condition: During the performance of our audit engagement procedures, we noted management had not updated a supporting spreadsheet used to calculate the reported workers compensation expense. Although the effects of the unadjusted spreadsheets are considered immaterial, the unrecorded amounts are, in our judgment, significant. Because there is a reasonable possibility that a misstatement of the Organization's financial statements could occur and not be prevented or detected by the Organization's internal control, we concluded there is a material weakness in the Organization's control polices and procedures.

Criteria: Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, activities and changes in net assets, cash flows and disclosures in the financial statements, in conformity with GAAP. The adjustment of all supporting spreadsheets to reflect appropriate year-end balances is a necessary step to ensure the financial statements are fairly presented.

Effect: A reasonable possibility exists that the Organization may issue financial statements and related footnotes that contain a material misstatement that will not be prevented or detected and corrected on a timely basis by the Organization's internal control.

Recommendation: We believe that this inadequacy is a deficiency in internal control over financial reporting. Management should assess the adequacy of the design of its policies and procedures related supporting spreadsheets and design appropriate controls as necessary to rectify inadequacies. When developing control policies and procedures for a process, management should consider where errors or fraud could occur that would cause a material misstatement in the financial statements and which policies and procedures, if operating properly, would prevent or detect the error or fraud on a timely basis.

Response: Management understands the need to have control over supporting documentation in order to have fair presentation of the financial statements. Management does not use a spreadsheet to support worker's compensation but uses an AGS in CMHC and a report in Great Plains to produce monthly entries. The rates used by these reports use are reviewed and adjusted yearly. However with worker's compensation there are several items added to the rates to calculate your premium. The largest add on is for the unfunded liability West Virginia incurred before privatizing worker's compensation. Management will continue to review these rates to insure a close estimate of our worker's compensation expense.

HEALTHWAYS, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

Finding 11-3: Material Weakness-HealthWays,Inc..

General Ledger Reconciliation:

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

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

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

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

Response: Management acknowledges the need to reconcile subsidiary ledgers and records supporting accounts. Due to the converting our accounting software to Great Plains some subsidiary ledgers were not reconciled for several months. Management will again reconcile subsidiary ledgers and records.

HEALTHWAYS, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

Finding 11-4: Noncompliance-Brooke-Hancock Community Living, Inc.

Department of Housing and Urban Development – Application Processing / Tenant Selection

Condition: The Department of Housing and Urban Development (HUD) requires that all adult tenants be screened for criminal and drug background checks as well as sex offender registration. Additionally the owner/management agent must verify income annually for all tenants. Our examination of tenant files for residents living at Brooke-Hancock Community Living, Inc. disclosed several instances where tenants had not been screened for criminal and drug background checks as well as sex offender registration. Our examination disclosed an instance where the owner/management agent did not verify tenant income.

Criteria: HUD Handbook 4350.2 requires that the owner/management agent screen all adult tenants for criminal and drug background checks as well as sex offender registration and to verify income annually for all tenants.

Effect: A likelihood exists that the Organization may admit residents who have criminal or drug backgrounds or registered sex offenders. The Organization may also admit residents who are ineligible as occupants under the HUD guidelines.

Recommendation: We recommend that the Organization review and revise their policies and procedures related to tenant screening and income verification.

Response: Management acknowledges the need to do criminal background checks and income verification on clients. Supervisory staff has received training on HUD requirements. Management has made a change in the supervisor to insure that necessary HUD requirements are met.