HEALTHWAYS, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016

Optimizing Your Business Value and Creating Wealth

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

HEALTHWAYS, INC. AND AFFILIATE
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American Institute of Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of HealthWays, Inc. & Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities and changes in net assets (deficit), and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of HealthWays, Inc. & Affiliate as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Seachrist, Kennon & Marling A.C.

Seachrist, Kennon & Marling, A.C.
Wheeling, West Virginia
June 5, 2017

HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	HealthWays, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2016
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 9,390,389	$ 7,184	$ -	$ 9,397,573
Client receivables, net	1,549,907	-	-	1,549,907
Contract receivables	1,340,371	-	-	1,340,371
Prepaid insurance	-	2,223	-	2,223
Deposits and prepaid assets	144,716	-	-	144,716
Loan to Brooke-Hancock Community Living, Inc.	2,000	-	(2,000)	-
Total current assets	12,427,383	9,407	(2,000)	12,434,790
Deposits held in trust-funded	-	5,116	-	5,116
Restricted Deposits and Funded Reserves	-	29,417	-	29,417
Plant, property and equipment:				
Land	49,184	32,783	-	81,967
Buildings	3,196,015	1,125,090	-	4,321,105
Equipment	936,397	36,043	-	972,440
Furniture and fixtures	136,429	44,203	-	180,632
Vehicles	1,021,179	-	-	1,021,179
Construction in process	321,343	-		321,343
	5,660,547	1,238,119	-	6,898,666
Less accumulated depreciation	(3,904,546)	(858,180)	-	(4,762,726)
Property and equipment, net	1,756,001	379,939	-	2,135,940
Other assets:				
Investments	4,294,151	-	-	4,294,151
Investment in joint venture	122,948	-	-	122,948
Total other assets	4,417,099	-	-	4,417,099
Total assets	$ 18,600,483	$ 423,879	$ (2,000)	$ 19,022,362
LIABILITIES & NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable	$ 490,390	$ 15,407	$ -	$ 505,797
Provider tax payable	34,482	-	-	34,482
Accrued wages and benefits	409,263	-	-	409,263
Deferred income	141,166	-	-	141,166
Due to client	12,914	-	-	12,914
Tenant security deposits	-	3,440	-	3,440
Accrued interest payable	-	1,710	-	1,710
Mortgage payable-current portion	-	42,495	-	42,495
Loan from Healthways Inc.	-	2,000	(2,000)	-
Total current liabilities	1,088,215	65,052	(2,000)	1,151,267
Long-Term Liabilities				
Mortgage Payable	-	718,326	-	718,326
Total liabilities	1,088,215	783,378	(2,000)	1,869,593
Net assets (deficit):				
Unrestricted net assets (deficit)	17,475,564	(359,499)	-	17,116,065
Temporarily restricted net assets	36,704	-	-	36,704
Total net assets (deficit)	17,512,268	(359,499)	-	17,152,769
Total liabilities and net assets (deficit)	$ 18,600,483	$ 423,879	$ (2,000)	$ 19,022,362

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

HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2016

	HealthWays, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2016
UNRESTRICTED NET ASSETS:				
Support and Revenues				
Net client service revenue - Note 1	$ 8,836,735	$ -	$ -	$ 8,836,735
Rental income	-	69,877	-	69,877
Tenant assistance payments	-	100,258	-	100,258
West Virginia Department of Health and Human Resources funding	1,441,185	-	-	1,441,185
Other support	191,821	-	-	191,821
Workshops and rentals	14,432	-	-	14,432
Investment income (loss)	13,629	293	-	13,922
Management and bookkeeping fee revenue	24,378	-	(17,342)	7,036
Other revenue (expense)	22,184	1,668	-	23,852
Total support and revenues	10,544,364	172,096	(17,342)	10,699,118
Net assets released from restrictions	286	-	-	286
Total revenues and reclassifications	10,544,650	172,096	(17,342)	10,699,404
Operating Expenses				
Salaries and wages	3,413,299	-	-	3,413,299
Employee benefits	1,146,773	-	-	1,146,773
Contracted services	3,128,256	36,985	(11,193)	3,154,048
Supplies	167,546	18,791	-	186,337
Transportation	262,630	-	-	262,630
Utilities and telephone	141,135	21,188	-	162,323
Maintenance	203,376	3,105	-	206,481
Depreciation and amortization	171,789	39,070	-	210,859
Bad debt	247,480	-	-	247,480
Insurance	144,686	7,361	-	152,047
Interest expense	-	35,766	-	35,766
Provider tax	387,284	-	-	387,284
Management fees	-	6,149	(6,149)	-
Investment fees	36,922	-	-	36,922
Other	200,585	4,909	-	205,494
Total expenses	9,651,761	173,324	(17,342)	9,807,743
Increase (decrease) in unrestricted net assets	892,889	(1,228)	-	891,661

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

HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2016

	HealthWays, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2016
TEMPORARILY RESTRICTED NET ASSETS:				
Support and Revenues				
Net assets released from restrictions	(286)	-	-	(286)
Increase (decrease) in temporarily restricted net assets	(286)	-	-	(286)
Increase (decrease) in net assets	892,603	(1,228)	-	891,375
Net assets (deficit), beginning of year	16,619,665	(358,271)	-	16,261,394
Net assets (deficit), end of year	$ 17,512,268	$ (359,499)	$ -	$ 17,152,769

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

HEALTHWAYS, INC. AND AFFILIATE
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	HealthWays, Inc.	Brooke-Hancock Community Living, Inc.	Combining Entries	Combined 2016
Cash Flows from Operating and Non-Operating Revenue Activities:				
Increase (decrease) in net assets	$ 892,603	$ (1,228)	$ -	$ 891,375
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:				
Depreciation	171,789	39,070	-	210,859
Realized and unrealized (gain) loss on investments	244,653	-	-	244,653
Change in assets and liabilities:				
(Increase) decrease in receivables	(1,067,609)	-	-	(1,067,609)
(Increase) decrease in deposits and prepaid expenses	(68,188)	(364)	-	(68,552)
(Increase) decrease in other joint venture	(20,228)	-	-	(20,228)
Increase (decrease) in accounts payable	(131,477)	7,120	-	(124,357)
Increase (decrease) in provider tax	6,726	-	-	6,726
Increase (decrease) in accrued wages and benefits	(10,457)	-	-	(10,457)
Increase (decrease) in due to client	12,914	-	-	12,914
Increase (decrease) in tenant security deposits	-	(13)	-	(13)
Increase (decrease) in other liabilities	-	114	-	114
Increase (decrease) in deferred income	4,531	-	-	4,531
Net cash provided (used) by operating activities	35,257	44,699	-	79,956
Cash Flows from Investing Activities				
(Purchases) of property and equipment	(183,764)	(18,558)	-	(202,322)
(Purchases) of investments	(964,126)	-	-	(964,126)
Sale of investments	791,238	-	-	791,238
Net (deposits) withdrawals in residual receipts	-	(8,782)	-	(8,782)
Net (deposits) to withdrawals from the reserve for replacement	-	14,854	-	14,854
Net cash provided (used) in investing activities	(356,652)	(12,486)	-	(369,138)
Cash Flows from Financing Activities				
Principal (payments) on first mortgage	-	(44,016)	-	(44,016)
Proceeds from Loan	-	2,000	-	2,000
Net cash provided (used) in financing activities	-	(42,016)	-	(42,016)
Net increase (decrease) in cash	(321,395)	(9,803)	-	(331,198)
Cash and cash equivalents at beginning of the year	9,711,784	16,987	-	9,728,771
Cash and cash equivalents at end of the year	$ 9,390,389	$ 7,184	$ -	$ 9,397,573
Supplemental disclosure for cash flow information:				
Cash paid during the period for:				
Interest expense	$ -	$ 35,651	$ -	$ 35,651
Income taxes	$ -	$ -	$ -	$ -

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

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 – Description of Organization and Significant Accounting Policies:

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

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

Basis of Financial Reporting - The combined financial statements have been prepared using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation - The combined financial statements as of June 30, 2016 include the accounts of HealthWays, Inc. and its controlled Affiliate: Brooke-Hancock Community Living, Inc. All intercompany transactions have been eliminated from the combined financial statements.

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

Revenues from services rendered to clients are recorded by HealthWays, Inc. at the full-established rates, with estimated amounts uncollectible by reason of charity allowances and contractual adjustments recorded as revenue deductions. Net amounts are reported on the statement of activities. For the year ended June 30, 2016, allowances and discounts totaled $739,150.

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

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

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

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

Deductions from Revenue – HealthWays' policy is to charge for services at standard billing rates and to record sliding fee adjustments and contractual allowances as a deduction from revenue. Accordingly, accounts receivable as of June 30, 2016 have been reduced by such allowances.

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

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

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

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

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

Property and Equipment (continued)- Property and equipment with a cost exceeding $1,000 and an estimated useful life of greater than one year is recorded at historical cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Depreciation expense for HealthWays, Inc. for the year ended June 30, 2016 was $171,789. Depreciation expense for Brooke-Hancock Community Living, Inc. for the year ended June 30, 2016 was $39,070. Combined depreciation expense for the year ended June 30, 2016 was $210,859. 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 2016.

Client Receivables - Client receivables have been reported net of allowances for uncollectible and contractual adjustments of $761,217 as of June 30, 2016. Past due accounts are written off in the period management deems them to be uncollectible. Client receivables are reported at estimated net realizable amounts from patients and responsible third-party payers. Amounts owed to HealthWays, Inc. are reported net of allowances. Allowances include estimates of contractual adjustments, charity care and bad debts. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. In this regard, HealthWays, Inc. has implemented a standardized approach to estimate and review the collectability of its receivables based on accounts receivable aging trends. Historical collection and payer reimbursement experience are an integral part of the estimation process related to determining allowances for contractual allowances and doubtful accounts. In addition, HealthWays, Inc. assesses the current state of its billing functions in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. Revisions in reserve estimates are recorded as an adjustment to net client service revenue or the provision for doubtful accounts in the period of revision. HealthWays, Inc. believes that its collection and reserve processes, along with the monitoring of its billing processes, help to reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection, reimbursement experience and billing functions.

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

Net Asset Classification - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HealthWays, Inc. and Affiliate and changes therein are classified and reported as follows:

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

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

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

HealthWays, Inc. and Affiliate have no permanently restricted net assets at June 30, 2016. HealthWays, Inc.'s temporarily restricted net assets at June 30, 2016 were $36,704. The composition of the temporarily restricted net assets for HealthWays, Inc. as of June 30, 2016 was $36,704 related for use in the "Miracles Happen" program. Brooke-Hancock Community Living, Inc. does not have any temporarily restricted net assets as of June 30, 2016.

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 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they were filed. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combined financial statements.

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

Advertising – The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2016 was $67,993.

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

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

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

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

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

The classification of expenses by functional allocation is as follows:

HealthWays, Inc.

	2016
Program Services	$ 7,372,640
Management & General	2,279,121
	$ 9,651,761

Brooke-Hancock Community Living, Inc.

	2016
Program Services	$ 143,373
Management & General	29,951
	$ 173,324

Combined

	2016
Program Services	$ 7,516,013
Management & General	2,291,730
	$ 9,807,743

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

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

Note 2 – Retirement Plan:

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

The 401 (k) does not match employee contributions. HealthWays, Inc. made a 7% discretionary match of eligible employees' gross wages. For the fiscal year ended June 30, 2016, retirement plan expenses related to the 401(k) plan amounted to $165,503 of which $256 was unpaid and included in accrued wages and benefits on the balance sheet as of June 30, 2016.

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, 2016 investments held were comprised of the following:

June 30, 2016	Cost	Market
Cash and Cash Equivalents	$ 44,906	$ 44,906
Equity Securities	1,001,650	1,038,629
Equity Mutual Funds	1,833,237	1,819,892
Fixed Income	1,392,394	1,390,724
Total	$ 4,272,187	$ 4,294,151

Unrealized investment (gains) losses for the year ending June 30, 2016 amounted to $244,653.

Investment in Joint Venture - During the year ended June 30, 1996, HealthWays, Inc. along with many other mental health centers, jointly created First Choice Health Systems, Inc., a for profit corporation to enable the centers to pool their expertise to expand into statewide markets. The original investment was $50,000 with an estimated value of $122,948 as of June 30, 2016.

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016. The line has a variable interest rate and requires said interest to be paid monthly.

Note 5 - Long-Term Debt

Brooke-Hancock Community Living, Inc. had a mortgage payable to the U.S. Department of Housing and Urban Development and later re-financed the mortgage payable through Progressive Bank. This agreement is secured by a mortgage deed on the property located at 3025 Pleasant Avenue, Wellsburg WV 26070. The mortgage through Progressive Bank was re-financed on July 14, 2014 and bears interest at a rate of 4.99% and matures in 2029. As of June 30, 2016, the outstanding balance on this mortgage amounted to $760,821. The principal payments on mortgages and notes payable due in the next five years and thereafter are as follows:

2017	$ 42,495
2018	44,665
2019	46,945
2020	49,342
2021	51,861
Thereafter	525,513
	$ 760,821

Note 6 - Housing Assistance Payment Contract

To subsidize a portion of the tenants' monthly rental costs of the projects, Brooke-Hancock Community Living, Inc. has entered into Housing Assistance Payment (HAP) contracts with HUD, which require certain restrictions on operating policies, rental charges, and operating expenditures. Under the terms of the contracts, a "contract rent" value is assigned to each unit based on results of a market comparability study of other rental units in the regional area. The tenants' monthly rental cost is equal to 30 percent of their adjusted monthly income. The balance of the contract rent is subsidized by HUD. Subsidized rental income was $100,258 for the year ended June 30, 2016.

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

HealthWays, Inc. and Affiliate maintain accounts at local financial institutions. The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) insures a maximum of $250,000 per depositor. Differences do exist between financial institution and book balances due to deposits-in-transit, outstanding checks and other reconciling items. The following uninsured excess exists at June 30, 2016.

Healthways, Inc.

	First Choice Credit Union	WesBanco	Tin Mill Credit Union	Hancock Co. Savings Bank
Balance as of June 30, 2016	$ 8,252,775	$ 882,415	$ 155,006	$ 293,211
Less: FDIC & NCUA Coverage	(250,000)	(250,000)	(250,000)	(250,000)
Less: Additional Coverage	(10,737,000)	-	-	-
Amount uninsured at June 30, 2016	$ -0-	$ 632,415	$ -0-	$ 43,211

Brooke-Hancock Community Living, Inc.

	Progressive Bank
Balance as of June 30, 2016	$ 41,110
Less: FDIC & NCUA Coverage	(250,000)
Less: Additional Coverage	-
Amount uninsured at June 30, 2016	$ -0-

The total uninsured excess as of June 30, 2016 was $675,626; management believes the credit risk associated with these deposits is minimal.

Note 8 - Fair Value Measurements

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

HEALTHWAYS, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016

Recurring fair value measurements	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Cash and cash equivalents:	$ 44,906	$ 44,906	$ -	$ -	$ -
Equity Securities:					
Healthcare	65,238	65,238	-	-	-
Financial	648,924	648,924	-	-	-
Technology	95,014	95,014	-	-	-
Basic Materials	12,219	12,219	-	-	-
Consumer Goods	109,100	109,100	-	-	-
Industrial Goods	55,063	55,063	-	-	-
Utilities	7,094	7,094	-	-	-
Telecommunications	10,092	10,092	-	-	-
Energy	35,884	35,884			
Equity Mutual Funds:					
Diversified Emerging Markets	30,255	30,255	-	-	-
Foreign Large Blend	78,490	78,490	-	-	-
Large Value	80,155	80,155	-	-	-
Small Blend	24,131	24,131	-	-	-
Large Growth	85,277	85,277	-	-	-
Large Blend	1,506,305	1,506,305	-	-	-
Mid Cap Blend	15,281	15,281	-	-	-
Fixed Income :			-	-	-
Intermediate Term Bond	446,380	446,380	-	-	-
High Yield Bond	142,265	142,265	-	-	-
Inflation Protected Bond	15,096	15,096	-	-	-
Short Term Bond	641,446	641,446	-	-	-
Multisector Bond	68,573	68,573	-	-	-
Corporate Bond	23,186	23,186	-	-	-
Long Government Bond	31,745	31,745	-	-	-
Emerging Markets Bond	22,032	22,032	-	-	-
Total Investments	4,294,151	4,294,151	-	-	-
Other Assets :					
Investment in Joint Venture	122,948	-	-	122,948	20,228
Total Investments and Other Assets	$4,417,099	$ 4,294,151	$ -	$ 122,948	$ 20,228

Note 8 – Fair Value Measurements (continued):

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

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Total	Investment in Joint Venture
July 1, 2015	$ 102,720	$ 102,720
Total gains or (losses) (realized and unrealized)	20,228	20,228
Purchases, issuances, and settlements	-0-	-0-
Transfers in and/or out of Level 3	-0-	-0-
	$ 122,948	$ 122,948

Note 9 - HUD Restricted Deposits

Under the terms of the Regulatory and Loan Agreements Brooke-Hancock Community Living, Inc. is required to maintain certain deposit accounts to be held for specified purposes. Brooke-Hancock Community Living, Inc. is required to make monthly deposits to a replacement reserve account for the future repair and replacement of property and equipment. Additionally, any surplus cash existing at year-end is required to be deposited into a residual receipts account. Withdrawals from the replacement reserve and residual receipts accounts are subject to approval by HUD. Balances in restricted funds as of June 30, 2016 were as follows:

Brooke-Hancock Community Living , Inc.	Balance
Replacement Reserve	$ 19,760
Residual Receipts	5,116
Tenant Security Deposits	9,657

Note 10 - Rent Increases

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

Note 11 - Related Party Transactions

HealthWays, Inc., which has majority control of the board of directors of Brooke-Hancock Community Living, Inc., is the management agent of the Projects. During the year ended June 30, 2016, Brooke-Hancock Community Living, Inc. paid $6,149 in management fees to HealthWays, Inc. In the current year, Brooke-Hancock Community Living, Inc. entered into a short term loan payable contract with HealthWays, Inc. in order to purchase a new elevator and the balance on that short term loan totals $2,000. The amount of funds paid to the organization was $18,234, this included repayment of loan, management fees and bookkeeping fees.

Note 12 – Legal Proceedings

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

Note 13 – Subsequent Events

Events that occur after the balance sheet date but before the combined financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying combined financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the organization through June 5, 2017 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTARY INFORMATION

SEACHRIST, KENNON & MARLING, A.C.

Certified Public Accountants & Business Consultants

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

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the combined financial statements of HealthWays, Inc. & Affiliate as of and for the year ended June 30, 2016, and our report thereon dated June 5, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of financial position as of June 30, 2016 and 2015, statements of activities and changes in net assets, and cash flows for HealthWays, Inc. for the years ended June 30, 2016 and 2015 (shown on pages 20-22) the schedule of property and equipment purchased with BHHF administered funding (shown on pages 23-24) and the schedule of expenditures of federal and state awards (shown on pages 25-26) are presented for purposes of additional analysis and is not a required part of the 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, 2016, and supplemental information required by HUD (shown on pages 27-31), are also presented for the purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Seachrist, Kennon & Marling A.C.

Seachrist, Kennon & Marling, A.C.
Wheeling, West Virginia
June 5, 2017

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HEALTHWAYS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 9,390,389	$ 9,711,784
Client receivables, net	1,549,907	928,336
Contract receivables	1,340,371	896,333
Deposits and prepaid assets	144,716	76,527
Loan to Brooke-Hancock Community Living, Inc.	2,000	-
Total current assets	12,427,383	11,612,980
Plant, property and equipment:		
Land	49,184	49,184
Buildings	3,196,015	3,191,015
Equipment	936,397	892,249
Furniture and fixtures	136,429	117,731
Vehicles	1,021,179	967,619
Construction in process	321,343	332,244
	5,660,547	5,550,042
Less accumulated depreciation	(3,904,546)	(3,806,016)
Property and equipment, net	1,756,001	1,744,026
Other assets:		
Investments	4,294,151	4,365,917
Investment in joint venture	122,948	102,720
Total other assets	4,417,099	4,468,637
Total assets	$ 18,600,483	$ 17,825,643
LIABILITIES & NET ASSETS:		
Current liabilities:		
Accounts payable	$ 490,390	$ 621,867
Provider tax payable	34,482	27,756
Accrued wages and benefits	409,263	419,720
Deferred income	141,166	136,635
Due to client	12,914	-
Total current liabilities	1,088,215	1,205,978
Total liabilities	1,088,215	1,205,978
Net assets:		
Unrestricted net assets	17,475,564	16,582,675
Temporarily restricted net assets	36,704	36,990
Total net assets	17,512,268	16,619,665
Total liabilities and net assets	$ 18,600,483	$ 17,825,643

HEALTHWAYS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
UNRESTRICTED NET ASSETS:		
Support and Revenues		
Net client service revenue	$ 8,836,735	$ 9,219,540
West Virginia Department of Health and Human Resources funding	1,441,185	1,604,197
Other support	191,821	232,616
Workshops and rentals	14,432	17,013
Investment income (loss)	13,629	128,562
Management and bookeeping fee revenue	24,378	23,517
Other revenue	22,184	9,421
Total support and revenues	10,544,364	11,234,866
Net assets released from restrictions	286	24,777
Total support, revenues and reclassifications	10,544,650	11,259,643
Operating Expenses		
Salaries and wages	3,413,299	3,392,772
Employee benefits	1,146,773	1,124,787
Contracted services	3,128,256	3,498,057
Supplies	167,546	182,871
Transportation	262,630	253,178
Utilities and telephone	141,135	142,090
Building and equipment maintenance	203,376	213,471
Depreciation	171,789	208,268
Bad debt	247,480	26,141
Insurance	144,686	142,012
Provider tax	387,284	417,795
Investment fees	36,922	37,892
Other	200,585	134,522
Total expenses	9,651,761	9,773,856
Increase (decrease) in unrestricted net assets	892,889	1,485,787
TEMPORARILY RESTRICTED NET ASSETS:		
Support and Revenues		
Donations	-	24,000
Net assets released from restrictions	(286)	(24,777)
Increase (decrease) in temporarily restricted net assets	(286)	(777)
Increase (decrease) in net assets	892,603	1,485,010
Net assets, beginning of year	16,619,665	15,134,655
Net assets, end of year	$ 17,512,268	$ 16,619,665

HEALTHWAYS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows from Operating and Non-Operating Revenue Activities:		
Increase (decrease) in net assets	$ 892,603	$ 1,485,010
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating and non-operating activities:		
Depreciation	171,789	208,268
Realized and unrealized (gain) loss on investments	244,653	75,474
Change in assets and liabilities:		
(Increase) decrease in receivables	(1,067,609)	70,051
(Increase) decrease in deposits and prepaid expenses	(68,188)	5,706
(Increase) decrease in joint venture	(20,228)	(9,856)
Increase (decrease) in accounts payable	(131,477)	(20,915)
Increase (decrease) in provider tax	6,726	(8,255)
Increase (decrease) in accrued wages and benefits	(10,457)	6,562
Increase (decrease) in deferred income	4,531	(29,996)
Increase (decrease) in due to client	12,914	-
Net cash provided (used) by operating activities	35,257	1,782,049
Cash Flows from Investing Activities		
(Purchases) of property and equipment	(183,764)	(105,452)
(Purchases) of investments	(964,126)	(1,682,112)
Sale of investments	791,238	1,550,240
Net cash provided (used) in investing activities	(356,652)	(237,324)
Net increase (decrease) in cash	(321,395)	1,544,725
Cash at beginning of the year	9,711,784	8,167,059
Cash at end of the year	$ 9,390,389	$ 9,711,784
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest expense	$ -	$ -
Income taxes	$ -	$ -

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASED WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2016

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
1 Autogenic Feedback Myograph	N/A	4/1/1982	$ 1,316.54	N/A	N/A
Biofeedback equipment	N/A	7/1/1984	4,266.50	N/A	N/A
Riding mower and attachments	N/A	7/1/1984	4,510.00	N/A	N/A
Refrigerator/ice maker	N/A	7/1/1984	1,195.88	N/A	N/A
Vesta conference table	N/A	7/1/1984	2,911.45	N/A	N/A
1 1992 Ford Club Wagon	N/A	7/12/1993	17,295.00	N/A	N/A
1 1995 Dodge Caravan	N/A	4/15/1996	15,700.00	N/A	N/A
Intel computer	N/A	11/1/1996	2,750.42	N/A	N/A
Computer	N/A	11/1/1996	1,712.20	N/A	N/A
Computer	N/A	4/1/1997	1,349.42	N/A	N/A
Computer and peripherals	Infotel Distributing	8/5/1998	4,929.30	8793-1999-2885-096-252	6314877
Computers and peripherals (2)	Infotel Distributing	3/3/1999	3,035.00	8793-1999-2886-096-252	6930200
Computer and peripherals	Infotel Distributing	9/15/1998	2,713.79	8793-1999-2890-096-252	6313810
Computer and peripherals	Infotel Distributing	3/3/1999	3,024.00	8793-1999-2890-096-252	6908521
Computer and peripherals	Infotel Distributing	8/5/1998	2,736.40	8793-1999-2892-096-252	6314930
Computer	Infotel Distributing, Inc.	3/8/2000	2,493.75	8793-2000-2886-096-128	N/A
Copier	Comdoc	5/24/1999	8,542.00	8793-2000-2885-096-128	N/A
Projector	Infotel Distributing, Inc.	6/20/2000	3,191.60	8793-2000-2890-096-128	N/A
Computers (4)	Dell	7/1/2004	4,201.84	8793-2005-2885-096-128-10596	78185618
Computers (2)	Dell	7/1/2004	2,100.90	0525-2005-3426-219-252/258	78185528
Computer	Dell	7/1/2004	1,050.46	8793-2005-2892-096-128-10596	78185399
Furniture	Office Furniture Warehouse	8/16/2004	6,479.05	8793-2005-2885-096-128-10596	H08114
Furniture	Carolina Office Furniture	8/19/2004	11,292.92	Various	10863
Projector	Dell	8/30/2004	1,292.14	8793-2005-2885-096-128-10596	86776104
Projector	Dell	8/31/2004	1,292.14	8793-2005-2892-096-128-10596	86776104
Projector	Dell	8/31/2004	1,292.14	8794-2004-2915-096-128-09184	86776104
Computers (3)	Dell	8/31/2004	3,151.37	8793-2005-2885-096-128-10596	86776261
Laptop computer	Dell	8/31/2004	1,259.28	8794-2004-2915-096-128-09184	17150793
Laptop computer	Dell	8/31/2004	1,259.28	8793-2005-2892-096-128-10596	86776164
Laptop computer	Dell	8/31/2004	1,259.28	8794-2005-2852-096-128-10555	86776164
Furniture	Office Furniture Warehouse	8/31/2004	6,197.86	0525-2005-3426-219-252/258	N/A
2005 Dodge Carivan	New City Auto Sales	8/31/2004	21,061.87	8794-2005-2852-096-128-10555	N/A
2005 Chevy Express Van	Bob Robinson Chevrolet	8/31/2004	28,500.00	Various	N/A
Building	Various	10/11/2004	264,734.17	Various	Various
Phone system	Advanced Communications	10/12/2004	1,574.10	Various	111004
Phone system	Advanced Communications	11/19/2004	1,616.50	0525-2005-3426-219-252/258	21333
Building additions	Various	1/28/2005	189,549.00	Various	Various
Appliances	Lowes	2/28/2005	4,676.86	Various	N/A
Cleaning equipment	Ohio Valley Chemical	3/31/2005	1,661.49	Various	58104
Furniture	Carolina Office Furniture	3/31/2005	4,123.43	Various	N/A
Building improvements	Colaianni Construction	3/31/2005	49,616.00	Various	N/A
Copier	Office Systems of Wheeling	4/15/2005	5,194.00	Various	138
Copier	AMCOM	6/30/2005	1,671.62	0525-2005-3426-219-252/258	08208A
Building improvements	Steele Construction	6/30/2005	7,602.00	Various	N/A
Fixtures	Triveri Aluminum	6/30/2005	4,550.00	Various	6115105
Vehicle	Jim Robinson	8/1/2005	10,000.00	Various	N/A
Vehicle	Jim Robinson	8/9/2005	3,115.98	Various	N/A
Computer	Dell	1/29/2006	1,499.21	Various	N/A

HEALTHWAYS, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
PURCHASED WITH BHHF - ADMINISTERED FUNDING
FOR THE YEAR ENDED JUNE 30, 2016

Description of Capital Expenditure	Vendor Name	Date of Acquisition	Cost	State Account Number	ID Number
Computer	Dell	2/2/2006	1,281.54	Various	N/A
Vehicle	N/A	2/23/2006	9,239.20	Various	N/A
Computer server	Tiger Direct	7/16/2006	2,024.00	Various	EQOB0049
Laptop computer	Dell	9/20/2006	1,169.81	Various	EQOB0051
Fax machine	Office Systems of Wheeling	2/23/2007	1,313.34	Various	EQOB0053
Computers (2)	Dell	3/12/2007	2,159.67	Various	EQOB0054
Building	Weaver Barns	5/31/2007	4,876.00	Various	BGOB0004
Flooring	Bennett's Flooring	5/31/2007	1,605.38	Various	IMOB0003
Flooring	Bennett's Flooring	5/31/2007	4,809.17	Various	IMOB0004
Scanner/fax machine	Office Systems of Wheeling	6/7/2007	2,046.86	Various	EQOB0055
Computers (8)	N/A	10/26/2007	6,631.28	Various	EQOB0056 - 63
Laptop computers (2)	N/A	10/26/2007	1,823.21	Various	EQOB0064 & 65
Lot Sealing	N/A	5/29/2008	1,700.00	Various	IMOB0009
Vehicle (3 door)	N/A	6/4/2008	1,639.70	Various	VEOB0009
Furniture	N/A	6/27/2008	3,678.24	Various	Various
Television	N/A	6/27/2008	1,860.63	Various	FFOB0008
Stove	N/A	6/27/2008	1,986.41	Various	FFOB0007
Furniture	N/A	6/30/2008	3,551.37	Various	FFOB009
Computers (2)	N/A	6/30/2008	2,240.84	Various	EQOB0066 & 67
Vehicles	N/A	6/30/2008	23,098.90	Various	VEOB0010-11
Paint Offices	N/A	5/14/2010	3,800.00	Various	N/A
Generator	N/A	2/9/2010	1,175.00	Various	N/A
Desk	N/A	6/25/2010	1,661.00	Various	N/A
AC Repair	N/A	5/27/2010	1,222.05	Various	N/A
Vehicle	Enterprise	9/2/2010	16,997.21	0525-2012-2891-219-252/258	N/A
Carpeting	Flooring America	5/16/2011	4,901.18	0525-2012-2891-219-252/258	N/A
Furniture	National	6/29/2011	1,550.06	0525-2012-2885-219-252/258	N/A
Laptop computer	Dell	6/22/2011	1,100.39	0525-2012-2851-219-252-7219	N/A
Laptop computer	Dell	8/25/2008	1,223.22	8723-2009-2849-096-128-14014	EQOB0068
Rooftop furnace	Johnson Boilerworks	11/14/2008	5,625.00	Various	FFOB0010
Laptop computer	Dell	6/12/2009	1,181.64	8723-2009-2849-096-128-14014	EQOB0069
Server/Hardware	Dell	6/29/2009	12,505.79	8723-2009-2849-096-128-14014	EQHW0206
Security Cameras	Burke Security	8/17/2011	3,171.29	0525-2012-2891-219-252	FFOB0017
Mattress	Sams Club	7/31/2011	1,068.61	0525-2012-2891-219-252	FFOB0018
Computer	Dell	5/24/2012	1,225.81	0525-2012-2884-219-252	EQOB0071
Transmission	Jim Robinson	3/17/2014	3,185.54	Various	VEOB0015
Copier	Hughes	4/29/2014	5,323.94	Various	EQOB0072
Activity Room Floor	Flooring America	5/28/2014	2,605.48	Various	FFOB0019
Furniture	Chris Miller Furniture	7/29/2014	5,004.44	Various	FFOB0020-1-1
Furniture	Carolina Furniture	12/24/2014	8,505.09	Various	FFOB0022-1
Storage Shed	Lowes	2/9/2015	1,011.75	Various	FFOB0025-1
Activity Room Floor	Flooring America	3/2/2015	4,577.50	Various	FFOB0024-1
Cameras	Burke Security	6/30/2015	3,076.00	Various	FFOB0023-1
Vehicle Exhaust	Jim Robinson	8/31/2015	1,059.34	Various	VEOB0017-1
Laptop	Lenovo	9/30/2015	1,608.03	Various	EQOB0073-1
Server/Hardware	Lenovo	9/30/2015	10,584.00	Various	EQOB0074-1
Office Furniture	National Business Furniture	9/30/2015	9,806.33	Various	FFOB0026-1
			$ 920,039.38		

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Program Title	Grant Number	Federal CFDA #	Pass through entity identifying number	Amount Awarded	Accounts Receivable 6/30/2015	Current Revenue Earned	Expenditures	Accounts Receivable 6/30/2016	Pass through funds
Intensive OPS- Co-Occuring (Adult- Passages for Growth)	0525-2015-2884-219-3206-3949	93.959	0525-2015-2884-219-3206-3949	$ 70,887	$ 16,369	$ 15,307	$ 15,307	$ -	$ -
Intensive OPS- Co-Occuring (Adult- Passages for Growth)	8793-2015-2884-130-3285-0000	93.959	8793-2015-2884-130-3285-0000	42,237	5,771	31,156	31,156	-	-
Substance Abuse- OP	8793-2015-2884-219-3206-3949	93.959	8793-2015-2884-219-3206-3949	255,293	102,689	64,081	64,081	-	-
				$ 368,417	$ 124,829	$ 110,544	$ 110,544	$ -	$ -

NOTE A - BASIS OF PRESENTATION
The accompanying schedule of expenditures of federal awards includes the federal grant activity of HealthWays Inc. is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. HealthWays Inc. did not use the 10% de minimis cost rate contained in the Uniform Guidance for Federal Awards.

HEALTHWAYS, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

State Grantor/ Program Title	Grant Number	Amount Awarded	Accounts Receivable 6/30/15	Deferred Revenue 6/30/15	Current Revenue Earned	Expenditures	Advanced Billing	Deferred Revenue 6/30/2016	Accounts Receivable 6/30/2016	Collected (Returned) Through 6/30/2016
Community Engagement Specialist	0525-2015-3701-219-3206-3950	$ 189,249	$ 122,648	$ -	$ -	$ -	$ -	$ -	$ -	$ 122,648
Community Engagement Specialist	0525-2016-3701-219-3256-0000	295,416	-	-	259,404	259,404	-	-	259,404	-
JRI Outpatient/Intensive Outpatient Services	5207-2016-2884-099-3256-0000	50,000	-	-	50,000	50,000	-	-	50,000	-
Client Core Services	0525-2015-2851-219-3206-3950	397,937	224,350	-	-	-	-	-	9,730	214,620
Residential Services	0525-2016-2891-219-3256-0000	510,397	-	-	510,397	510,397	-	-	510,397	-
IOP Adolescent	0525-2014-2892-219-3206-3950	141,000	59,976	-	-	-	-	-	-	59,976
Developmental Disabilities Community Support Services	0525-2015-2870-219-3256-0000	162,926	-	-	162,926	162,926	-	-	162,926	-
Continuum Enhancement Funds	0525-2016-2851-219-3256-0000	388,690	-	-	388,690	388,690	-	-	388,690	-
Children's Clinical Outreach Service	0525-2015-2916-219-3256-0000	60,000	-	-	60,000	60,000	-	-	60,000	-
Children's Clinical Outreach Service	0525-2015-2919-219-3206-3950	60,000	24,201	-	-	-	-	-	-	24,201
SA Adult Residential Treatment	0525-2015-2891-219-3206-3950	520,000	336,645	-	-	-	-	-	-	336,645
Detoxification-Crisis Stabilization	0525-2013-3426-354-3206-3950	725,000	3,684	-	-	-	-	-	-	3,684
		$ 3,500,615	$ 771,504	$ -	$ 1,431,417	$ 1,431,417	$ -	$ -	$ 1,441,147	$ 761,774

The accompanying schedule of expenditures of state awards includes the state grant activity of HealthWays Inc. under programs of the state government for the year ended June 30, 2016. Because the schedule presents only a selected portion of the operations of HealthWays, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of HealthWays Inc.

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

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

	2016
ASSETS:	
Current Assets:	
Cash	$ 7,184
Prepaid insurance	2,223
Total current assets	9,407
Deposits Held in Trust - Funded:	
Tenant security deposits	5,116
Restricted Deposits and Funded Reserves:	
Reserve for replacements	19,760
Residual reserve	9,657
Total restricted deposits	29,417
Property and Equipment:	
Land	32,783
Building and improvements	1,125,090
Building equipment	36,043
Furnishings	44,203
Total property and equipment	1,238,119
Less - accumulated depreciation	(858,180)
Net property and equipment	379,939
Total assets	$ 423,879
LIABILITIES AND NET ASSETS (DEFICIT):	
Current Liabilities:	
Accounts payable	$ 15,407
Accrued interest payable	1,710
Loan from Healthways Inc.	2,000
Mortgage payable - current portion	42,495
Total current liabilities	61,612
Deposit and Prepayment Liabilities:	
Tenant security deposits	3,440
Long-Term Liabilities:	
Mortgage payable	718,326
Total liabilities	783,378
Net Assets:	
Unrestricted net assets (deficit)	(359,499)
Total liabilities and net assets (deficit)	$ 423,879

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, 2016

		2016
REVENUES:		
Rental income	$	69,877
Tenant assistance payments		100,258
Investment income - replacement reserve		293
Laundry and vending revenue		2,057
Other income		(389)
Total revenues		172,096
EXPENSES:		
Office expense		250
Management fees		6,149
Bookkeeping fees and accounting fees		21,243
Miscellaneous administrative expenses		7,129
Total administrative expenses		34,771
Electric		8,575
Water		8,672
Gas		1,471
Total utilities		18,718
Supplies		18,791
Contracts		15,742
Garbage and trash removal		2,156
Heating/cooling repairs and maintenance		949
Total operating and maintenance		37,638
Property insurance		7,361
Total taxes and insurance		7,361
Interest-mortgage		35,766
Total expenses before depreciation		134,254
Increase (decrease) in net assets before depreciation		37,842
Depreciation		39,070
Total depreciation and amortization		39,070
Increase (decrease) in net assets		(1,228)
Net assets (deficit), beginning of year		(358,271)
Net assets (deficit), end of year	$	(359,499)

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

		2016
Cash Flows from Operating Activities		
Rental receipts	$	170,135
Interest receipts		293
Other operating receipts		1,668
Total receipts		172,096
Administrative		(26,252)
Management fee		(6,149)
Utilities		(16,343)
Operating and maintenance		(35,263)
Property insurance		(7,725)
Tenant security deposits		(13)
Interest on first mortgage		(35,652)
Total disbursements		(127,397)
Net cash provided (used) by operating activities		44,699
Cash Flows from Investing Activities		
Net (deposits to) withdrawals from the reserve for replacement account		14,854
Net (deposits to) withdrawals from the residual receipts account		(8,782)
(Purchase) of fixed assets		(18,558)
Net cash provided (used) by investing activities		(12,486)
Cash Flows from Financing Activities		
Other Financing Activities (Repayment to Healthways)		2,000
Net Proceeds (Payments) Mortgage Loans		(44,016)
Net cash provided (used) by financing activities		(42,016)
Net increase (decrease) in cash		(9,803)
Cash at beginning of the year		16,987
Cash at end of the year	$	7,184

Cash Flows from Operating Activities		
Increase (decrease) in net assets	$	(1,228)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense		39,070
(Increase) decrease in prepaid expenses		(364)
(Increase) decrease in tenant security deposit account		(13)
Increase (decrease) in accounts payable		7,120
Increase (decrease) in accrued interest payable		114
Net cash provided (used) by operating activities	$	44,699

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE OF RESERVE FOR REPLACEMENTS:

Beginning balance - July 1, 2015	$	34,614
Monthly deposits		2,798
Interest earned		36
Authorized withdrawals		(17,688)
Ending balance, June 30, 2016	$	19,760

SCHEDULE OF RESIDUAL RECEIPTS:

Beginning balance - July 1, 2015	$	875
Interest income		14
Authorized withdrawals		-
Deposits		8,768
Ending balance, June 30, 2016	$	9,657

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash:		
Cash on hand and in banks	$	12,300
Total cash	$	12,300
Current Obligations:		
Accounts payable - 30 days	$	(15,407)
Other Current Obligations		(2,000)
Tenant security deposit liability		(3,440)
Accrued expenses payable		(1,710)
Total current obligations	$	(22,557)
Surplus cash (deficiency) at June 30, 2016	$	(10,257)
Deposit due residual receipts	$	-

BROOKE-HANCOCK COMMUNITY LIVING, INC.
HUD PROJECT NO. 045-EH086
SUPPLEMENTARY DATA REQUIRED BY HUD
FOR THE YEAR ENDED JUNE 30, 2016

CHANGES IN FIXED ASSET ACCOUNTS:

	Balance 06/30/15	Additions	Disposals	Balance 06/30/16
Land	$ 32,783	$ -	$ -	$ 32,783
Building and improvements	1,106,532	18,558	-	1,125,090
Building equipment	36,043	-	-	36,043
Furniture and fixtures	44,203	-	-	44,203
Total	1,219,561	18,558	-	1,238,119
Accumulated Depreciation	819,110	39,070	-	858,180
Book Value	$ 400,451	$ (20,512)	$ -	$ 379,939

SEACHRIST, KENNON & MARLING, A.C.

Certified Public Accountants & Business Consultants

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of HealthWays, Inc. & Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities and changes in net assets (deficit) and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated June 5, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. Finding 2016-001 and 2016-002

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be a significant deficiency. Finding 2016-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HealthWays, Inc. & Affiliate's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined 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 or other matters that are required to be reported under *Government Auditing Standards*.

HealthWays, Inc. & Affiliate's Response to Findings

HealthWays, Inc. & Affiliate's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. HealthWays, Inc. & Affiliate's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Seachrist, Kennon & Marling A.C.

Seachrist, Kennon & Marling, A.C.
Wheeling, West Virginia
June 5, 2017

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2016

Finding 2016-001 Material Weakness- Healhways, Inc.

Internal Control

Condition: Service Activity Logs numbered 99999 versus pre-numbered Service Activity Logs, where services exceeded the first page of the pre-numbered Service Activity Log, the second page attached was manually numbered 99999.

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

Effect: By not using the pre-numbered Service Activity Log the Organization cannot be certain at the end of any period that all services have been recorded as there is no control to determine if there are any missing Service Activity Logs that should have been recorded.

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

Response: We agree SALs should be pre-numbered and the problem of using 99999 on pages after the first page has been resolved. All multiple page SALs are now entered using the correct pre-numbered on page 1.

Finding 2016-002 Material Weakness- Healhways, Inc.

Information Technology

Condition: It was noted that the Service Coordinators have an unnecessary level of access to CMHC client accounts software and it was also noted that the fiscal waiver coordinator has an unnecessary access level to the Human Resources area of Great Plains software and she updates new hires, terminations and pay rates.

Criteria: Only the Billing Manager and upper Management should have access to make changes to any patient accounts in CMHC. Additionally, the Human Resource Director should be updating the new hires, terminations and pay rates in Great Plains software.

HEALTHWAYS, INC. AND AFFILIATE
Schedule of Findings and Responses
JUNE 30, 2016

Finding 2016-002 Material Weakness- Healhways, Inc. (continued)

Effect: In the area of unnecessary level of access to CMHC client accounts software, this grants access to client account information with ability for it to be altered by the Service Coordinator. As for the unnecessary level of access of the fiscal waiver coordinator in the Great Plain Software, Ghost employees could be created and not be detected or pay rates could be changed without detection.

Recommendation: We notified management and the IT manager during our field work concerning the unnecessary level of access to CMHC and believe that access was removed at that time. If that action has not taken place, we recommend that it be done as soon as possible. As for the access of the fiscal waiver coordinator, we recommend that the Human Resources Director assume these responsibilities in Great Plains immediately, and security applied to Great Plains Human Resources files to restrict access to Human Resources personnel.

Responses: We have limited the service coordinators access to CMHC to read only for client account information. The Fiscal Waiver Coordinator does have access to the human resource part of Great Plains, part of her job is tracking waiver training housed in the Human Resource module. We have the HR director review the payroll check register and check employees and the pay rates against the information in employee files. We feel this protects against ghost employees and pay rates being changed.

Finding 2016-003 Significant Deficiency- Healhways, Inc. Personnel Files

Conditions: Human Resources files on employees are not up to date. During our current audit it was noted from our sample that two employees tested received raises in 2008 and 2013. Neither raise was reflected in either employee's personnel file.

Criteria: All employee personnel files should be kept up to date.

Effect: Personnel files are the source document for such items as current pay rate, pension contribution and insurance coverage. It is imperative for any organization to maintain well organized personnel files.

Recommendation: We recommend that a concerted effort be undertaken to bring all personnel files up to date. Management may want to consider the cost benefit of going to an electronic system of maintaining these files.

Response: We agree that Human Resources should maintain current and accurate employee files. Human Resources will review all active employee files to make sure they are current and accurate.