



Alliance Healthcare Services, Inc.
Consolidated Financial Statements
June 30, 2024

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Laurie Powell, Executive Director/Chief Executive Officer

Shelby Thomas, Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Alliance Healthcare Services, Inc.
Memphis, Tennessee

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alliance Healthcare Services, Inc. (a nonprofit health care entity), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Alliance Healthcare Services, Inc. as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Alliance Healthcare Services, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alliance Healthcare Services, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

CANNON WRIGHT BLOUNT PLLC 756 RIDGE LAKE BLVD MEMPHIS TN 38120

PHONE 901.685.7500 FAX 901.685.7569 WWW.CANNONWRIGHTBLOUNT.COM

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Alliance Healthcare Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alliance Healthcare Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state and other financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the schedule of governance officials but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2024, on our consideration of Alliance Healthcare Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alliance Healthcare Services, Inc.'s internal control over financial reporting and compliance.

Cam Wright Blount PLLC

Memphis, Tennessee

December 30, 2024, except as to Note 9 and Note 4 on the Schedule of Expenditures of Federal Awards and State and Other Financial Assistance, which is as of February 17, 2025

Consolidated Statement of Financial Position

June 30, 2024

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 5,129,128
Patient accounts receivable, net	2,366,208
Grants and other receivables, net	14,802,071
Mortgage note receivable, current portion	23,281
Inventory	741,724
Investments	4,794,153
Prepaid insurance and other expenses	510,751
Total current assets	28,367,316
Property and equipment, net	32,372,566
OTHER ASSETS	
Mortgage note receivable, less current portion	30,784
Interest in net assets of AHS of Greater Memphis Foundation, Inc.	8,563,581
Total other assets	8,594,365
TOTAL ASSETS	\$ 69,334,247

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 3,034,990
Accrued liabilities:	
Compensation and related costs	1,721,278
Other accrued liabilities	294,634
Total current liabilities	5,050,902
LONG-TERM LIABILITIES	
Post retirement benefit obligation	409,053
Total liabilities	5,459,955
NET ASSETS	
Without donor restrictions	55,310,711
With donor restrictions	8,563,581
Total net assets	63,874,292
TOTAL LIABILITIES AND NET ASSETS	\$ 69,334,247

Consolidated Statement of Activities

For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Net patient revenues	\$ 29,612,204	\$ -	\$ 29,612,204
Grants from government and other agencies	35,233,898	-	35,233,898
Residential administrative fee	1,395,725	-	1,395,725
Contributions of cash and other financial assets	4,324,047	-	4,324,047
Contributions of nonfinancial assets	507,400	-	507,400
Other	524,638	-	524,638
Interest income	414,940	-	414,940
Change in market value of investments	249,216	-	249,216
Total revenues and support	72,262,068	-	72,262,068
EXPENSES			
Program Services			
Mental Health Services	29,127,897	-	29,127,897
TN Department of Mental Health Grants	16,058,647	-	16,058,647
Other Federal Contracts	3,503,936	-	3,503,936
Local Agency Contracts	2,261,326	-	2,261,326
Total expenses	50,951,806	-	50,951,806
Revenues and support over expenses	21,310,262	-	21,310,262
OTHER CHANGES IN NET ASSETS			
Change in interest in net assets of AHS of Greater Memphis Foundation, Inc.	-	4,684,750	4,684,750
Change in net assets	21,310,262	4,684,750	25,995,012
Net assets - beginning of year	34,000,449	3,878,831	37,879,280
Net assets - end of year	\$ 55,310,711	\$ 8,563,581	\$ 63,874,292

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2024

	Mental Health Services	TDMH Grants	Other Federal Contracts	Local Agency Contracts	Admini- strative	Total
Salaries and wages	\$ 8,355,657	\$ 9,193,067	\$ 1,692,730	\$ 1,251,064	\$ 4,148,265	\$ 24,640,783
Employee benefits	1,526,796	1,580,964	346,950	218,642	776,024	4,449,376
Total	9,882,453	10,774,031	2,039,680	1,469,706	4,924,289	29,090,159
Professional fees	809,178	1,489,635	43,977	219,924	676,457	3,239,171
Depreciation	51,325	46,224	51,134	7,592	857,742	1,014,017
Insurance	276,449	147,781	59,151	15,367	25,104	523,852
General supplies	12,850,203	653,693	88,703	41,831	(88,633)	13,545,797
Postage	7,923	5,558	2,500	511	2,535	19,027
Printing	2,186	846	58	64	629	3,783
Maintenance and repairs	115,305	44,408	77,654	3,555	107,475	348,397
Telephone	115,945	108,187	39,569	13,039	115,760	392,500
Utilities and rent	44,203	12,658	154,762	1,799	115,511	328,933
Travel	53,331	102,610	50,664	15,565	96,915	319,085
Awards and idemnities	23,107	16,874	2,460	1,021	94,854	138,316
Specific assistance to individuals	285,326	395,937	395,025	154,189	4,440	1,234,917
Training	16,535	19,130	6,560	1,089	18,232	61,546
Interest and bank fees	-	-	-	-	9,317	9,317
In-kind rent	507,400	-	-	-	-	507,400
Miscellaneous	90,747	37,388	11,031	5,656	30,767	175,589
Indirect costs	3,996,281	2,203,687	481,008	310,418	(6,991,394)	-
Total expenses	\$ 29,127,897	\$ 16,058,647	\$ 3,503,936	\$ 2,261,326	\$ -	\$ 50,951,806

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2024

OPERATING ACTIVITIES:	
Change in net assets	\$ 25,995,012
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,014,017
Change in market value of investments	(249,216)
Change in interest in net assets of AHS of Greater Memphis, Inc.	(4,623,049)
Gain on sale of property and equipment	(43,215)
Changes in operating assets and liabilities	
Patient accounts receivable, net	280,761
Grants and other receivables, net	(9,172,642)
Inventory	(51,692)
Prepaid insurance and other expenses	(116,176)
Accounts payable	1,281,796
Post retirement benefit obligation	10,175
Accrued liabilities	404,944
<hr/>	
Net cash provided by operating activities	14,730,715
 INVESTING ACTIVITIES:	
Purchases of property and equipment	(18,888,979)
Proceeds from the sale of investments	1,988,028
Purchases of investments	(1,961,867)
Principal receipts on mortgage note receivable	22,148
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Net cash used in investing activities	(18,840,670)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (4,109,955)
 CASH AND CASH EQUIVALENTS - beginning of the year	 9,239,083
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CASH AND CASH EQUIVALENTS - end of the year	\$ 5,129,128
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Note 1– Organization and Business Activity

Alliance Healthcare Services, Inc. (“AHS”) provides a full continuum of behavioral health services to individuals living in West Tennessee. Such services include outpatient counseling, case management, psychiatric treatment services, residential services, crisis intervention and other related services.

AHS was formed as a result of the merger of Southeast Mental Health Center, Inc. and Frayser-Millington-North Shelby Mental Health Center, Inc. Both entities shared a common mission. Through their merger, the entities seek to achieve economies of scale and other synergies through integrating their services.

AHS receives financial support from the AHS of Greater Memphis Foundation, Inc. (“the Foundation”), a 501(c)(3) corporation organized to operate exclusively for the benefit of AHS. According to the Foundation’s amended charter, the Foundation’s Board of Directors are appointed by the Executive Committee of the Board of AHS.

Note 2 – Summary of Significant Accounting Policies*Basis of Consolidation*

The consolidated financial statements include the financial statements of AHS and the Foundation, in which AHS exercises control, both directly, and indirectly, through majority ownership and governance rights, as AHS has the ability to make decisions directly.

Basis of Presentation

AHS prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned and expenses and losses when incurred. Under generally accepted accounting principles, AHS is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net assets without donor restrictions — Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net assets with donor restrictions — Net assets whose use by AHS is subject to donor-imposed stipulations that can be fulfilled by actions of AHS pursuant to those stipulations or that expire by the passage of time. Net assets with donor restrictions may also include net assets subject to donor-imposed stipulations that they be maintained permanently by AHS. AHS did not have any net assets with permanent restrictions at June 30, 2024.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, primarily receivables and investments, and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenue, primarily patient revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of these statements, AHS considers all cash on hand, savings accounts, and short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Such debt securities are carried at cost, which approximates fair value due to the short-term nature of the investment.

Patient Accounts Receivable, Grants, and Other Receivables

Patient accounts receivable consist of contracts between AHS and managed care organizations which provide payment for services provided to eligible TennCare recipients. Accounts receivable are carried at original invoice amount less contractual allowances and an estimate for doubtful accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An allowance for bad debt is established for patient accounts receivable that are determined to be uncollectible based upon a periodic review of the accounts by management. The allowance for doubtful accounts receivable as of June 30, 2024, was \$166,499.

Grants and other receivables consist of receivables from housing projects managed by AHS as well as other program services which AHS provides through contracts with the State of Tennessee, Shelby County government, the federal government, and other local agencies. AHS records grant receivables when program services are provided.

An allowance for bad debt is established for grants and other receivables that are determined to be uncollectible based upon a periodic review of the accounts by management. The allowance for doubtful accounts receivable as of June 30, 2024, was \$1,961,893.

Inventory

Inventory consists of pharmaceuticals and is valued at lower of cost (first-in, first-out) or net realizable value.

Property and Equipment

Property and equipment are stated at cost, and assets donated are recorded at estimated fair value on the date of receipt. AHS follows the practice of capitalizing all expenditures of property, leasehold improvements, furniture, fixtures, and equipment in excess of \$5,000. Expenditures for additions, major renewals and betterments are capitalized and those for maintenance and repairs are charged to expense as incurred.

Depreciation is computed on the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	3 - 28
Leasehold improvements	5 - 10
Furniture and equipment	1 - 10
Vehicles	1 - 3

Valuation of Interest in Net Assets of AHS of Greater Memphis, Foundation, Inc.

The interest in net assets of the Foundation is reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments

Investments are stated at fair value based on quoted market values. Net realized and unrealized gains and losses on investments are reflected in the statements of activities as change in market value of investments. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income is recorded when received.

Net Patient Service Revenue

AHS accounts for its patient fee revenues in accordance with ASC 606, *Revenue from Contracts with Customers*. AHS bills its patients, third-party insurance providers, TennCare (Medicaid) and Medicare and revenue is recognized as performance obligations are satisfied. Net patient fee revenue consists primarily of revenues derived from patient care services. AHS reports revenue from these services at the amount that reflects the consideration to which AHS expects to be entitled in exchange for providing patient care. The services provided generally are translated into units of service. These amounts due include variable consideration for retrospective revenue adjustments due to settlements of audits, reviews, and investigations. Generally, AHS bills the patient and/or the third-party payors shortly after the services are performed. Revenue for performance obligations are satisfied at a point in time when the goods and services are provided and when AHS does not believe that it is required to provide additional goods, services, or obligations to the patient. Revenue is recorded on the accrual basis using AHS's best expected estimate of the transaction price for the type of service provided to patients/consumers. The transaction price includes estimates for price concessions, contractual allowances and potential adjustments that may arise from payment history and other reviews, plus uncollectible payor and patient/consumer amounts. Evaluation allowances are based on AHS' historical experience and success rates in the claims adjudication process and for uncollectible amounts for each type of payor. Management continually reviews the revenue transaction price estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. Due to complexities involved in determining amounts ultimately due under reimbursement

arrangements with third-party payors, which is often subject to interpretation, AHS may receive reimbursement for healthcare services authorized and provided that is different from estimates, and such differences could be material. In addition, laws and regulations governing the Medicare and Medicaid programs are complex, subject to interpretation, and are routinely modified for provider reimbursement. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. In addition, AHS contracts with private insurers that may provide for a retroactive audit or review of claims.

AHS believes that it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements from governmental agencies and private insurers. AHS' ability to collect revenue is affected by a variety of factors, including general economic conditions and each third-party payor's and patient/consumers' financial capability. The following table presents the detail of net patient fee revenue as of June 30, 2024:

Medicaid	\$ 6,489,073
Medicare	235,462
Private pay and other	22,887,669
Total patient fee revenue	29,612,204
Evaluation of allowances	-
Total net patient fee revenue	29,612,204

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged and recorded as without donor restrictions or with donor restrictions according to donor stipulations that limit the use of these assets due to time or purpose restrictions. Support that is restricted with donor restrictions is reported as an increase in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized in revenue until conditions on which they depend have been substantially met.

Grants from Governments and Other Agencies

Revenue from grants is recognized when qualifying and reimbursable expenses are incurred under the terms of the grant contracts. When the conditions are met the revenue is recognized as net assets without donor restrictions. Accordingly, government contract receivables are recorded when AHS recognizes such revenue from the grantor. Payments received from the grantor will settle the outstanding receivables. Receipts of contract payments in excess of qualified expenses are accounted for as contract advances.

Donated Use of Facilities

Under certain lease agreements, AHS is required to pay one dollar a year for use of facilities. For financial reporting purposes, AHS recognizes as revenue the fair rental value of the property as determined by the lessor and expenses a similar amount as annual rent on the leased facilities. Revenue and expense recognized in the year ended June 30, 2024, totaled \$507,400.

Retirement Plan

AHS provides a 403(b) retirement plan for substantially all employees. Retirement cost is funded as it accrues.

Income Taxes

AHS is a not-for-profit organization that is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the financial statements. AHS is generally no longer subject to examinations by tax authorities for fiscal years before June 30, 2021.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated are salaries and wages, employee benefits, professional fees, insurance, general supplies, postage, printing, maintenance and repairs, telephone, travel, awards and indemnities, special assistance to individuals, miscellaneous, and indirect costs, which are allocated on the basis of estimates of time and effort, as well as depreciation, utilities and rent, and in-kind rent which are allocated on a square-footage basis.

Events Occurring after Reporting Date

Management has evaluated events and transactions that have occurred through December 30, 2024, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. No subsequent events have been recognized or disclosed.

Note 3 – Concentration of Credit Risk

AHS has concentrated credit its credit risk for cash by maintaining bank deposits which may periodically exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (“FDIC”) of \$250,000. AHS has not experiences any losses of such funds, and management believes AHS is not exposed to significant credit risk to cash.

Note 4 – Grants and Other Receivables

Grants and other receivables consisted of the following as of June 30, 2024:

<hr/>	
Grants:	
Tennessee Department of Mental Health and Substance Abuse Services	\$ 11,422,806
Federal and State Grants	313,074
Shelby County Government and other local agencies	562,644
<hr/> Total grants	<hr/> 12,298,524
Other receivables	
HUD Housing, net	1,874,153
Hospitals	183,831
AHS Foundation	437,363
Other	8,200
<hr/> Total other receivables	<hr/> 2,503,547
<hr/> Total grants and other receivables, net	 <hr/> \$ 14,802,071 <hr/>

Note 5 – Mortgage Note Receivable

AHS has a mortgage note receivable from a related party entity that is managed by AHS and has common board members. The note requires monthly payments of \$2,121, bears interest at 5%, and matures September 2026. The note is secured by a deed of trust on the real estate and all buildings and improvements thereon. The outstanding balance on the mortgage note receivable was \$54,065 as of June 30, 2024. Interest earned on this mortgage note receivable was \$3,308 for the year ended June 30, 2024.

Note 6 – Investments

As of June 30, 2024, investments consisted of the following:

Corporate bonds	\$	2,335,422
Equities		2,435,321
REITs		23,410
Total investments	\$	4,794,153

Note 7 – Property and Equipment

Property and equipment consisted of the following as of June 30, 2024:

Land	\$	2,522,711
Land improvements		321,040
Buildings		6,528,413
Building improvements		5,680,180
Vehicles		736,424
Furniture and fixtures		2,150,871
Leasehold improvements		333,492
Construction in progress		22,084,293
		40,357,424
Less: accumulated depreciation		(7,984,858)
Property and equipment, net	\$	32,372,566

Note 8 – Line of Credit

AHS has a \$14,800,000 line of credit with a financial institution that expires June 2025. The line of credit is secured by all assets of AHS and accrues interest at Term SOFR plus 2.15%. The line of credit has not been drawn on as of June 30, 2024.

Note 9 – Grantor Awards

AHS was awarded various grants from government agencies in the year ended June 30, 2024, as follows:

Tennessee Department of Mental Health and Substance Abuse Services	\$	30,914,589
Substance Abuse and Mental Health Services Administration		1,261,053
Shelby County Government		1,923,425
U.S. Dept. of Housing and Urban Development		1,012,830
University of Tennessee Health Science Center		66,387
Total	\$	35,178,284

Per the Consolidated Statement of Activities, grants from government and other agencies totaled \$35,233,898. One grant included in the Consolidated Statement of Activities but not in the above table is \$55,614 that is attributed to a federal grant that is a fee-for-service grant.

Note 10 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

FASB Accounting Standards Codification (“ASC”) Topic 820 establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

- Level 1*— Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.
- Level 2*— Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.
- Level 3*— Significant unobservable inputs that reflect an organization’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used to measure fair value.

Cash and cash equivalents: Valued at \$1.00 per unit, as reported by the financial institution.

Corporate bonds: Valued based on the present value of the bond’s coupon payments and the repayment of the principal while accounting for the probability of the bond defaulting.

Equities, REITS, and AHS Foundation assets: Determined by the price at which the equity would change hands between a willing buyer and willing seller.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, the investments measured at fair value on a recurring basis as of June 30, 2024:

	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	\$ 2,335,422	\$ -	\$ -	\$ 2,335,422
Equities	2,435,321	-	-	2,435,321
REITs	23,410	-	-	23,410
Total investments	\$ 4,794,153	\$ -	\$ -	\$ 4,794,153

	Level 1	Level 2	Level 3	Total
Interest in the Foundation				
Cash and cash equivalents	\$ 1,330,611	\$ -	\$ -	\$ 1,330,611
Equities	2,154,369	-	-	2,154,369
REITs	23,781	-	-	23,781
Fixed income	1,463,905	-	-	1,463,905
Bond funds	403,469	-	-	403,469
Other assets	12,748	-	-	12,748
Total interest in the Foundation	\$ 5,388,883	\$ -	\$ -	\$ 5,388,883

Note 11 – Uncertainty

A major source of AHS’s funding comes from behavioral health services provided to individuals participating in the State of Tennessee’s TennCare program. Under the terms of the TennCare Program, funding for such services is administered by third-party payors. AHS operates under contract with the third-party payors to provide services to eligible individuals in the TennCare program.

In addition, AHS receives a significant amount of government support in the form of grants. This support is subject to continue government support of these programs and related appropriations.

Note 12 – Retirement Plan

AHS has a defined contribution retirement plan for substantially all employees. AHS contributes 4% of each eligible employee’s annual base pay to the plan, beginning with the month the employee begins work for AHS, with vesting by the employee after 3 years. Benefits under the plan are funded from the general assets of AHS. The contribution provided by AHS for the year ended June 30, 2024, was \$1,028,342.

Note 13 – Related Party Transactions

AHS acts as the managing agent for six housing projects – all subsidized by the Department of Housing and Urban Development. Amounts included in grants and other accounts receivable for management fees and advances net of the allowance of \$1,961,893 at June 30, 2024, was \$1,874,153 from the housing projects.

AHS also provides accounting services to these organizations and pays certain expenses on their behalf. There are no specified repayment terms, but the organizations are expected to reimburse AHS as funds are available. Certain members of the Board of Directors of these organizations also serve on the Board of AHS.

Note 14 – Post-retirement Benefit Obligation

General information about the OPEB plan

Plan description - Employees of AHS are provided with pre-65 retiree health insurance benefits through the Local Government OPEB Plan (“LGOP”) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (“OPEB”). However, for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who choose coverage, participate in the LGOP.

Benefits provided - AHS offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (“PPO”), standard PPO, limited PPO or the wellness health savings consumer-driven health plan (“CDHP”) for healthcare benefits. Retired plan members, of the LGOP, receives the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees.

Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. AHS does not subsidize insurance coverage for pre-65 retirees and are only subject to the implicit. The LGOP is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees covered by benefit terms - At July 1, 2023, the following employees of AHS were covered by the benefit terms of the LGOP:

Inactive employees currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	348
Total	348

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. For the fiscal year ended June 30, 2024, AHS paid \$1,257 to the LGOP for OPEB benefits as they came due.

Total OPEB Liability

Actuarial assumptions - The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	10.31% for pre-65 in 2023, decreasing annually over an 11 year period to an ultimate rate of 4.50%. 12.44% for post-65 in 2023, decreasing annually over an 11 year period to an ultimate rate of 4.50%.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this Valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2023, valuations were the same as those employed in the July 1, 2022, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System ("TCRS"). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016 - June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table for General Employees for non-disabled pre-retirement mortality, with mortality improvement projected generationally with MP-2021 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2021. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2021.

Discount rate - The discount rate used to measure the total OPEB liability was 3.65 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer 20-Year Municipal GO AA index.

Changes in the total OPEB liability

		Total OPEB Liability (a)
Total OPEB liability - beginning balance	\$	189,078
Changes for the year:		
Service cost		33,775
Interest		7,859
Changes of benefit terms		-
Differences between expected and actual experience		(23,420)
Change in assumptions		66,207
Benefit payments		(1,733)
Net changes		82,688
Total OPEB liability - ending balance		271,766
Deferred gains/losses		137,287
Total post-retirement benefit obligation	\$	409,053

Deferred gains/losses - Deferred gains/losses are changes in actuarial assumptions and the difference between actual and expected experience that will be recognized as OPEB expense in future periods.

Changes in assumptions - The discount rate was changed from 3.54% as of the beginning of the measurement period to 3.65% as of June 30, 2023. This change in assumption increased the total OPEB liability. Other changes in assumptions include adjustments to initial per capita costs and health trend rates.

Sensitivity of total OPEB liability to changes in the discount rate - The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate.

	1% Decrease (2.65%)	Discount Rate (3.65%)	1% Increase (4.65%)
Total OPEB liability	\$ 294,065	\$ 271,766	\$ 251,015

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate - The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate.

	1% Decrease (9.31%/11.44% decreasing to 3.50%)	Healthcare Cost Trend Rates (10.31%/12.44% decreasing to 4.50%)	1% Increase (11.31%/13.44% decreasing to 5.50%)
Total OPEB liability	\$ 240,132	\$ 271,766	\$ 308,801

OPEB expense - For the fiscal year ended June 30, 2024, AHS recognized OPEB expense of \$11,432.

Note 15 - Contributions of Nonfinancial Assets

AHS requires the use of office space as a clinical facility at four locations. This office use has been valued at \$507,400 using estimated rates of similar space in the area.

All contributions of nonfinancial assets received by AHS for the year ended June 30, 2024, were considered without donor restrictions and able to be used by AHS as determined by the Board of Directors and management.

Note 16 - Liquidity and Reserves

AHS monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. AHS has the following financial assets that could readily be made available within one year of June 30, 2024, to fund general expenditures without limitations:

<hr/>	
Financial assets:	
Cash and cash equivalents	\$ 5,129,128
Patient accounts receivable, net	2,366,208
Grants and other receivables, net	14,802,071
Mortgage note receivable, current portion	23,281
Investments	4,794,153
Total financial assets	27,114,841
Less those unavailable for general expenditures within one year due to:	
Board designated cash for construction	(953,565)
<hr/>	
Financial assets available to meet cash needs for general expenditure within one year	\$ 26,161,276

Note 17 – Net Assets with Donor Restrictions

Net Assets with Restrictions

Net assets with donor restrictions consist of the interest in net assets of the Foundation and are restricted for the benefit of AHS. AHS will make requests to the Foundation for funds to benefit AHS’ operations. The Foundation’s Board reviews such requests and determines if it will provide the requested funds. AHS received contributions totaling \$4,298,574 from the Foundation during fiscal year 2024.

Board Designated Net Assets

As of June 30, 2024, the Board of Directors designated \$953,565 of unrestricted net assets to be set aside for construction of the Crisis Wellness Center.

Note 18 – Commitments and Contingencies

AHS has signed a construction contract for the construction of a building for a total of \$27,367,405. As of June 30, 2024, payments of \$19,709,491 have been made and are included in construction in progress. The remaining balance on the contract is \$7,657,914.

Other Supplementary Information

Schedule of Expenditures of Federal Awards and State and Other Financial Assistance

For the Year Ended June 30, 2024

Federal Grantor / PassThrough Entity / Cluster / Program	Assistance Listing Number	Contract Number	Expenditures
U.S. Department of Housing and Urban Development			
Direct Programs:			
Continuum of Care Program	14.267	TN0147L4J012213	\$ 260,576
Continuum of Care Program	14.267	TN0112L4J012214	752,254
Total Program 14.267			<u>1,012,830</u>
Total U.S. Department of Housing and Urban Development			<u>1,012,830</u>
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services Administration			
Certified Community Behavioral Health Clinics	93.696	1H79SM086387-01	960,314
Opioid STR	93.788	N/A	<u>300,739</u>
Tennessee Department of Mental Health and Substance Abuse Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	78663	<u>476,185</u>
Block Grants for Community Mental Health Services	93.958	74138	852,400
Block Grants for Community Mental Health Services	93.958	74155	130,470
Block Grants for Community Mental Health Services	93.958	74142	68,733
Block Grants for Community Mental Health Services	93.958	79978	42,770
Block Grants for Community Mental Health Services	93.958	71196	39,415
Block Grants for Community Mental Health Services	93.958	77421	678,552
Block Grants for Community Mental Health Services	93.958	78598	<u>300,766</u>
Total Program 93.958			<u>2,113,106</u>
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	76696	<u>139,792</u>
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	76614	<u>300,749</u>
University of Tennessee Health Science Center			
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	H79SM08290	<u>66,387</u>
Total U.S. Department of Health and Human Services			<u>4,357,272</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>5,370,102</u>

Schedule of Expenditures of Federal Awards and State and Other Financial Assistance (continued)

For the Year Ended June 30, 2024

State Grantor / PassThrough Entity / Cluster / Program	Assistance Listing Number	Contract Number	Expenditures
Tennessee Department of Mental Health and Substance Abuse Services			
	N/A	74138	304,440
	N/A	74143	2,551,374
	N/A	74163	4,411,803
	N/A	74144	226,435
	N/A	78852	983,437
	N/A	78110	334,907
	N/A	78663	118,800
	N/A	78326	216,399
	N/A	78082	63,000
	N/A	74283	70,000
	N/A	78455	422,568
	N/A	78069	59,110
	N/A	80613 & 83504	16,000,000
	N/A	83404	68,239
	N/A	81542	1,630,450
	N/A	80974	423,795
Shelby County Government			
	N/A	CA 2300098	850,000
	N/A	CA 2300574	540,000
	N/A	CA 2200574-1	164,346
	N/A	N/A	369,079
TOTAL STATE AND OTHER FINANCIAL ASSISTANCE EXPENDED			29,808,182
TOTAL FEDERAL AWARDS AND STATE AND OTHER FINANCIAL ASSISTANCE EXPENDED			\$ 35,178,284

**Notes to the Schedule of Expenditures of Federal Awards
and State and Other Financial Assistance****For the Year Ended June 30, 2024****Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards and state and other financial assistance (the "Schedule") includes the federal award activity of Alliance Healthcare Services, Inc. under programs of the federal government for the year ended June 30, 2024 in addition to state and local assistance. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Alliance Healthcare Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Alliance Healthcare Services, Inc.

Note 2 – 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Alliance Healthcare Services, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Statement of Activities Reconciliation

Per the Consolidated Statement of Activities, grants from government and other agencies totaled \$35,233,898. One grant included in the Consolidated Statement of Activities but not in the above table is \$55,614 that is attributed to a federal grant that is a fee-for-service grant.

Note 4 – Reissuing of the Audit Reports

After issuance of the 2024 financial and single audit reports, AHS found that they did not include certain federal expenditures in its Schedule of Expenditures of Federal Awards and State and Other Financial Assistance dated December 30, 2024. Total federal money passed through from the Tennessee Department of Mental Health and Substance Abuse Services was under reported by \$2,090,485. Because of these reclassifications, a revised Schedule of Expenditures of Federal Awards and State and Other Financial Assistance is presented which resulted in dual-dating of the audit report.

Non-Financial Information



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

To the Board of Directors
Alliance Healthcare Services, Inc.
Memphis, Tennessee

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 consolidated financial statements of Alliance Healthcare Services, Inc. (a nonprofit health care entity), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Alliance Healthcare Services, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alliance Healthcare Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Alliance Healthcare Services, Inc.'s internal control.

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. 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.

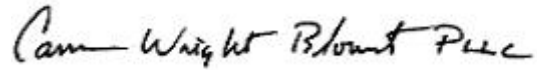
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alliance Healthcare Services, Inc.'s consolidated 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 consolidated 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*.

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 Alliance Healthcare Services, Inc.'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Memphis, Tennessee

December 30, 2024, except as to Note 9 and Note 4 on the Schedule of Expenditures of Federal Awards and State and Other Financial Assistance, which is as of February 17, 2025



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Alliance Healthcare Services, Inc.
Memphis, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Alliance Healthcare Services, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Alliance Healthcare Services, Inc.'s major federal programs for the year ended June 30, 2024. Alliance Healthcare Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Alliance Healthcare Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Alliance Healthcare Services, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Alliance Healthcare Services, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Alliance Healthcare Services, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Alliance Healthcare Services, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Alliance Healthcare Services, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Alliance Healthcare Services, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Alliance Healthcare Services, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Alliance Healthcare Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cann Wright Blount PLLC

Memphis, Tennessee

December 30, 2024, except as to Note 9 and Note 4 on the Schedule of Expenditures of Federal Awards and State and Other Financial Assistance, which is as of February 17, 2025

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?

_____ yes no

- Significant deficiencies identified that are not considered to be material weaknesses?

_____ yes none noted

- Noncompliance material to financial statements noted?

_____ yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?

_____ yes no

- Significant deficiencies identified that are not considered to be material weaknesses?

_____ yes none noted

Type of auditor's report issued on compliance for major program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)

_____ yes no

Identification of major programs:

Assistance Listing No. 14.267

Assistance Listing No. 93.958

Continuum of Care Program
Block Grants for Community Mental Health Services

Threshold for distinguishing type A and B programs:

\$750,000

Auditee qualified as low risk auditee:

yes _____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

There were no prior year findings and questioned costs.

Required disclosures related to the auditor:

Name of Lead Auditor: Doug Wright, CPA
Firm: Cannon Wright Blount, PLLC
Firm Address: 756 Ridge Lake Blvd., Suite 100, Memphis, TN 38120
Firm Telephone Number: (901) 685-7500
Firm Federal I.D. Number: 62-1657946