



Management's Discussion and Analysis
And Financial Statements
March 31, 2020 and 2019

**Sequoyah County-City of Sallisaw
Hospital Authority d/b/a Northeastern
Health System Sequoyah**

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

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March 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Trustees
Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Sallisaw, OK

Report on the Financial Statements

We have audited the accompanying statements of net position of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) as of March 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the 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 Hospital'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah as of March 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated **April 22, 2021** on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
April 22, 2021

Introduction

This discussion and analysis of the financial performance of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended March 31, 2020, 2019, and 2018. The intent of this discussion and analysis is to provide further information on the Hospital's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Hospital's financial status.

Financial Highlights

- Current assets increased in 2020 by \$1,774,705 or 70% and decreased in 2019 by \$34,552 or 1%.
- Current liabilities increased in 2020 by \$1,796,469 or 44% and increased in 2019 by \$1,358,641 or 50%.
- The Hospital's net position decreased in 2020 by \$175,124 or 5% and decreased in 2019 by \$1,749,436 or 91%.
- The Hospital reported an operating loss in 2020 of \$1,004,822 and an operating loss in 2019 of \$2,161,544. During 2020, operating loss decreased by \$1,156,722 or 54% and decreased by \$1,147,309 or 35% in 2019.
- Net patient service revenue increased in 2020 by \$2,927,789 or 32% and decreased by \$792,502 or 8% in 2019.
- Other operating revenue increased by \$67,384 or 52% in 2020 and increased by \$107,598 or 473% in 2019.
- Operating expenses increased in 2020 by \$1,838,451 or 16% and decreased \$1,832,222 or 14% in 2019.

Using This Annual Report

The Hospital's financial statements consist of three statements – Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. These financial statements and related notes provide information about activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Sequoiah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoiah
Management's Discussion and Analysis

These two statements report the Hospital's net position and changes in it. You can think of the Hospital's net position - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statements of Cash Flows

The final required statement is the Statements of Cash Flows, which reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position. The Hospital's net position decreased by \$175,124 or 5% in 2020 and decreased by \$1,749,436 or 91% in 2019 as shown below.

Table 1: Assets, Liabilities, and Net Position

	2020	2019	2018
Assets			
Current assets	\$ 4,327,896	\$ 2,553,191	\$ 2,587,743
Capital assets, net	1,874,650	2,105,000	2,545,369
Noncurrent assets	-	64,830	97,330
Total assets	\$ 6,202,546	\$ 4,723,021	\$ 5,230,442
Liabilities			
Current liabilities	\$ 5,880,664	\$ 4,084,195	\$ 2,725,554
Long term debt	4,171,256	4,313,076	4,429,702
Total liabilities	10,051,920	8,397,271	7,155,256
Net Position (Deficit)			
Net investment in capital assets	1,512,584	1,726,392	2,079,111
Unrestricted	(5,361,958)	(5,400,642)	(4,003,925)
Total net position (deficit)	(3,849,374)	(3,674,250)	(1,924,814)
Total liabilities and net position	\$ 6,202,546	\$ 4,723,021	\$ 5,230,442

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Management's Discussion and Analysis

Assets, Liabilities, and Net Position

The Hospital's total assets increased \$1,479,525 or 31% in 2020 and decreased \$507,421 or 10% in 2019.

- Current assets increased \$1,774,705 or 70% in 2020 compared to the decrease of \$34,552 or 1% in 2019.
- Capital assets decreased by \$230,350 or 11% in 2020 due to annual depreciation. Capital assets decreased \$440,369 or 17% in 2019 due to annual depreciation.

The Hospital's total liabilities increased \$1,654,649 or 20% in 2020 and increased \$1,242,015 or 17% in 2019.

- Accounts payable and accrued expenses increased \$1,770,439 or 46% in 2020 and increased \$1,332,557 or 52% in 2019. The increase in payables and accruals is attributable to process changes in billings and collections and timing issues.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 11,975,474	\$ 9,047,685	\$ 9,840,187
Other operating revenue	197,703	130,319	22,730
Total operating revenues	<u>12,173,177</u>	<u>9,178,004</u>	<u>9,862,917</u>
Operating Expenses			
Salaries and wages	-	-	4,095,836
Employee benefits	-	-	893,905
Contract salary and benefits	7,815,470	6,105,200	2,002,190
Purchased services and professional fees	2,499,280	2,360,735	3,004,282
Supplies and other	2,500,868	2,433,244	2,690,717
Depreciation	362,381	440,369	484,840
Total operating expenses	<u>13,177,999</u>	<u>11,339,548</u>	<u>13,171,770</u>
Operating Loss	<u>(1,004,822)</u>	<u>(2,161,544)</u>	<u>(3,308,853)</u>
Nonoperating Revenues (Expenses)			
Interest income	6,470	178	15
Noncapital appropriations	756,811	702,714	736,695
Interest expense	(260,625)	(292,159)	(173,171)
Payable forgiveness	327,042	-	-
Noncapital gifts	-	1,375	-
Gain on disposal of capital assets	-	-	12,200
Net nonoperating revenues	<u>829,698</u>	<u>412,108</u>	<u>575,739</u>
Expenses in Excess of Revenues Before Capital Contributions	(175,124)	(1,749,436)	(2,733,114)
Capital Contributions	<u>-</u>	<u>-</u>	<u>125,000</u>
Change in Net Position	<u>\$ (175,124)</u>	<u>\$ (1,749,436)</u>	<u>\$ (2,608,114)</u>

Operating Results

The first component of the overall change in the Hospital's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past three years the Hospital has had operating losses.

The operating loss for 2020 decreased by \$1,156,722 or 54% as compared to the decrease of \$1,147,309 or 35% in 2019. The primary components of the operating loss are:

- Net patient service revenue increased \$2,927,789 or 32% in 2020 compared to a decrease of \$792,502 or 8% in 2019. The increase in 2020 is attributed to an increase in services provided by the Hospital. The decrease in 2019 is attributed to a decrease in services provided by the Hospital.
- Salaries, wages, benefits, contract salary and benefits expenses increased \$1,710,270 or 33% in 2020 compared to an decrease in 2019 of \$886,731 or 13%.
- Purchased services and professional fees increased in 2020 by \$138,545 or 6% compared to a decrease of \$643,547 or 21% in 2019.

Non-operating Revenues and Expenses

Non-operating revenues and expenses consist primarily of tax appropriations and interest expense. Tax appropriations increased \$54,097 or 8% in 2020 and decreased \$33,981 or 5% in 2019. Interest expense decreased \$31,534 or 11% in 2020 as compared to the increase of \$118,988 or 69% in 2019. During 2020, the Hospital had payables forgiven in the amount of \$327,042.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses discussed earlier. The principal changes in the Hospital's nonoperating cash flows were:

- Net cash used for operating activities decreased in 2020 by \$282,665 or 74% and decreased in 2019 by \$2,103,017 or 85%.
- Net cash from noncapital financing activities increased in 2020 by \$16,603 or 4% and decreased in 2019 by \$2,314,197 or 85%.
- Net cash used for capital and capital related financing activities increased in 2020 by \$36,473 or 36% and increased in 2019 by \$25,632 or 34%.
- Net cash from investing activities increased in 2020 by \$6,292 or 3,535% and increased in 2019 by \$163.

Capital Assets

The Hospital had \$1,874,650 invested in capital assets at the end of 2020 and \$2,105,000 at the end of 2019, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Hospital acquired new capital assets in 2020 costing \$132,031. The Hospital did not acquire any new capital assets in 2019.

Debt

The Hospital had total debt of \$4,396,882 at the end of 2020. The Hospital incurred additional debt of \$108,000 in 2020, as detailed in Note 6 to the financial statements. The Hospital had total debt of \$4,470,672 at the end of 2019. The Hospital did not incur additional debt in 2019, as detailed in Note 6 to the financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by calling 918-774-1100.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Net Position
March 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 341,572	\$ 133,225
Receivables		
Patient, net of estimated uncollectibles		
of \$4,831,000 in 2020 and \$5,414,000 in 2019	3,495,652	1,834,148
Tax appropriation	129,656	122,078
Supplies	361,016	370,082
Prepaid expenses and other current assets	-	93,658
Total current assets	4,327,896	2,553,191
Capital Assets		
Capital assets not being depreciated	193,633	193,633
Capital assets being depreciated, net	1,681,017	1,911,367
Total capital assets, net	1,874,650	2,105,000
Other Assets		
Cash value of life insurance	-	7,330
Prepaid expenses, net of current portion	-	57,500
Total other assets	-	64,830
Total assets	\$ 6,202,546	\$ 4,723,021

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Net Position
March 31, 2020 and 2019

	2020	2019
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 225,626	\$ 157,596
Accounts payable	5,655,038	3,880,508
Estimated third-party payor settlements	-	42,000
Accrued expenses	-	4,091
Total current liabilities	5,880,664	4,084,195
Long-Term Debt, Less Current Maturities	4,171,256	4,313,076
Total liabilities	10,051,920	8,397,271
Net Position (Deficit)		
Net investment in capital assets	1,512,584	1,726,392
Unrestricted	(5,361,958)	(5,400,642)
Total net position (deficit)	(3,849,374)	(3,674,250)
Total liabilities and net position	\$ 6,202,546	\$ 4,723,021

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2020 and 2019

	2020	2019
Operating Revenue		
Net patient service revenue, net of provision for bad debts of \$5,515,657 in 2020 and \$4,578,447 in 2019	\$ 11,975,474	\$ 9,047,685
Other revenue	197,703	130,319
Total operating revenues	12,173,177	9,178,004
Operating Expenses		
Contract salary and benefits	7,815,470	6,105,200
Purchased services and professional fees	2,499,280	2,360,735
Supplies and other	2,500,868	2,433,244
Depreciation	362,381	440,369
Total operating expenses	13,177,999	11,339,548
Operating Loss	(1,004,822)	(2,161,544)
Nonoperating Revenues (Expenses)		
Interest income	6,470	178
Tax appropriation	756,811	702,714
Interest expense	(260,625)	(292,159)
Payable forgiveness	327,042	-
Noncapital grants and contributions	-	1,375
Total nonoperating revenues (expenses)	829,698	412,108
Expenses in Excess of Revenues and Change in Net Position	(175,124)	(1,749,436)
Net Position (Deficit), Beginning of Year	(3,674,250)	(1,924,814)
Net Position (Deficit), End of Year	\$ (3,849,374)	\$ (3,674,250)

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Cash Flows
Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 10,271,970	\$ 9,101,635
Payments to suppliers and contractors	(2,751,783)	(3,460,837)
Payments to contract employees	(7,819,561)	(6,155,453)
Other receipts	<u>197,703</u>	<u>130,319</u>
Net Cash used for Operating Activities	<u>(101,671)</u>	<u>(384,336)</u>
Noncapital Related Financing Activities		
Tax appropriations	749,233	696,263
Principal payments on long-term debt	(57,248)	(25,892)
Interest paid	(251,390)	(247,754)
Noncapital grants and contributions	<u>-</u>	<u>1,375</u>
Net Cash from Noncapital Related Financing Activities	<u>440,595</u>	<u>423,992</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(103,781)	(87,650)
Interest paid	(9,235)	(12,924)
Purchase of property and equipment	<u>(24,031)</u>	<u>-</u>
Net Cash used for Capital and Related Financing Activities	<u>(137,047)</u>	<u>(100,574)</u>
Investing Activities		
Interest income	<u>6,470</u>	<u>178</u>
Net Change in Cash	208,347	(60,740)
Cash, Beginning of Year	<u>133,225</u>	<u>193,965</u>
Cash, End of Year	<u>\$ 341,572</u>	<u>\$ 133,225</u>

Sequoiah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Cash Flows
Years Ended March 31, 2020 and 2019

	2020	2019
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss	\$ (1,004,822)	\$ (2,161,544)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	362,381	440,369
Provision for bad debts	5,515,657	4,578,447
Changes in assets and liabilities		
Patient receivables	(7,177,161)	(4,547,497)
Supplies	9,066	(42,675)
Prepaid expenses and other	158,488	24,488
Accounts payable	2,080,811	1,351,329
Accrued expenses	(4,091)	(50,253)
Estimated third-party payor settlements	(42,000)	23,000
Net Cash used for Operating Activities	\$ (101,671)	\$ (384,336)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through note payable	\$ 108,000	\$ -
Debt reduction in accounts payable	\$ 20,761	\$ -
Supplemental Disclosure of Noncash non capital Related		
Payable forgiveness	\$ 327,042	\$ -

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2020 and 2019

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital is a 35-bed acute care hospital located in the city of Sallisaw, Oklahoma (City). The Hospital is a public trust created under the laws of the State of Oklahoma and is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma. The Hospital is governed by the Board of Trustees, which is appointed by the City. During 2018, the Hospital changed their trade name from Sequoyah Memorial Hospital to Northeastern Health System Sequoyah. Effective June 1, 2017, the Hospital signed a management service agreement with Tahlequah Hospital Authority (THA). The terms of the management service agreement are discussed in Note 11.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Blended Component Unit

On December 10, 2012, the SMH Physician Group, LLC (Physician Group), was established as a limited liability company in the state of Oklahoma for the purpose of providing physician services to patients in Sallisaw, Oklahoma and the surrounding communities. The Hospital is the sole member of the LLC. The Physician Group began operations on April 1, 2013. The Physician Group is included as a blended component unit of the Hospital. The financial statements include only the financial activity of the Hospital and Physician Group, collectively referred to as the Hospital. Financial statements of the Physician Group can be obtained by contacting the Hospital's Administration.

Measurement Focus and Basis of Accounting and Presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Sequoiah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoiah

Notes to Financial Statements
March 31, 2020 and 2019

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets or the related debt obligations related to those assets or debt obligations.

Restricted, expendable consists of assets whose use is restricted for a specific purpose. The Hospital does not have restricted net position as of March 31, 2020 and 2019.

Restricted, nonexpendable is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. The Hospital does not have restricted net position as of March 31, 2020 and 2019.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2020 and 2019

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collections procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Tax Appropriations

The Hospital benefits from a 0.5% sales tax assessment to be used for operations of the Hospital. The tax, approved by the Board of Commissioners of the City of Sallisaw, has no expiration date. The Hospital received approximately 6% and 8% of its financial support from city appropriations during the years ended March 31, 2020 and 2019.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Capital Assets

Capital assets acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	5-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from expenses in excess of revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2020 and 2019

Compensated Absences

Effective January 2018, the Hospital transferred all employees to THA as part of the management service agreement. The Hospital has a payable recorded for compensated absences as they will reimburse THA when used. Employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the statements of net position date plus an additional amount for compensation related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were approximately \$214,000 and \$353,000 for the years ended September 30, 2020 and 2019. Total direct and indirect costs related to these foregone charges were approximately \$66,000 and \$101,000 at March 31, 2020 and 2019, based on an average ratio of cost to gross charges.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2020 and 2019

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after expenses in excess of revenues.

Payable Forgiveness

In February 2020, the Hospital had a tax abatement in the amount of \$327,042 from the Internal Revenue Service.

Note 2 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Hospital's Medicare cost reports have been audited by the MAC through March 31, 2017.

Medicaid: The Hospital is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment. The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross charges by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended March 31, 2020 and 2019:

	2020	2019
Medicare	39%	47%
Medicaid	18%	19%
Blue Cross	10%	8%
Commercial insurance	20%	15%
Other third-party payors and patients	13%	11%
	<u>100%</u>	<u>100%</u>

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Notes to Financial Statements
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Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 3 - Deposits

Cash consisted of cash deposits in banks as of March 31, 2020 and 2019.

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Hospital. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at March 31, 2020 and 2019 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended March 31, 2020 are as follows:

	Balance March 31, 2019	Additions	Transfers and Retirements	Balance March 31, 2020
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated				
Land	\$ 193,633	\$ -	\$ -	\$ 193,633
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets being depreciated				
Land improvements	\$ 34,488	\$ 51	\$ -	\$ 34,539
Building and improvements	3,362,534	-	-	3,362,534
Major moveable and fixed equipment	9,468,556	131,980	-	9,600,536
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets being depreciated	12,865,578	\$ 132,031	\$ -	12,997,609
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Less accumulated depreciation for				
Land improvements	23,224	\$ 2,458	\$ -	25,682
Building and improvements	2,637,642	45,482	-	2,683,124
Major moveable and fixed equipment	8,293,345	314,441	-	8,607,786
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	10,954,211	\$ 362,381	\$ -	11,316,592
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net capital assets being depreciated	\$ 1,911,367			\$ 1,681,017
	<u> </u>			<u> </u>
Capital assets, net	\$ 2,105,000			\$ 1,874,650
	<u> </u>			<u> </u>

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Capital assets additions, retirements, transfers and balances for the year ended March 31, 2019 are as follows:

	Balance March 31, 2018	Additions	Transfers and Retirements	Balance March 31, 2019
Capital assets not being depreciated				
Land	\$ 193,633	\$ -	\$ -	\$ 193,633
Capital assets being depreciated				
Land improvements	\$ 34,488	\$ -	\$ -	\$ 34,488
Building and improvements	3,362,534	-	-	3,362,534
Major moveable and fixed equipment	9,468,556	-	-	9,468,556
Total capital assets being depreciated	12,865,578	\$ -	\$ -	12,865,578
Less accumulated depreciation for				
Land improvements	20,766	\$ 2,458	\$ -	23,224
Building and improvements	2,577,272	60,370	-	2,637,642
Major moveable and fixed equipment	7,915,804	377,541	-	8,293,345
Total accumulated depreciation	10,513,842	\$ 440,369	\$ -	10,954,211
Net capital assets being depreciated	\$ 2,351,736			\$ 1,911,367
Capital assets, net	\$ 2,545,369			\$ 2,105,000

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Note 5 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capital leases and others as operating leases. Total lease expense for the years ended March 31, 2020 and 2019 for all operating leases was approximately \$47,000 and \$81,000. The capitalized leased assets consist of:

	2020	2019
Major movable equipment	\$ 560,743	\$ 560,743
Less accumulated amortization	(335,501)	(225,744)
	\$ 225,242	\$ 334,999

Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for March 31, 2020 and 2019 is as follows:

	Balance March 31, 2019	Additions	Payments	Balance March 31, 2020	Due Within One Year
Note payable (1)	\$ 4,000,000	\$ -	\$ (28,645)	\$ 3,971,355	\$ 104,898
Note payable (2)	92,064	-	(28,603)	63,461	31,598
Note payable (3)	-	108,000	(25,920)	82,080	17,280
Capital lease (4)	62,128	-	(41,081)	21,047	21,047
Capital lease (5)	316,480	-	(57,541)	258,939	50,803
	\$ 4,470,672	\$ 108,000	\$ (181,790)	\$ 4,396,882	\$ 225,626
	Balance March 31, 2018	Additions	Payments	Balance March 31, 2019	Due Within One Year
Note payable (1)	\$ 4,000,000	\$ -	\$ -	\$ 4,000,000	\$ 26,190
Note payable (2)	117,956	-	(25,892)	92,064	28,603
Capital lease (4)	101,897	-	(39,769)	62,128	41,081
Capital lease (5)	364,361	-	(47,881)	316,480	61,722
	\$4,584,214	\$ -	\$ (113,542)	\$ 4,470,672	\$ 157,596

The terms and due dates of the Hospital's long-term debt at March 31, 2020 and 2019 are as follows:

1. Demand note payable to bank with a variable interest rate Wall Street Journal Prime plus 1.75% (5.00% as of March 31, 2020). The note was modified March 28, 2019 changing maturity date of December 28, 2037 to December 28, 2040 and extending the interest only payments to December 28, 2019. The Hospital will make monthly principal and interest in monthly installments of \$29,550 beginning January 28, 2020, secured by assets of the Hospital.
2. Promissory note to a physician with an interest rate of 10.00%, due in monthly installments of \$3,044, unsecured, due February 2022.

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

3. Vendor note payable with -0-% stated interest rate, initial payment of \$21,600 followed by monthly installments of \$1,440 beginning January 1, 2020, collateralized by associated equipment, due December 2024.
4. Capital lease with imputed interest rate of 3.25%, due in monthly installments of \$3,541, collateralized by associated equipment, due September 2020.
5. Capital lease with imputed interest rate of 2.74%, due in monthly installments of \$4,771, collateralized by associated equipment, due December 2024.

Future payments of principal and interest on the long-term debt obligations are as follows:

<u>Year Ending March 31,</u>	<u>Notes Payable</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 153,776	\$ 255,826	\$ 71,850	\$ 6,654
2022	160,945	245,618	52,211	5,045
2023	136,439	236,641	53,658	3,598
2024	144,281	228,799	55,146	2,111
2025	148,319	220,441	47,121	592
2026-2030	822,727	956,273	-	-
2031-2035	1,131,491	647,509	-	-
2036-2040	1,306,781	232,531	-	-
2041	112,137	2,763	-	-
Total	<u>\$ 4,116,896</u>	<u>\$ 3,026,401</u>	<u>\$ 279,986</u>	<u>\$ 18,000</u>

Note 7 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at March 31, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	38%	26%
Medicaid	9%	9%
Blue Cross	6%	6%
Other commercial insurance	12%	19%
Other third-party payors and patients	35%	40%
	<u>100%</u>	<u>100%</u>

Note 8 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of or damage of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-based coverage subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000.

Litigations, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Sequoiah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Note 9 - Condensed Combining Information

The following summarizes combining information for the Hospital and Physician Group, which has been presented as a blended component unit, as of and for the year ended March 31, 2020.

Statement of net position as of March 31, 2020:

	Sequoiah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 4,601,496	\$ 239,863	\$ (513,463)	\$ 4,327,896
Capital assets	1,781,945	92,705	-	1,874,650
Other non current assets	-	-	-	-
	<u>\$ 6,383,441</u>	<u>\$ 332,568</u>	<u>\$ (513,463)</u>	<u>\$ 6,202,546</u>
Liabilities and Net Position				
Current liabilities	\$ 5,880,664	\$ 513,463	\$ (513,463)	\$ 5,880,664
Long-term liabilities	4,171,256	-	-	4,171,256
	<u>10,051,920</u>	<u>513,463</u>	<u>(513,463)</u>	<u>10,051,920</u>
Net Position (Deficit)				
Net investment in capital assets	1,419,879	92,705	-	1,512,584
Unrestricted	(5,088,358)	(273,600)	-	(5,361,958)
	<u>(3,668,479)</u>	<u>(180,895)</u>	<u>-</u>	<u>(3,849,374)</u>
	<u>\$ 6,383,441</u>	<u>\$ 332,568</u>	<u>\$ (513,463)</u>	<u>\$ 6,202,546</u>

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Operating results and changes in net position for the year ended March 31, 2020:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 11,551,677	\$ 423,797	\$ -	\$ 11,975,474
Other operating revenue	212,103	-	(14,400)	197,703
Total operating revenue	11,763,780	423,797	(14,400)	12,173,177
Operating Expenses				
Depreciation	353,193	9,188	-	362,381
Other operating expenses	12,448,823	381,195	(14,400)	12,815,618
Total operating expenses	12,802,016	390,383	(14,400)	13,177,999
Operating Income (Loss)	(1,038,236)	33,414	-	(1,004,822)
Nonoperating Revenue (Expense)				
Interest income	6,208	262	-	6,470
Noncapital appropriation	756,811	-	-	756,811
Interest expense	(260,625)	-	-	(260,625)
Payable forgiveness	327,042	-	-	327,042
Total nonoperating revenue (expense)	829,436	262	-	829,698
Change in Net Position	(208,800)	33,676	-	(175,124)
Net Position (Deficit), Beginning of Year	(3,459,679)	(214,571)	-	(3,674,250)
Net Position (Deficit), End of Year	\$ (3,668,479)	\$ (180,895)	\$ -	\$ (3,849,374)

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Cash flows for the year ended March 31, 2020:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Total
Net Cash from (used for) Operating Activities	\$ (117,036)	\$ 15,365	\$ (101,671)
Net Cash from Noncapital Financing Activities	440,595	-	440,595
Net Cash used for Capital and related Financing Activities	(137,047)	-	(137,047)
Net Cash from Investing Activities	<u>6,470</u>	<u>-</u>	<u>6,470</u>
Net Change in Cash	192,982	15,365	208,347
Cash, Beginning of Year	<u>111,814</u>	<u>21,411</u>	<u>133,225</u>
Cash, End of Year	<u>\$ 304,796</u>	<u>\$ 36,776</u>	<u>\$ 341,572</u>

The following summarizes combining information for the Hospital and Physician Group, which has been presented as a blended component unit, as of and for the year ended March 31, 2019.

Statement of net position as of March 31, 2019:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 2,868,855	\$ 77,418	\$ (393,082)	\$ 2,553,191
Capital assets	2,003,907	101,093	-	2,105,000
Other non current assets	<u>64,830</u>	<u>-</u>	<u>-</u>	<u>64,830</u>
Total assets	<u>\$ 4,937,592</u>	<u>\$ 178,511</u>	<u>\$ (393,082)</u>	<u>\$ 4,723,021</u>
Liabilities and Net Position				
Current liabilities	\$ 4,084,195	\$ 393,082	\$ (393,082)	\$ 4,084,195
Long-term liabilities	<u>4,313,076</u>	<u>-</u>	<u>-</u>	<u>4,313,076</u>
Total liabilities	<u>8,397,271</u>	<u>393,082</u>	<u>(393,082)</u>	<u>8,397,271</u>
Net Position (Deficit)				
Net investment in capital assets	1,625,299	101,093	-	1,726,392
Unrestricted	<u>(5,084,978)</u>	<u>(315,664)</u>	<u>-</u>	<u>(5,400,642)</u>
Total net position (deficit)	<u>(3,459,679)</u>	<u>(214,571)</u>	<u>-</u>	<u>(3,674,250)</u>
Total liabilities and net position	<u>\$ 4,937,592</u>	<u>\$ 178,511</u>	<u>\$ (393,082)</u>	<u>\$ 4,723,021</u>

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Operating results and changes in net position for the year ended March 31, 2019:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 8,577,344	\$ 470,341	\$ -	\$ 9,047,685
Other operating revenue	151,919	-	(21,600)	130,319
Total operating revenue	8,729,263	470,341	(21,600)	9,178,004
Operating Expenses				
Depreciation	430,671	9,698	-	440,369
Other operating expenses	10,487,707	433,072	(21,600)	10,899,179
Total operating expenses	10,918,378	442,770	(21,600)	11,339,548
Operating Income (Loss)	(2,189,115)	27,571	-	(2,161,544)
Nonoperating Revenue (Expense)				
Interest income	178	-	-	178
Noncapital appropriation	702,714	-	-	702,714
Interest expense	(292,159)	-	-	(292,159)
Noncapital grants and contributions	1,375	-	-	1,375
Total non operating revenue (expense)	412,108	-	-	412,108
Change in Net Position	(1,777,007)	27,571	-	(1,749,436)
Net Position (Deficit), Beginning of Year	(1,682,672)	(242,142)	-	(1,924,814)
Net Position (Deficit), End of Year	\$ (3,459,679)	\$ (214,571)	\$ -	\$ (3,674,250)

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2020 and 2019

Cash flows for the year ended March 31, 2019:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Total
Net Cash from (used for) Operating Activities	\$ (399,589)	\$ 15,253	\$ (384,336)
Net Cash from Noncapital Financing Activities	423,992	-	423,992
Net Cash used for Capital and related Financing Activities	(100,574)	-	(100,574)
Net Cash from Investing Activities	178	-	178
Net Change in Cash	(75,993)	15,253	(60,740)
Cash, Beginning of Year	187,807	6,158	193,965
Cash, End of Year	<u>\$ 111,814</u>	<u>\$ 21,411</u>	<u>\$ 133,225</u>

Note 10 - Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Hospital records payments to other expenses and receipts as net patient service revenue. The Hospital made SHOPP payments totaling \$343,634, for the year ended March 31, 2020. In return, the Hospital received \$510,077. The Hospital made SHOPP payments totaling \$349,729, for the year ended March 31, 2019. In return, the Hospital received \$677,045. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
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Note 11 - Management Agreement

Effective June 1, 2017, the Hospital's board entered into a management contract with THA. The contract is for a five-year term with automatic renewal term of five years. The Hospital is to pay \$15,000 per month for the management services and 5% of receipts from patient billing for billing and collection services. The Hospital will reimburse THA all salaries plus 30% for benefits. The Hospital will pay THA an incentive based on net profits above \$250,000. The Hospital paid THA \$5,346,722 and \$6,620,375 for contracted salary and benefits, management fees and other professional services in the year ended March 31, 2020 and 2019. As of March 31, 2020 and 2019, the Hospital owes THA \$4,457,865 and \$2,661,175 for contracted salary and benefits, management fees and other professional services. As of March 31, 2020 and 2019, the Hospital owes \$258,939 and \$316,480 for equipment leased from THA.

Note 12 - Recurring Losses and Management Plans

The Hospital has incurred operating losses during the years ended March 31, 2020 and 2019. For the years ended March 31, 2020 and 2019, the Hospital experienced a decrease in net position of \$175,124 and \$1,749,436. The Hospital is looking into areas to reduce cost without impacting patient care. The Hospital is in the second year of the management agreement which has resulted in additional services being provided at the Hospital. Management believes these plans alleviate substantial doubt about the Hospital's ability to continue as a going concern for one year from the report date.

Note 13 - Subsequent Events

The Hospital has evaluated subsequent events through April 22, 2021 the date which the financial statements were available to be issued.

The Hospital has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Hospital is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Hospital's financial position is not known.

On April 6, 2020, the Hospital obtained \$1,280,600 of loan proceeds through participation in the Paycheck Protection Program. The loan proceeds are expected to be used to cover costs related to payroll and employee benefits, rent and utilities. Funds borrowed under this program carry an interest rate of 1%, are due within two years of inception and may be forgiven if certain conditions are met. The Hospital was legally released for the full outstanding balance in March 2021.

During April 2020, the Authority received payments totaling \$300,800 from the Department of Health and Human Services (HHS) as part of the CARES Act Provider Relief Fund to support healthcare related expenses or lost revenue attributable to COVID-19. These funds are subject to specific HHS terms and conditions.

Sequoyah County-City of Sallisaw Hospital Authority
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During April 2020, the Hospital received payments totaling \$1,442,357 from CMS as part of the Accelerated and Advance Payment Program. The Authority is to repay the funds starting 365 days after the date of receipt of the funds. The payments will be recouped through the Medicare claims processed starting in April 2021. This recoupment process will continue until the balance of the advanced payments has been recouped or for 29 months from the date that each advanced payment was issued, at which point any remaining unpaid balance is due.



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*

The Board of Trustees
Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Sallisaw, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sequoyah Memorial Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements, and have issued our report thereon dated April 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 the Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
April 22, 2021