



Management's Discussion and Analysis
and Financial Statements
March 31, 2023 and 2022

**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

Table of Contents
March 31, 2023 and 2022

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position (Deficit)	11
Statements of Cash Flows	12
Notes to Financial Statements	14
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 <i>Government Auditing Standards</i>	32



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sequoyah County-City of Sallisaw Hospital Authority, d/b/a Northeastern Health System Sequoyah (Hospital), as of and for the years the ended March 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of March 31, 2023 and 2022, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Hospital's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 12 to the financial statements, the Hospital has suffered recurring losses from operations, has a net deficit, and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Standard

As discussed in Note 1 and 13 to the financial statements, the Hospital has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended March 31, 2022. Accordingly, a restatement has been made to the Hospital's capital assets and long-term liabilities as of April 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 opinions. 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 financial statements.

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 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 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 Hospital'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hospital’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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 our report dated December 13, 2023 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, and 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 Hospital’s 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 the Hospital’s internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
December 13, 2023

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, 2023, 2022, and 2021. 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 2023 by \$273,113 or 5% and decreased in 2022 by \$531,888 or 9%.
- Current liabilities increased in 2023 by \$2,819,879 or 24% and increased in 2022 by \$451,234 or 4%.
- The Hospital's net position decreased in 2023 by \$2,695,633 or 55% and decreased in 2022 by \$333,940 or 7%.
- The Hospital reported an operating loss in 2023 of \$3,434,687 and an operating loss in 2022 of \$1,668,220. During 2023, operating loss increased by \$1,766,467 or 106% and decreased by \$69,428 or 4% in 2022.
- Other operating revenue decreased by \$36,582 or 47% in 2023 and increased by \$34,422 or 78% in 2022.
- Operating expenses increased in 2023 by \$2,903,115 or 19% and increased \$2,701,467 or 21% in 2022.
- The Hospital received \$682,512 of Coronavirus Aid, Relief, and Economic Security Act Provider Relief Funds in 2022 and recognized \$682,512 as revenue.

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.

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

These two statements report the Hospital's net position and changes in net position. 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 position 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 operating, 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 Revenues, Expenses and Changes in Net Position (Deficit). The Hospital's net position decreased by \$2,695,633 or 55% in 2023 and decreased by \$333,940 or 7% in 2022 as shown below.

Table 1: Assets, Liabilities, and Net Position (Deficit)

	2023	2022 Restated	2021
Assets			
Current assets	\$ 5,602,647	\$ 5,329,534	\$ 5,861,422
Capital assets, net	1,324,481	1,497,692	1,641,570
Total assets	<u>6,927,128</u>	<u>6,827,226</u>	<u>7,502,992</u>
Liabilities			
Current liabilities	14,394,749	11,574,870	11,134,534
Long term debt	91,122	115,466	897,628
Total liabilities	<u>14,485,871</u>	<u>11,690,336</u>	<u>12,032,162</u>
Net Position (Deficit)			
Net investment in capital assets	1,025,282	1,299,626	1,353,321
Unrestricted (Deficit)	(8,584,025)	(6,162,736)	(5,882,491)
Total net position (deficit)	<u>(7,558,743)</u>	<u>(4,863,110)</u>	<u>(4,529,170)</u>
Total liabilities and net position (deficit)	<u>\$ 6,927,128</u>	<u>\$ 6,827,226</u>	<u>\$ 7,502,992</u>

The assets and liabilities for fiscal year 2021 were not restated to show the effects of GASB 87.

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

Assets, Liabilities, and Net Position (Deficit)

The Hospital's total assets increased \$99,902 or 1% in 2023 and decreased \$675,766 or 9% in 2022.

- Cash decreased \$574,896 or 58% in 2023 and decreased \$1,267,251 or 56% in 2022. The decrease in 2023 and 2022 is attributed to recoupments of CMS advance payments.
- Patient receivables increased \$638,322 or 18% in 2023 and increased \$562,769 or 19% in 2022. The increase in 2023 is attributed to increases in services provided by the Hospital and changes in payor mix.
- Prepaid and other current assets increased by \$176,015 or 147% due to SHOPP prepayments. The prepaids and other current assets increased \$116,510 in 2022 due to prepayment of insurance.
- Capital assets decreased by \$173,211 or 12% in 2023 due to annual depreciation. Capital assets decreased by \$143,878 or 9% in 2022 due to annual depreciation.

The Hospital's total liabilities increased \$2,795,535 or 24% in 2023 and decreased \$341,826 or 3% in 2022.

- Accounts payable increased \$3,521,030 or 50% in 2023 and increased \$722,578 or 11% in 2022. The increase in 2023 and 2022 is attributed to increases in management payables.

Table 2: Operating Results and Changes in Net Position (Deficit)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues			
Net patient service revenue	\$ 14,957,774	\$ 13,784,544	\$ 11,048,071
Other operating revenue	42,028	78,610	44,188
Total operating revenues	<u>14,999,802</u>	<u>13,863,154</u>	<u>11,092,259</u>
Operating Expenses			
Contract salary and benefits	9,565,354	8,664,201	7,298,350
Purchased services and professional fees	4,407,021	2,929,470	2,454,602
Supplies and other	4,111,886	3,731,949	2,750,538
Depreciation	350,228	205,754	326,417
Total operating expenses	<u>18,434,489</u>	<u>15,531,374</u>	<u>12,829,907</u>
Operating Loss	<u>(3,434,687)</u>	<u>(1,668,220)</u>	<u>(1,737,648)</u>
Nonoperating Revenues (Expenses)			
Interest income	15,903	6,739	6,963
Tax appropriations	980,811	908,874	833,346
Interest expense	(234,799)	(264,845)	(285,867)
Gain (Loss) on disposal of capital assets	(22,861)	1,000	(11,125)
Provider Relief Funds	-	682,512	300,800
Forgiveness of PPP Loan	-	-	1,280,600
Net nonoperating revenues	<u>739,054</u>	<u>1,334,280</u>	<u>2,124,717</u>
Revenues in Excess of (Less Than) Expenses and Change in Net Position	<u>\$ (2,695,633)</u>	<u>\$ (333,940)</u>	<u>\$ 387,069</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 2023 increased by \$1,766,467 or 106% as compared to the decrease of \$69,428 or 4% in 2022. The primary components of the operating loss are:

- Net patient service revenue increased \$1,173,230 or 9% in 2023 compared to an increase of \$2,736,473 or 25% in 2022. The increase in 2023 and 2022 is attributed to increases in services provided by the Hospital.
- Contract salary and benefits expenses increased \$901,153 or 10% in 2023 compared to an increase in 2022 of \$1,365,851 or 19%. The increase in 2023 and 2022 is attributed to the increased staffing cost attributable to inflation and retention cost.
- Purchased services and professional fees increased in 2023 by \$1,477,551 or 50% compared to an increase of \$474,868 or 19% in 2022. The increase in 2023 and 2022 is attributed to increases in physician and contract labor cost.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of tax appropriations, interest expense, and Provider Relief Funds. Tax appropriations increased \$71,937 or 8% in 2023 and increased \$75,528 or 9% in 2022. Interest expense decreased \$30,046 or 11% in 2023 as compared to the decrease of \$21,022 or 7% in 2022. The Hospital received Provider Relief Funds of \$-0- in 2023 and \$682,512 in 2022.

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 cash flows were:

- Net cash used for operating activities increased in 2023 by \$1,098,306 or 72% and decreased in 2022 by \$147,190 or 11%.
- Net cash from noncapital related financing activities decreased in 2023 by \$465,068 or 114% and decreased in 2022 by \$3,056,137 or 88%.
- Net cash used for capital and related financing activities increased in 2023 by \$49,953 or 32% and decreased in 2022 by \$15,542 or 8%.
- Net cash from investing activities decreased in 2023 by \$9,164 and increased in 2022 by \$224.

Capital Assets

The Hospital had \$1,324,481 invested in capital assets at the end of 2023 and \$1,497,692 at the end of 2022, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Hospital acquired new capital assets in 2023 costing \$203,878. The Hospital acquired new capital assets in 2022 costing \$61,876.

Debt

The Hospital had total right-to-use leased asset obligations of \$148,353 and incurred additional obligations of \$70,230 at the end of 2023. The Hospital had total right-to-use leased asset obligations of \$151,986 and incurred no additional obligations at the end of 2022, as detailed in Note 5 to the financial statements.

The Hospital had total debt of \$3,808,320 at the end of 2023. The Hospital incurred \$128,232 of additional debt in 2023, as detailed in Note 6 to the financial statements. The Hospital had total debt of \$3,838,209 at the end of 2022. The Hospital incurred no additional debt in 2022, 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, 2023 and 2022

	2023	2022 Restated
Assets		
Current Assets		
Cash	\$ 420,183	\$ 995,079
Receivables		
Patient, net of estimated uncollectibles of \$3,651,000 in 2023 and \$1,910,000 in 2022	4,127,372	3,489,050
Tax appropriation	161,920	83,933
Estimated third-party payor settlements	90,000	90,000
Supplies	507,847	552,162
Prepaid expenses and other current assets	295,325	119,310
Total current assets	5,602,647	5,329,534
Capital Assets		
Capital assets not being depreciated	193,633	193,633
Capital assets being depreciated, net	1,070,100	1,138,467
Right of use leased assets, net	60,748	165,592
Total capital assets, net	1,324,481	1,497,692
Total assets	\$ 6,927,128	\$ 6,827,226

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Net Position
March 31, 2023 and 2022

	2023	2022 Restated
Liabilities and Net Position (Deficit)		
Current Liabilities		
Current maturities of long-term debt	\$ 3,791,040	\$ 3,809,409
Current maturities of right to use lease liability	74,511	65,320
Current maturities of CMS advance payments	-	599,385
Accounts payable	10,529,198	7,100,756
Total current liabilities	14,394,749	11,574,870
Long-Term Liabilities		
Long-term debt, less current maturities	17,280	28,800
Right to use lease liabilities, less current maturities	73,842	86,666
Total long-term liabilities	91,122	115,466
Total liabilities	14,485,871	11,690,336
Net Position (Deficit)		
Net investment in capital assets	1,025,282	1,299,626
Unrestricted (Deficit)	(8,584,025)	(6,162,736)
Total net position (deficit)	(7,558,743)	(4,863,110)
Total liabilities and net position (deficit)	\$ 6,927,128	\$ 6,827,226

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Revenues, Expenses and Changes in Net Position (Deficit)
Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenue		
Net patient service revenue, net of provision for bad debts of \$3,652,115 in 2023 and \$5,059,499 in 2022	\$ 14,957,774	\$ 13,784,544
Other revenue	42,028	78,610
Total operating revenues	<u>14,999,802</u>	<u>13,863,154</u>
Operating Expenses		
Contract salary and benefits	9,565,354	8,664,201
Purchased services and professional fees	4,407,021	2,929,470
Supplies and other	4,111,886	3,731,949
Depreciation	350,228	205,754
Total operating expenses	<u>18,434,489</u>	<u>15,531,374</u>
Operating Loss	<u>(3,434,687)</u>	<u>(1,668,220)</u>
Nonoperating Revenues (Expenses)		
Interest income	15,903	6,739
Tax appropriations	980,811	908,874
Interest expense	(234,799)	(264,845)
Gain (Loss) on disposal of capital assets	(22,861)	1,000
Provider Relief Funds	-	682,512
Total nonoperating revenues (expenses)	<u>739,054</u>	<u>1,334,280</u>
Expenses in Excess of Revenues and Change in Net Position	(2,695,633)	(333,940)
Net Position (Deficit), Beginning of Year	<u>(4,863,110)</u>	<u>(4,529,170)</u>
Net Position (Deficit), End of Year	<u>\$ (7,558,743)</u>	<u>\$ (4,863,110)</u>

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

Statements of Cash Flows
Years Ended March 31, 2023 and 2022

	2023	2022 Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 14,319,452	\$ 13,131,775
Payments to suppliers and contractors	(5,222,165)	(6,070,529)
Payments to contract employees	(9,565,354)	(8,664,201)
Other receipts	42,028	78,610
Net Cash used for Operating Activities	(426,039)	(1,524,345)
Noncapital Related Financing Activities		
Tax appropriations	902,824	957,968
Grants and contributions of Provider Relief Fund	-	682,512
Principal payments on long-term debt	(134,654)	(131,249)
Interest paid	(226,909)	(259,315)
Recoupments of CMS advance payments	(599,385)	(842,972)
Net Cash from (used for) Noncapital Related Financing Activities	(58,124)	406,944
Capital and Related Financing Activities		
Principal payments on long-term debt	(23,467)	(18,720)
Principal payments on right to use lease liabilities	(73,863)	(71,463)
Interest paid	(7,890)	(5,530)
Purchase of property and equipment	(5,416)	(61,876)
Proceeds from sale of capital assets	4,000	1,000
Net Cash used for Capital and Related Financing Activities	(106,636)	(156,589)
Investing Activities		
Interest income	15,903	6,739
Net Change in Cash and Cash Equivalents	(574,896)	(1,267,251)
Cash and Cash Equivalents, Beginning of Year	995,079	2,262,330
Cash and Cash Equivalents, End of Year	\$ 420,183	\$ 995,079

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

Statements of Cash Flows
Years Ended March 31, 2023 and 2022

	2023	2022
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss	\$ (3,434,687)	\$ (1,668,220)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	350,228	205,754
Provision for bad debts	3,652,115	5,059,499
Changes in assets and liabilities		
Patient receivables	(4,290,437)	(5,622,268)
Supplies	44,315	(15,178)
Prepaid expenses and other	(176,015)	(116,510)
Accounts payable	3,428,442	722,578
Estimated third-party payor settlements	-	(90,000)
	\$ (426,039)	\$ (1,524,345)
Net Cash used for Operating Activities		
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Equipment financed through note payable	\$ 128,232	\$ -
Equipment financed through right to use lease liability	\$ 70,230	\$ -

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

Notes to Financial Statements
March 31, 2023 and 2022

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 (the 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. During 2021, the Hospital started the process of moving the operations of the Physician Group to 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.

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

Notes to Financial Statements
March 31, 2023 and 2022

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, 2023 and 2022.

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, 2023 and 2022.

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.

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

Notes to Financial Statements
March 31, 2023 and 2022

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 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% of its financial support from city appropriations during the years ended March 31, 2023 and 2022.

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 \$5,000 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.

Right of use leased assets are recognized at the lease commencement date and represent the Hospital's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any direct cost necessary to place the leased asset into service. Right to use assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 7 years.

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

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

Notes to Financial Statements
March 31, 2023 and 2022

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.

Impairment of Long-Lived Assets

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended March 31, 2023 and 2022.

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.

Lease Liabilities

Lease Liabilities represent the Hospital's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the Hospital.

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.

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

Notes to Financial Statements
March 31, 2023 and 2022

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 \$217,000 and \$414,000 for the years ended March 31, 2023 and 2022. Total direct and indirect costs related to these foregone charges were approximately \$70,000 and \$130,000 at March 31, 2023 and 2022, based on an average ratio of cost to gross charges.

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.

Implementation of GASB Statement No. 87

The Hospital has adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As a result of implementing this standard, the Hospital reclassified previously recognized capital lease assets of \$244,132 and long-term debt liabilities of \$223,449 as of April 1, 2021, to right to use assets and liabilities. As a result of these adjustments there was no effect on beginning net position. The additional disclosures required by this standard are included in Notes 4 and 5.

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 Medicare Administrative Contractor through March 31, 2019.

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

Notes to Financial Statements
March 31, 2023 and 2022

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, 2023 and 2022:

	2023	2022
Medicare	45%	27%
Medicaid	27%	24%
Blue Cross	12%	14%
Commercial insurance	10%	28%
Other third-party payors and patients	6%	7%
	100%	100%

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. The net patient service revenue decreased approximately \$1,365,000 and \$-0- for the years ended March 31, 2023 and 2022 for the difference in amounts collected compared to amounts originally estimated.

CMS Advance Payments

The CMS advance payments balance consists of advanced payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The Authority received \$1,442,357 in advance payments during April 2020. The advance payments balance is noninterest bearing through the 29-month repayment period. The Hospital's CMS Advance Payment obligation have been fully recouped or repaid during the year ended March 31, 2023.

Note 3 - Deposits

Cash and cash equivalents consisted of cash deposits in banks as of March 31, 2023 and 2022.

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

Notes to Financial Statements
March 31, 2023 and 2022

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, 2023 and 2022 were entirely covered by federal depository insurance or by collateral held by the Hospital’s custodial bank in the Hospital’s name.

Note 4 - Capital Assets

Capital assets and right-to-use leased additions, retirements, transfers, and balances for the year ended March 31, 2023 are as follows:

	Balance March 31, 2022	Additions	Transfers and Retirements	Balance March 31, 2023
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	8,784,559	133,648	-	8,918,207
Total capital assets being depreciated	12,181,581	133,648	-	12,315,229
Less accumulated depreciation for				
Land improvements	30,599	2,456	-	33,055
Building and improvements	2,771,910	39,481	-	2,811,391
Major moveable and fixed equipment	8,240,605	160,078	-	8,400,683
Total accumulated depreciation	11,043,114	202,015	-	11,245,129
Net capital assets being depreciated	\$ 1,138,467	\$ (68,367)	\$ -	\$ 1,070,100

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

Notes to Financial Statements
March 31, 2023 and 2022

	Balance March 31, 2022	Additions	Transfers and Retirements	Balance March 31, 2023
Right-to-use leased assets being amortized				
Equipment	\$ 404,345	\$ 70,230	\$ (39,984)	\$ 434,591
Accumulated amortization				
Equipment	238,753	148,213	(13,123)	373,843
Net right-to-use leased assets	\$ 165,592	\$ (77,983)	\$ (26,861)	\$ 60,748

Capital assets and right-to-use leased additions, retirements, transfers, and balances for the year ended March 31, 2022 are as follows:

	Balance March 31, 2021 Restated	Additions	Transfers and Retirements	Balance March 31, 2022 Restated
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	8,722,683	61,876	-	8,784,559
Total capital assets being depreciated	12,119,705	61,876	-	12,181,581
Less accumulated depreciation for				
Land improvements	27,544	3,055	-	30,599
Building and improvements	2,727,787	44,123	-	2,771,910
Major moveable and fixed equipment	8,160,569	80,036	-	8,240,605
Total accumulated depreciation	10,915,900	127,214	-	11,043,114
Net capital assets being depreciated	\$ 1,203,805	\$ (65,338)	\$ -	\$ 1,138,467
Right-to-use leased assets being amortized				
Equipment	\$ 404,345	\$ -	\$ -	\$ 404,345
Accumulated amortization				
Equipment	160,213	78,540	-	238,753
Net right-to-use leased assets	\$ 244,132	\$ (78,540)	\$ -	\$ 165,592

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

Notes to Financial Statements
March 31, 2023 and 2022

Note 5 - Leases

The Hospital has entered into lease agreements for medical equipment. The Hospital is required to make principal and interest payments through April 2027. The lease liabilities were valued using discount rates between 2.74% and 4.50% based on the Hospital's incremental borrowing rate at the inception of the leases or implementation of GASB Statement No. 87, whichever is later.

Right to use leased asset obligations additions, payments and balances for the years ended March 31, 2023 and 2022 are as follows:

	Balance March 31, 2022	Additions	Payments	Balance March 31, 2023	Due Within One Year
Medical Equipment	\$ 151,986	\$ 70,230	\$ (73,863)	\$ 148,353	\$ 74,511
	Balance March 31, 2021 Restated	Additions	Payments	Balance March 31, 2022 Restated	Due Within One Year
Medical Equipment	\$ 223,449	\$ -	\$ (71,463)	\$ 151,986	\$ 65,320

As of March 31, 2023, the value of the lease liabilities are \$148,353 and the leased assets are \$60,748 and consisted of the following for right to use assets:

- Right to use medical equipment with a lease liability value of \$87,288. The Hospital is required to make monthly principal and interest payments of \$4,771 through January 2025. The lease liability was valued using a discount rate of 2.74% based on the Hospital's incremental borrowing rate.
- Right to use medical equipment with a lease liability value of \$18,587. The Hospital is required to make monthly principal and interest payments of \$383 through April 2027. The lease liability was valued using a discount rate of 4.5% based on the Hospital's incremental borrowing rate.
- Right to use medical equipment with a lease liability value of \$42,478. The Hospital is required to make monthly principal and interest payments of \$1,405 through November 2025. The lease liability was valued using a discount rate of 4.49% based on the Hospital's incremental borrowing rate.

Remaining principal and interest payments on leases are as follows:

Year Ending March 31,	Principal	Interest
2024	\$ 74,511	\$ 3,704
2025	53,208	1,482
2026	15,650	188
2027	4,601	55
2028	383	5
Total	\$ 148,353	\$ 5,434

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

Notes to Financial Statements
March 31, 2023 and 2022

Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for the years ended March 31, 2023 and 2022 is as follows:

	Balance March 31, 2022	Additions	Payments/ Forgiveness	Balance March 31, 2023	Due Within One Year
Notes from Direct Borrowings					
Note payable (1)	\$ 3,792,129	\$ -	\$ (134,654)	\$ 3,657,475	\$ 3,657,475
Note payable (2)	46,080	-	(14,405)	31,675	14,395
Note payable (3)	-	128,232	(9,062)	119,170	119,170
	<u>\$ 3,838,209</u>	<u>\$ 128,232</u>	<u>\$ (158,121)</u>	<u>\$ 3,808,320</u>	<u>\$ 3,791,040</u>
Total notes from direct borrowings					
	Balance March 31, 2021	Additions	Payments/ Forgiveness	Balance March 31, 2022	Due Within One Year
Notes from Direct Borrowings					
Note payable (1)	\$ 3,891,515	\$ -	\$ (99,386)	\$ 3,792,129	\$ 3,792,129
Note payable (2)	64,800	-	(18,720)	46,080	17,280
Note payable	31,863	-	(31,863)	-	-
	<u>\$ 3,988,178</u>	<u>\$ -</u>	<u>\$ (149,969)</u>	<u>\$ 3,838,209</u>	<u>\$ 3,809,409</u>
Total notes from direct borrowings					

The terms and due dates of the Hospital's long-term debt at March 31, 2023 are as follows:

1. Demand note payable to bank with a variable interest rate Wall Street Journal Prime plus 1.75% (9.75% as of March 31, 2023). The Hospital will make monthly principal and interest installments of \$29,550 to December 28, 2040, unless called by the bank, secured by assets of the Hospital.
2. 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.
3. Demand note payable to bank with a 3.5% stated interest rate. The Hospital will make monthly principal and interest installments of \$1,268 to May 2032, unless called by the bank, secured by assets of the Hospital.

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

Year Ending March 31,	Principal	Interest
2024	\$ 3,791,040	\$ 249,503
2025	17,280	-
	<u>\$ 3,808,320</u>	<u>\$ 249,503</u>
Total		

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

Notes to Financial Statements
March 31, 2023 and 2022

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, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	14%	15%
Medicaid	18%	19%
Blue Cross	7%	12%
Other commercial insurance	30%	33%
Other third-party payors and patients	31%	21%
	<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.

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

Notes to Financial Statements
March 31, 2023 and 2022

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 with respect to investigations and allegations concerning possible violations by health care providers of regulations, could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

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, 2023.

Statement of net position as of March 31, 2023:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 5,802,028	\$ 28,016	\$ (227,397)	\$ 5,602,647
Capital assets	1,324,481	-	-	1,324,481
	\$ 7,126,509	\$ 28,016	\$ (227,397)	\$ 6,927,128
Liabilities and Net Position				
Current liabilities	\$ 14,394,749	\$ 227,397	\$ (227,397)	\$ 14,394,749
Long-term liabilities	91,122	-	-	91,122
	14,485,871	227,397	(227,397)	14,485,871
Net Position (Deficit)				
Net investment in capital assets	1,025,282	-	-	1,025,282
Unrestricted (deficit)	(8,384,644)	(199,381)	-	(8,584,025)
	(7,359,362)	(199,381)	-	(7,558,743)
	\$ 7,126,509	\$ 28,016	\$ (227,397)	\$ 6,927,128

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

Notes to Financial Statements
March 31, 2023 and 2022

Operating results and changes in net position for the year ended March 31, 2023:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 14,958,422	\$ (648)	\$ -	\$ 14,957,774
Other revenue	42,028	-	-	42,028
Total operating revenue	15,000,450	(648)	-	14,999,802
Operating Expenses				
Depreciation	350,228	-	-	350,228
Other operating expenses	18,084,261	-	-	18,084,261
Total operating expenses	18,434,489	-	-	18,434,489
Operating Loss	(3,434,039)	(648)	-	(3,434,687)
Nonoperating Revenues (Expenses)				
Interest income	15,903	-	-	15,903
Tax appropriations	980,811	-	-	980,811
Interest expense	(234,799)	-	-	(234,799)
Loss on disposal of capital assets	(22,861)	-	-	(22,861)
Total nonoperating revenues (expenses)	739,054	-	-	739,054
Expenses in Excess of Revenues and Change in Net Position	(2,694,985)	(648)	-	(2,695,633)
Net Position (Deficit), Beginning of Year	(4,664,377)	(198,733)	-	(4,863,110)
Net Position (Deficit), End of Year	\$ (7,359,362)	\$ (199,381)	\$ -	\$ (7,558,743)

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

Notes to Financial Statements
March 31, 2023 and 2022

Cash flows for the year ended March 31, 2023:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Total
Net Cash used for Operating Activities	\$ (426,581)	\$ 542	\$ (426,039)
Net Cash used for Noncapital Related Financing Activities	(58,124)	-	(58,124)
Net Cash used for Capital and Related Financing Activities	(106,636)	-	(106,636)
Net Cash from Investing Activities	<u>15,903</u>	<u>-</u>	<u>15,903</u>
Net Change in Cash and Cash Equivalents	(575,438)	542	(574,896)
Cash and Cash Equivalents, Beginning of Year	<u>967,675</u>	<u>27,404</u>	<u>995,079</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 392,237</u></u>	<u><u>\$ 27,946</u></u>	<u><u>\$ 420,183</u></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, 2022:

Statement of net position March 31, 2022:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 5,527,690	\$ 28,122	\$ (226,278)	\$ 5,329,534
Capital assets	<u>1,497,692</u>	<u>-</u>	<u>-</u>	<u>1,497,692</u>
Total assets	<u><u>\$ 7,025,382</u></u>	<u><u>\$ 28,122</u></u>	<u><u>\$ (226,278)</u></u>	<u><u>\$ 6,827,226</u></u>
Liabilities and Net Position				
Current liabilities	\$ 11,574,293	\$ 226,855	\$ (226,278)	\$ 11,574,870
Long-term liabilities	<u>115,466</u>	<u>-</u>	<u>-</u>	<u>115,466</u>
Total liabilities	<u><u>11,689,759</u></u>	<u><u>226,855</u></u>	<u><u>(226,278)</u></u>	<u><u>11,690,336</u></u>
Net Position (Deficit)				
Net investment in capital assets	1,299,626	-	-	1,299,626
Unrestricted (deficit)	<u>(5,964,003)</u>	<u>(198,733)</u>	<u>-</u>	<u>(6,162,736)</u>
Total net position (deficit)	<u><u>(4,664,377)</u></u>	<u><u>(198,733)</u></u>	<u><u>-</u></u>	<u><u>(4,863,110)</u></u>
Total liabilities and net position (deficit)	<u><u>\$ 7,025,382</u></u>	<u><u>\$ 28,122</u></u>	<u><u>\$ (226,278)</u></u>	<u><u>\$ 6,827,226</u></u>

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

Notes to Financial Statements
March 31, 2023 and 2022

Operating results and changes in net position for the year ended March 31, 2022:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 13,784,544	\$ -	\$ -	\$ 13,784,544
Other revenue	78,610	-	-	78,610
Total operating revenue	<u>13,863,154</u>	<u>-</u>	<u>-</u>	<u>13,863,154</u>
Operating Expenses				
Depreciation	203,787	1,967	-	205,754
Other operating expenses	15,324,874	746	-	15,325,620
Total operating expenses	<u>15,528,661</u>	<u>2,713</u>	<u>-</u>	<u>15,531,374</u>
Operating Loss	<u>(1,665,507)</u>	<u>(2,713)</u>	<u>-</u>	<u>(1,668,220)</u>
Nonoperating Revenues (Expenses)				
Interest income	6,106	633	-	6,739
Tax appropriations	908,874	-	-	908,874
Interest expense	(264,845)	-	-	(264,845)
Gain on disposal of capital assets	1,000	-	-	1,000
Provider Relief Funds	682,512	-	-	682,512
Total nonoperating revenues (expenses)	<u>1,333,647</u>	<u>633</u>	<u>-</u>	<u>1,334,280</u>
Expenses in Excess of Revenues and Change in Net Position	(331,860)	(2,080)	-	(333,940)
Net Position (Deficit), Beginning of Year	<u>(4,332,517)</u>	<u>(196,653)</u>	<u>-</u>	<u>(4,529,170)</u>
Net Position (Deficit), End of Year	<u>\$ (4,664,377)</u>	<u>\$ (198,733)</u>	<u>\$ -</u>	<u>\$ (4,863,110)</u>

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

Notes to Financial Statements
March 31, 2023 and 2022

Cash flows for the year ended March 31, 2022:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Total
Net Cash used for Operating Activities	\$ (1,451,438)	\$ (72,907)	\$ (1,524,345)
Net Cash from Noncapital Related Financing Activities	406,944	-	406,944
Net Cash used for Capital and Related Financing Activities	(156,589)	-	(156,589)
Net Cash from Investing Activities	<u>6,739</u>	<u>-</u>	<u>6,739</u>
Net Change in Cash and Cash Equivalents	(1,194,344)	(72,907)	(1,267,251)
Cash and Cash Equivalents, Beginning of Year	<u>2,162,019</u>	<u>100,311</u>	<u>2,262,330</u>
Cash and Cash Equivalents, End of Year	<u>\$ 967,675</u>	<u>\$ 27,404</u>	<u>\$ 995,079</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 SHOPP is currently set to sunset on December 31, 2025. 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 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 \$500,432, for the year ended March 31, 2023. In return, the Hospital received \$951,002. The Hospital made SHOPP payments totaling \$257,147 for the year ended March 31, 2022. In return the Hospital received \$911,236.

SHOPP is expected to be significantly reduced in fiscal year 2024 due to the State of Oklahoma's shift to managed care Medicaid. In August 2023, the Hospital received \$574,738 as a result of a funding provision in Oklahoma Senate Bill 32x for Hospitals participating in the SHOPP program.

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
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2023 and 2022

Note 11 - Management Agreement

The Hospital's board has entered into a management contract with THA. The contract is for a five-year term with automatic renewal terms of five years. On March 23, 2021, the Hospital amended payment terms of the contract. The Hospital is to pay \$15,000 per month for the management services. Unpaid fees shall accrue interest at the prime rate plus two percent. On February 20, 2023, the Hospital signed the second amendment requiring the Hospital to pay THA \$25,000 per month for business office oversight. 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 \$8,702,815 and \$8,679,716 for contracted salary and benefits, management fees and other professional services in the years ended March 31, 2023 and 2022. As of March 31, 2023 and 2022, the Hospital owes THA \$8,901,023 and \$6,006,785 for contracted salary and benefits, management fees and other professional services. As of March 31, 2023 and 2022, the Hospital owes \$87,288 and \$140,324 for equipment leased from THA.

Note 12 - Going Concern and Management Plans

The Hospital experienced an increase in net deficit of \$2,695,633 and \$333,940 for the years ended March 31, 2023 and 2022. Management established a plan to mitigate the effects of the recurring losses. The Hospital is looking into areas to reduce cost without impacting patient care. Also, the Hospital is evaluating service lines currently offered. In addition, the Hospital may delay payments to the management company as needed. The effect of these changes cannot be evaluated and substantial doubt about the Hospital's ability to continue as a going concern within one year after the date of the financial statements remains. The financial statements do not include any adjustment that might be necessary if the Hospital is unable to continue as a going concern within one year after the date of the financial statements.

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

Notes to Financial Statements
March 31, 2023 and 2022

Note 13 - Adoption of Lease Standard

As of April 1, 2021, the Hospital adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Beginning capital assets, long term liabilities and cash flows were restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Originally Presented March 31, 2022	Restatement	As restated March 31, 2022
Statement of net position			
Assets			
Capital assets being being depreciated, net	1,304,059	(165,592)	1,138,467
Right to use leased assets being amortized, net	-	165,592	165,592
Liabilities			
Current maturities of long term debt	3,874,729	(65,320)	3,809,409
Current maturities of right to lease liabilities	-	65,320	65,320
Long-term liabilities			
Long-term debt, less current maturities	115,466	(86,666)	28,800
Right to use lease liabilities, less current maturities	-	86,666	86,666
Statement of cash flows			
Capital and capital related financing activities			
Principal payments on long-term debt	(90,183)	71,463	(18,720)
Principal payments on right to use lease liabilities	-	(71,463)	(71,463)



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, 2023, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements and have issued our report thereon dated December 13, 2023.

Report on 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) as a basis for designing 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 Hospital’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 have not been identified.

Report on 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 financial statements. 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 cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
December 13, 2023