



Management's Discussion and Analysis
and Financial Statements
March 31, 2024 and 2023

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, 2024 and 2023

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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, 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, 2024 and 2023, 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, 2024 and 2023, 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.

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 September 16, 2024 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
September 16, 2024

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, 2024, 2023, and 2022. 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 decreased in 2024 by \$338,631 or 6% and increased in 2023 by \$273,113 or 5%.
- Current liabilities increased in 2024 by \$640,644 or 4% and increased in 2023 by \$2,819,879 or 24%.
- The Hospital's net position decreased in 2024 by \$993,485 or 13% and decreased in 2023 by \$2,695,633 or 55%.
- The Hospital reported an operating loss in 2024 of \$1,703,513 and an operating loss in 2023 of \$3,434,687. During 2024, operating loss decreased by \$1,731,174 or 50% and increased by \$1,766,467 or 106% in 2023.
- Other operating revenue increased by \$28,554 or 68% in 2024 and decreased by \$36,582 or 47% in 2023.
- Operating expenses decreased in 2024 by \$864,284 or 5% and increased \$2,903,115 or 19% in 2023.

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 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 \$993,485 or 13% in 2024 and decreased by \$2,695,633 or 55% in 2023 as shown below.

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

	2024	2023	2022
Assets			
Current assets	\$ 5,264,016	\$ 5,602,647	\$ 5,329,534
Capital assets, net	1,284,898	1,324,481	1,497,692
Total assets	<u>\$ 6,548,914</u>	<u>\$ 6,927,128</u>	<u>\$ 6,827,226</u>
Liabilities			
Current liabilities	\$ 15,035,393	\$ 14,394,749	\$ 11,574,870
Long term debt	65,749	91,122	115,466
Total liabilities	<u>15,101,142</u>	<u>14,485,871</u>	<u>11,690,336</u>
Net Position (Deficit)			
Net investment in capital assets	1,039,941	1,025,282	1,299,626
Unrestricted (Deficit)	<u>(9,592,169)</u>	<u>(8,584,025)</u>	<u>(6,162,736)</u>
Total net position (deficit)	<u>(8,552,228)</u>	<u>(7,558,743)</u>	<u>(4,863,110)</u>
Total liabilities and net position (deficit)	<u>\$ 6,548,914</u>	<u>\$ 6,927,128</u>	<u>\$ 6,827,226</u>

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

Assets, Liabilities, and Net Position (Deficit)

The Hospital's total assets decreased \$378,214 or 5% in 2024 and increased \$99,902 or 1% in 2023.

- Cash decreased \$324,256 or 77% in 2024 and decreased \$574,896 or 58% in 2023. The decrease in 2024 is attributed payments for supplies and professional fees. The decrease in 2023 is attributed to recoupments of CMS advance payments.
- Patient receivables increased \$6,456 or 0.2% in 2024 and increased \$638,322 or 18% in 2023. The increases in 2024 and 2023 is attributed to increases in services provided by the Hospital and changes in payor mix.
- Capital assets decreased by \$39,583 or 3% in 2024 due to annual depreciation. Capital assets decreased by \$173,211 or 12% in 2023 due to annual depreciation.

The Hospital's total liabilities increased \$615,271 or 4% in 2024 and decreased \$2,795,535 or 24% in 2023.

- Accounts payable increased \$798,433 or 8% in 2024 and increased \$3,521,030 or 50% in 2023. The increase in 2024 is attributed to increases in professional fee payables. The increase in 2023 is attributed to increases in management payables.

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

	2024	2023	2022
Operating Revenues			
Net patient service revenue	\$ 15,796,110	\$ 14,957,774	\$ 13,784,544
Other revenue	70,582	42,028	78,610
Total operating revenues	15,866,692	14,999,802	13,863,154
Operating Expenses			
Contract salary and benefits	9,335,293	9,565,354	8,664,201
Purchased services and professional fees	4,489,835	4,407,021	2,929,470
Supplies and other	3,610,427	4,111,886	3,731,949
Depreciation	134,650	350,228	205,754
Total operating expenses	17,570,205	18,434,489	15,531,374
Operating Loss	(1,703,513)	(3,434,687)	(1,668,220)
Nonoperating Revenues (Expenses)			
Interest income	28,068	15,903	6,739
Tax appropriations	951,835	980,811	908,874
Interest expense	(269,875)	(234,799)	(264,845)
Gain (Loss) on disposal of capital assets	-	(22,861)	1,000
Provider Relief Funds	-	-	682,512
Net nonoperating revenues	710,028	739,054	1,334,280
Expenses in Excess of Revenues and Change in Net Position	\$ (993,485)	\$ (2,695,633)	\$ (333,940)

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 2024 decreased by \$1,731,175 or 50% as compared to the increase of \$1,766,467 or 106% in 2023. The primary components of the operating loss are:

- Net patient service revenue increased \$838,336 or 6% in 2024 compared to an increase of \$1,173,230 or 9% in 2023. The increase in 2024 and 2023 is attributed to increases in services provided by the Hospital.
- Contract salary and benefits expenses decreased \$230,061 or 2% in 2024 compared to an increase in 2023 of \$901,153 or 10%. The decrease in 2024 is attributed to staffing turnover. The increase in 2023 is attributed to the increased staffing cost attributable to inflation and retention cost.
- Purchased services and professional fees increased in 2024 by \$82,814 or 2% compared to an increase of \$1,477,551 or 50% in 2023. The increase in 2024 and 2023 is attributed to increases in physician and contract labor cost.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of tax appropriations and interest expense. Tax appropriations decreased \$28,976 or 3% in 2024 and increased \$71,937 or 8% in 2023. Interest expense increased \$35,076 or 15% in 2024 as compared to the decreased \$30,046 or 11% in 2023.

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 2024 by \$335,656 or 79% and increased in 2023 by \$1,098,306 or 72%.
- Net cash from noncapital related financing activities increased in 2024 by \$625,554 and decreased in 2023 by \$465,068 or 114%.
- Net cash used for capital and related financing activities increased in 2024 by \$51,423 or 48% and increased in 2023 by \$49,953 or 32%.
- Net cash from investing activities increased in 2024 by \$12,165 or 76% and decreased in 2023 by \$9,164.

Capital Assets

The Hospital had \$1,284,898 invested in capital assets at the end of 2024 and \$1,324,481 at the end of 2023, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Hospital acquired new capital assets in 2024 costing \$95,067. The Hospital acquired new capital assets in 2023 costing \$203,878.

Debt

The Hospital had total right-to-use leased asset obligations of \$122,602 and incurred additional obligations of \$50,825 at the end of 2024. 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, as detailed in Note 5 to the financial statements.

The Hospital had total debt of \$3,650,909 at the end of 2024. The Hospital incurred no new debt in 2024, as detailed in Note 6 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.

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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Cash	\$ 95,927	\$ 420,183
Receivables		
Patient, net of estimated uncollectibles		
of \$2,673,000 in 2024 and \$3,651,000 in 2023	4,133,828	4,127,372
Tax appropriation	156,280	161,920
Estimated third-party payor settlements	90,000	90,000
Supplies	471,272	507,847
Prepaid expenses and other current assets	<u>316,709</u>	<u>295,325</u>
Total current assets	<u>5,264,016</u>	<u>5,602,647</u>
Capital Assets		
Capital assets not being depreciated	193,633	193,633
Capital assets being depreciated, net	986,724	1,070,100
Right of use leased assets, net	<u>104,541</u>	<u>60,748</u>
Total capital assets, net	<u>1,284,898</u>	<u>1,324,481</u>
Total assets	<u><u>\$ 6,548,914</u></u>	<u><u>\$ 6,927,128</u></u>

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Net Position
March 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Liabilities and Net Position (Deficit)		
Current Liabilities		
Current maturities of long-term debt	\$ 3,650,909	\$ 3,791,040
Current maturities of right to use lease liability	56,853	74,511
Accounts payable	<u>11,327,631</u>	<u>10,529,198</u>
Total current liabilities	<u>15,035,393</u>	<u>14,394,749</u>
Long-Term Liabilities		
Long-term debt, less current maturities	-	17,280
Right to use lease liabilities, less current maturities	<u>65,749</u>	<u>73,842</u>
Total long-term liabilities	<u>65,749</u>	<u>91,122</u>
Total liabilities	<u>15,101,142</u>	<u>14,485,871</u>
Net Position (Deficit)		
Net investment in capital assets	1,039,941	1,025,282
Unrestricted (Deficit)	<u>(9,592,169)</u>	<u>(8,584,025)</u>
Total net position (deficit)	<u>(8,552,228)</u>	<u>(7,558,743)</u>
Total liabilities and net position (deficit)	<u><u>\$ 6,548,914</u></u>	<u><u>\$ 6,927,128</u></u>

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, 2024 and 2023

	2024	2023
Operating Revenue		
Net patient service revenue, net of provision for bad debts of \$4,254,780 in 2024 and \$3,652,115 in 2023	\$ 15,796,110	\$ 14,957,774
Other revenue	70,582	42,028
Total operating revenues	<u>15,866,692</u>	<u>14,999,802</u>
Operating Expenses		
Contract salary and benefits	9,335,293	9,565,354
Purchased services and professional fees	4,489,835	4,407,021
Supplies and other	3,610,427	4,111,886
Depreciation	134,650	350,228
Total operating expenses	<u>17,570,205</u>	<u>18,434,489</u>
Operating Loss	<u>(1,703,513)</u>	<u>(3,434,687)</u>
Nonoperating Revenues (Expenses)		
Interest income	28,068	15,903
Tax appropriations	951,835	980,811
Interest expense	(269,875)	(234,799)
Loss on disposal of capital assets	-	(22,861)
Total nonoperating revenues (expenses)	<u>710,028</u>	<u>739,054</u>
Expenses in Excess of Revenues and Change in Net Position	(993,485)	(2,695,633)
Net Position (Deficit), Beginning of Year	<u>(7,558,743)</u>	<u>(4,863,110)</u>
Net Position (Deficit), End of Year	<u><u>\$ (8,552,228)</u></u>	<u><u>\$ (7,558,743)</u></u>

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

Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	2024	2023
Operating Activities		
Receipts from and on behalf of patients	\$ 15,789,654	\$ 14,319,452
Payments to suppliers and contractors	(7,286,638)	(5,222,165)
Payments to contract employees	(9,335,293)	(9,565,354)
Other receipts	70,582	42,028
Net Cash used for Operating Activities	(761,695)	(426,039)
Noncapital Related Financing Activities		
Tax appropriations	957,475	902,824
Principal payments on long-term debt	(128,921)	(134,654)
Interest paid	(261,124)	(226,909)
Recoupments of CMS advance payments	-	(599,385)
Net Cash from (used for) Noncapital Related Financing Activities	567,430	(58,124)
Capital and Related Financing Activities		
Principal payments on long-term debt	(28,490)	(23,467)
Principal payments on right to use lease liabilities	(76,576)	(73,863)
Interest paid	(8,751)	(7,890)
Purchase of property and equipment	(44,242)	(5,416)
Proceeds from sale of capital assets	-	4,000
Net Cash used for Capital and Related Financing Activities	(158,059)	(106,636)
Investing Activities		
Interest income	28,068	15,903
Net Change in Cash and Cash Equivalents	(324,256)	(574,896)
Cash and Cash Equivalents, Beginning of Year	420,183	995,079
Cash and Cash Equivalents, End of Year	\$ 95,927	\$ 420,183

Sequoiah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Loss to Net Cash used for		
Operating Activities		
Operating Loss	\$ (1,703,513)	\$ (3,434,687)
Adjustments to reconcile operating loss to net cash		
used for operating activities		
Depreciation	134,650	350,228
Provision for bad debts	4,254,780	3,652,115
Changes in assets and liabilities		
Patient receivables	(4,261,236)	(4,290,437)
Supplies	36,575	44,315
Prepaid expenses and other	(21,384)	(176,015)
Accounts payable	<u>798,433</u>	<u>3,428,442</u>
Net Cash used for Operating Activities	<u>\$ (761,695)</u>	<u>\$ (426,039)</u>
Supplemental Disclosure of Noncash Capital and Related		
Financing Activities		
Equipment financed through note payable	<u>\$ -</u>	<u>\$ 128,232</u>
Equipment financed through right to use lease liability	<u>\$ 50,825</u>	<u>\$ 70,230</u>

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

Notes to Financial Statements
March 31, 2024 and 2023

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. 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 of Sallisaw. 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, 2024 and 2023

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, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 2023

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, 2024 and 2023.

Subsequent to year end, Oklahoma House Bill 1955 was passed and signed by the Governor of the state of Oklahoma. The bill eliminates sales tax on groceries, the law will become effective in August 2024 and will impact the tax appropriation revenue the Hospital receives.

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.

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Notes to Financial Statements
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The estimated useful lives of capital assets 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.

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, 2024 and 2023.

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.

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
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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 \$182,000 and \$217,000 for the years ended March 31, 2024 and 2023. Total direct and indirect costs related to these foregone charges were approximately \$57,000 and \$70,000 at March 31, 2024 and 2023, 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. 96

As of April 1, 2023, the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangement (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset -an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. As of March 31 30, 2024, and 2023, the Hospital did not have any SBITAs which were required to be recognized under GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*.

Sequoiah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2024 and 2023

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, 2020.

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, 2024 and 2023:

	2024	2023
Medicare	24%	27%
Medicare Advantage	24%	18%
Medicaid	26%	27%
Blue Cross	12%	12%
Commercial insurance	9%	10%
Other third-party payors and patients	5%	6%
	<u>100%</u>	<u>100%</u>

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 \$2,050,000 and \$1,365,000 for the years ended March 31, 2024 and 2023 for the difference in amounts collected compared to amounts originally estimated.

Sequoyah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2024 and 2023

Note 3 - Deposits

Cash and cash equivalents consisted of cash deposits in banks as of March 31, 2024 and 2023.

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, 2024 and 2023 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, 2024 and 2023

Note 4 - Capital Assets

Capital assets and right to use leased additions, retirements, transfers, and balances for the year ended March 31, 2024 are as follows:

	Balance March 31, 2023	Additions	Transfers and Retirements	Balance March 31, 2024
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	8,918,207	44,242	-	8,962,449
Total capital assets being depreciated	12,315,229	\$ 44,242	\$ -	12,359,471
Less accumulated depreciation for				
Land improvements	33,055	\$ 1,432	\$ -	34,487
Building and improvements	2,811,391	31,717	-	2,843,108
Major moveable and fixed equipment	8,400,683	94,469	-	8,495,152
Total accumulated depreciation	11,245,129	\$ 127,618	\$ -	11,372,747
Net capital assets being depreciated	\$ 1,070,100			\$ 986,724
Right to use leased assets being amortized				
Equipment	\$ 434,591	\$ 50,825	\$ -	\$ 485,416
Less accumulated amortization				
Equipment	373,843	\$ 7,032	\$ -	380,875
Net right to use leased assets	\$ 60,748			\$ 104,541

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Notes to Financial Statements
March 31, 2024 and 2023

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			\$ 1,070,100
Right to use leased assets being amortized				
Equipment	\$ 404,345	\$ 70,230	\$ (39,984)	\$ 434,591
Less accumulated amortization				
Equipment	238,753	\$ 148,213	\$ (13,123)	373,843
Net right to use leased assets	\$ 165,592			\$ 60,748

Note 5 - Leases

The Hospital has entered into lease agreements for medical equipment. The Hospital is required to make principal and interest payments through November 2030. The lease liabilities were valued using discount rates between 2.74% and 25.0% based on the Hospital's incremental borrowing rate at the inception of the leases or implementation of GASB Statement No. 87, whichever is later.

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March 31, 2024 and 2023

Right to use leased asset obligations additions, payments and balances for the years ended March 31, 2024 and 2023 are as follows:

	Balance March 31, 2023	Additions	Payments	Balance March 31, 2024	Due Within One Year
Medical Equipment	<u>\$ 148,353</u>	<u>\$ 50,825</u>	<u>\$ (76,576)</u>	<u>\$ 122,602</u>	<u>\$ 56,853</u>
	Balance March 31, 2022	Additions	Payments	Balance March 31, 2023	Due Within One Year
Medical Equipment	<u>\$ 151,986</u>	<u>\$ 70,230</u>	<u>\$ (73,863)</u>	<u>\$ 148,353</u>	<u>\$ 74,511</u>

As of March 31, 2024, the value of the lease liabilities are \$122,602 and the leased assets are \$104,541 and consisted of the following for right to use assets:

- Right to use medical equipment with a lease liability value of \$32,641. 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 \$14,186. 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 \$27,015. 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.
- Right to use medical equipment with a lease liability value of \$48,760. The Hospital is required to make monthly principal and interest payments of \$1,286 through November 2030. The lease liability was valued using a discount of 25.0% based on the agreement.

Remaining principal and interest payments on leases are as follows:

Year Ending March 31,	Principal	Interest
2025	\$ 56,853	\$ 13,273
2026	20,318	10,956
2027	10,580	9,457
2028	8,040	7,779
2029	9,807	5,629
2030-2031	<u>17,004</u>	<u>8,723</u>
Total	<u>\$ 122,602</u>	<u>\$ 55,817</u>

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Notes to Financial Statements
March 31, 2024 and 2023

Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for the years ended March 31, 2024 and 2023 is as follows:

	Balance March 31, 2023	Additions	Payments/ Forgiveness	Balance March 31, 2024	Due Within One Year
Notes from Direct Borrowings					
Note payable (1)	\$ 3,657,475	\$ -	\$ (128,921)	\$ 3,528,554	\$ 3,528,554
Note payable (2)	31,675	-	(17,275)	14,400	14,400
Note payable (3)	119,170	-	(11,215)	107,955	107,955
Total long-term debt	<u>\$ 3,808,320</u>	<u>\$ -</u>	<u>\$ (157,411)</u>	<u>\$ 3,650,909</u>	<u>\$ 3,650,909</u>
	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
Total long-term debt	<u>\$ 3,838,209</u>	<u>\$ 128,232</u>	<u>\$ (158,121)</u>	<u>\$ 3,808,320</u>	<u>\$ 3,791,040</u>

The terms and due dates of the Hospital's long-term debt at March 31, 2024 are as follows:

1. Demand note payable to bank with a variable interest rate Wall Street Journal Prime plus 1.75% (10.25% as of March 31, 2024). 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
2025	<u>\$ 3,650,909</u>	<u>\$ 237,819</u>

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Notes to Financial Statements
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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, 2024 and 2023 was as follows:

	2024	2023
Medicare	13%	14%
Medicaid	21%	18%
Blue Cross	7%	7%
Other commercial insurance	29%	30%
Other third-party payors and patients	30%	31%
	<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.

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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, 2024.

Statement of net position as of March 31, 2024:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 5,467,827	\$ 25,310	\$ (229,121)	5,264,016
Capital assets	1,284,898	-	-	1,284,898
Total assets	\$ 6,752,725	\$ 25,310	\$ (229,121)	\$ 6,548,914
Liabilities and Net Position				
Current liabilities	\$ 15,035,393	\$ 229,121	\$ (229,121)	15,035,393
Long-term liabilities	65,749	-	-	65,749
Total liabilities	15,101,142	229,121	(229,121)	15,101,142
Net Position (Deficit)				
Net investment in capital assets	1,039,941	-	-	1,039,941
Unrestricted (deficit)	(9,388,358)	(203,811)	-	(9,592,169)
Total net position (deficit)	(8,348,417)	(203,811)	-	(8,552,228)
Total liabilities and net position (deficit)	\$ 6,752,725	\$ 25,310	\$ (229,121)	\$ 6,548,914

Sequoiah County-City of Sallisaw Hospital Authority
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Operating results and changes in net position for the year ended March 31, 2024:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 15,800,014	\$ (3,904)	\$ -	15,796,110
Other revenue	70,582	-	-	70,582
Total operating revenue	<u>15,870,596</u>	<u>(3,904)</u>	<u>-</u>	<u>15,866,692</u>
Operating Expenses				
Depreciation	134,650	-	-	134,650
Other operating expenses	17,435,029	526	-	17,435,555
Total operating expenses	<u>17,569,679</u>	<u>526</u>	<u>-</u>	<u>17,570,205</u>
Operating Loss	<u>(1,699,083)</u>	<u>(4,430)</u>	<u>-</u>	<u>(1,703,513)</u>
Nonoperating Revenues (Expenses)				
Interest income	28,068	-	-	28,068
Tax appropriations	951,835	-	-	951,835
Interest expense	(269,875)	-	-	(269,875)
Total nonoperating revenues (expenses)	<u>710,028</u>	<u>-</u>	<u>-</u>	<u>710,028</u>
Expenses in Excess of Revenues and Change in Net Position	(989,055)	(4,430)	-	(993,485)
Net Position (Deficit), Beginning of Year	<u>(7,359,362)</u>	<u>(199,381)</u>	<u>-</u>	<u>(7,558,743)</u>
Net Position (Deficit), End of Year	<u>\$ (8,348,417)</u>	<u>\$ (203,811)</u>	<u>\$ -</u>	<u>\$ (8,552,228)</u>

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Notes to Financial Statements
March 31, 2024 and 2023

Cash flows for the year ended March 31, 2024:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Total
Net Cash used for Operating Activities	\$ (762,808)	\$ 1,113	\$ (761,695)
Net Cash from Noncapital Related Financing Activities	567,430	-	567,430
Net Cash used for Capital and Related Financing Activities	(158,059)	-	(158,059)
Net Cash from Investing Activities	<u>28,068</u>	<u>-</u>	<u>28,068</u>
Net Change in Cash and Cash Equivalents	(325,369)	1,113	(324,256)
Cash and Cash Equivalents, Beginning of Year	<u>392,237</u>	<u>27,946</u>	<u>420,183</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 66,868</u></u>	<u><u>\$ 29,059</u></u>	<u><u>\$ 95,927</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, 2023:

Statement of net position 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	<u>1,324,481</u>	<u>-</u>	<u>-</u>	<u>1,324,481</u>
Total assets	<u><u>\$ 7,126,509</u></u>	<u><u>\$ 28,016</u></u>	<u><u>\$ (227,397)</u></u>	<u><u>\$ 6,927,128</u></u>
Liabilities and Net Position				
Current liabilities	\$ 14,394,749	\$ 227,397	\$ (227,397)	14,394,749
Long-term liabilities	<u>91,122</u>	<u>-</u>	<u>-</u>	<u>91,122</u>
Total liabilities	<u>14,485,871</u>	<u>227,397</u>	<u>(227,397)</u>	<u>14,485,871</u>
Net Position (Deficit)				
Net investment in capital assets	1,025,282	-	-	1,025,282
Unrestricted (deficit)	<u>(8,384,644)</u>	<u>(199,381)</u>	<u>-</u>	<u>(8,584,025)</u>
Total net position (deficit)	<u>(7,359,362)</u>	<u>(199,381)</u>	<u>-</u>	<u>(7,558,743)</u>
Total liabilities and net position (deficit)	<u><u>\$ 7,126,509</u></u>	<u><u>\$ 28,016</u></u>	<u><u>\$ (227,397)</u></u>	<u><u>\$ 6,927,128</u></u>

Sequoiah County-City of Sallisaw Hospital Authority
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Notes to Financial Statements
March 31, 2024 and 2023

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	<u>\$ (7,359,362)</u>	<u>\$ (199,381)</u>	<u>\$ -</u>	<u>\$ (7,558,743)</u>

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Notes to Financial Statements
March 31, 2024 and 2023

Cash flows for the year ended March 31, 2023:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Total
Net Cash from (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	15,903	-	15,903
Net Change in Cash and Cash Equivalents	(575,438)	542	(574,896)
Cash and Cash Equivalents, Beginning of Year	967,675	27,404	995,079
Cash and Cash Equivalents, End of Year	<u>\$ 392,237</u>	<u>\$ 27,946</u>	<u>\$ 420,183</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 \$603,938, for the year ended March 31, 2024. In return, the Hospital received \$1,067,727. The Hospital made SHOPP payments totaling \$500,432 for the year ended March 31, 2023. In return the Hospital received \$951,002.

SHOPP is expected to be significantly reduced in fiscal year 2025 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, 2024 and 2023

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. 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 year 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 \$9,994,928 and \$8,702,815 for contracted salary and benefits, management fees and other professional services in the years ended March 31, 2024 and 2023. As of March 31, 2024 and 2023, the Hospital owes THA \$8,617,903 and \$8,901,023 for contracted salary and benefits, management fees and other professional services. As of March 31, 2024 and 2023, the Hospital owes \$37,257 and \$87,288 for equipment leased from THA.

Note 12 - Going Concern and Management Plans

The Hospital experienced an increase in net deficit of \$993,485 and \$2,695,633 for the years ended March 31, 2024 and 2023. 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 is working on a long-term payment plan for outstanding payables to the management company. The effect of these changes cannot be evaluated and substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond 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.

Note 13 - Subsequent Events

The Hospital has evaluated subsequent events through September 16, 2024, the date which the financial statements were available to be issued.

On April 15, 2024, the Hospital signed a short-term note payable for \$355,222 with a stated interest rate of 8.5%. The Hospital paid the note payable in full in May 2024.

On July 15, 2024, the Hospital signed a short-term loan agreement for \$600,221 with a stated interest rate of 8.5%. The Hospital is to pay the outstanding balance and any accrued interest on November 15, 2024.



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 County-City of Sallisaw Hospital Authority, d/b/a Northeastern Health System Sequoyah (Hospital) as of and for the year ended March 31, 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated September 16, 2024.

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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
September 16, 2024