



Management's Discussion and Analysis  
and Financial Statements  
March 31, 2022 and 2021

**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, 2022 and 2021

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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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

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, 2022 and 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

#### ***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 on pages 4 through 8 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022 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  
December 16, 2022

## 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, 2022, 2021, and 2020. 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 2022 by \$531,888 or 9% and increased in 2021 by \$1,533,526 or 35%.
- Current liabilities increased in 2022 by \$440,336 or 4% and increased in 2021 by \$4,187,005 or 60%.
- The Hospital's net position decreased in 2022 by \$333,940 or 7% and decreased in 2021 by \$387,069 or 8%.
- The Hospital reported an operating loss in 2022 of \$1,668,220 and an operating loss in 2021 of \$1,737,648. During 2022, operating loss decreased by \$69,428 or 4% and decreased by \$15,144 or 1% in 2021.
- Other operating revenue increased by \$34,422 or 78% in 2022 and increased by \$153,515 or 78% in 2021.
- Operating expenses increased in 2022 by \$2,701,467 or 21% and increased \$511,696 or 4% in 2021.
- The Hospital received \$682,512 of Coronavirus Aid, Relief, and Economic Security Act Provider Relief Funds in 2022 and recognized \$682,512 as revenue. During 2021, the Hospital received \$300,800 of Coronavirus Aid, Relief, and Economic Security Act Provider Relief Fund and recognized \$300,800 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.

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

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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 \$333,940 or 7% in 2022 and increased by \$387,069 or 8% in 2021 as shown below.

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

	2022	2021	2020
<b>Assets</b>			
Current assets	\$ 5,329,534	\$ 5,861,422	\$ 4,327,896
Capital assets, net	1,497,692	1,641,570	1,874,650
<b>Total assets</b>	<b>\$ 6,827,226</b>	<b>\$ 7,502,992</b>	<b>\$ 6,202,546</b>
<b>Liabilities</b>			
Current liabilities	\$ 11,574,870	\$ 11,134,534	\$ 6,947,529
Long term debt	115,466	897,628	4,171,256
<b>Total liabilities</b>	<b>11,690,336</b>	<b>12,032,162</b>	<b>11,118,785</b>
<b>Net Position (Deficit)</b>			
Net investment in capital assets	1,299,626	1,353,321	1,512,584
Unrestricted (Deficit)	(6,162,736)	(5,882,491)	(6,428,823)
<b>Total net position (deficit)</b>	<b>(4,863,110)</b>	<b>(4,529,170)</b>	<b>(4,916,239)</b>
<b>Total liabilities and net position (deficit)</b>	<b>\$ 6,827,226</b>	<b>\$ 7,502,992</b>	<b>\$ 6,202,546</b>

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 \$675,766 or 9% in 2022 and increased \$1,300,446 or 21% in 2021.

- Cash decreased \$1,267,251 or 56% in 2022 and increased \$1,920,758 or 562% in 2021. The decrease in 2022 is attributed to recoupments of CMS advance payments. The increase in 2021 is attributed proceeds from the CMS advance payments and paycheck protection program loan.
- Patient receivables increased \$562,769 or 19% in 2022 and decreased \$569,371 or 16% in 2021. The increase in 2022 is attributed to increases in services provided by the Hospital. The decrease in 2021 is attributed to decreases in services provided by the Hospital as a result of the COVID-19 pandemic.
- Capital assets decreased by \$143,878 or 9% in 2022 due to annual depreciation. Capital assets decreased by \$233,080 or 12% in 2021 due to annual depreciation.

The Hospital's total liabilities decreased \$341,826 or 3% in 2022 and increased \$913,377 or 8% in 2021.

- Accounts payable increased \$722,578 or 11% in 2022 and increased \$343,725 or 5% in 2021. The increase in 2022 and 2021 is attributed to cash management.

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

	2022	2021	2020
Operating Revenues			
Net patient service revenue	\$ 13,784,544	\$ 11,048,071	\$ 11,391,108
Other operating revenue	78,610	44,188	197,703
Total operating revenues	<u>13,863,154</u>	<u>11,092,259</u>	<u>11,588,811</u>
Operating Expenses			
Contract salary and benefits	8,664,201	7,298,350	7,815,470
Purchased services and professional fees	2,929,470	2,454,602	2,542,312
Supplies and other	3,731,949	2,750,538	2,621,440
Depreciation	205,754	326,417	362,381
Total operating expenses	<u>15,531,374</u>	<u>12,829,907</u>	<u>13,341,603</u>
Operating Loss	<u>(1,668,220)</u>	<u>(1,737,648)</u>	<u>(1,752,792)</u>
Nonoperating Revenues (Expenses)			
Interest income	6,739	6,963	6,470
Tax appropriations	908,874	833,346	756,811
Interest expense	(264,845)	(285,867)	(260,625)
Gain (Loss) on disposal of capital assets	1,000	(11,125)	-
Provider Relief Funds	682,512	300,800	-
Forgiveness of PPP Loan	-	1,280,600	-
Payable forgiveness	-	-	327,042
Net nonoperating revenues	<u>1,334,280</u>	<u>2,124,717</u>	<u>829,698</u>
Revenues in Excess of (Less Than) Expenses and Change in Net Position	<u><u>\$ (333,940)</u></u>	<u><u>\$ 387,069</u></u>	<u><u>\$ (923,094)</u></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 2022 decreased by \$69,428 or 4% as compared to the decrease of \$15,144 or 1% in 2021. The primary components of the operating loss are:

- Net patient service revenue increased \$2,736,473 or 25% in 2022 compared to a decrease of \$343,037 or 3% in 2021. The increase in 2022 is attributed to increases in services provided by the Hospital. The decrease in 2021 is attributed to the COVID-19 pandemic.
- Contract salary and benefits expenses increased \$1,365,851 or 19% in 2022 compared to an increase in 2021 of \$517,120 or 7%. The increase in 2022 and 2021 is attributed to the increased staffing cost.
- Supplies and other expenses increased in 2022 by \$981,411 or 36% compared to an increase of \$129,098 or 5% in 2021. The increase in 2022 and 2021 is attributed to supplies used for the increase in services provided.

## Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of tax appropriations, interest expense, payable forgiveness, Provider Relief Funds, and forgiveness of Paycheck Protection Program loan. Tax appropriations increased \$75,528 or 8% in 2022 and increased \$76,535 or 10% in 2021. Interest expense decreased \$21,022 or 7% in 2022 as compared to the increase of \$25,242 or 10% in 2021. As a result of the COVID-19 pandemic, the Hospital received Provider Relief Funds of \$682,512 in 2022 and \$300,800 in 2021. The Hospital received forgiveness of its Paycheck Protection Program loan in the amount of \$-0- in 2022 and \$1,280,600 in 2021.

## 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 decreased in 2022 by \$147,190 or 11% and decreased in 2021 by \$1,275,484 or 1,255%.
- Net cash from noncapital related financing activities decreased in 2022 by \$3,056,137 or 88% and increased in 2021 by \$3,022,486 or 686%.
- Net cash used for capital and related financing activities decreased in 2022 by \$15,542 or 8% and increased in 2021 by \$35,084 or 26%.
- Net cash from investing activities decreased in 2022 by \$224 or 3% and increased in 2021 by \$493 or 8%.

### **Capital Assets**

The Hospital had \$1,497,692 invested in capital assets at the end of 2022 and \$1,641,570 at the end of 2021, net of accumulated depreciation, as detailed in Note 5 to the financial statements. The Hospital acquired new capital assets in 2022 costing \$61,879. The Hospital acquired new capital assets in 2021 costing \$104,462.

### **Debt**

The Hospital had total debt of \$3,990,195 at the end of 2022. The Hospital incurred no additional debt in 2022, as detailed in Note 7 to the financial statements. The Hospital had total debt of \$4,211,627 at the end of 2021. The Hospital incurred additional debt of \$1,320,584 in 2021, as detailed in Note 7 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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 995,079	\$ 2,262,330
Receivables		
Patient, net of estimated uncollectibles		
of \$1,910,000 in 2022 and \$5,136,000 in 2021	3,489,050	2,926,281
Tax appropriation	83,933	133,027
Estimated third-party payor settlements	90,000	-
Supplies	552,162	536,984
Prepaid expenses and other current assets	119,310	2,800
	<u>5,329,534</u>	<u>5,861,422</u>
Total current assets		
Capital Assets		
Capital assets not being depreciated	193,633	193,633
Capital assets being depreciated, net	1,304,059	1,447,937
	<u>1,497,692</u>	<u>1,641,570</u>
Total capital assets, net		
Total assets	<u>\$ 6,827,226</u>	<u>\$ 7,502,992</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 3,874,729	\$ 4,017,148
Current maturities of CMS advance payments	599,385	739,208
Accounts payable	7,100,756	6,378,178
	<u>11,574,870</u>	<u>11,134,534</u>
Total current liabilities		
Long-Term Liabilities		
Long-term debt, less current maturities	115,466	194,479
CMS advance payment, less current maturities	-	703,149
	<u>115,466</u>	<u>897,628</u>
Total long-term liabilities		
Total liabilities	<u>11,690,336</u>	<u>12,032,162</u>
Net Position (Deficit)		
Net investment in capital assets	1,299,626	1,353,321
Unrestricted (Deficit)	(6,162,736)	(5,882,491)
	<u>(4,863,110)</u>	<u>(4,529,170)</u>
Total net position (deficit)		
Total liabilities and net position (deficit)	<u>\$ 6,827,226</u>	<u>\$ 7,502,992</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenue		
Net patient service revenue, net of provision for bad debts of \$5,059,499 in 2022 and \$5,815,676 in 2021	\$ 13,784,544	\$ 11,048,071
Other revenue	<u>78,610</u>	<u>44,188</u>
Total operating revenues	<u>13,863,154</u>	<u>11,092,259</u>
Operating Expenses		
Contract salary and benefits	8,664,201	7,298,350
Purchased services and professional fees	2,929,470	2,454,602
Supplies and other	3,731,949	2,750,538
Depreciation	<u>205,754</u>	<u>326,417</u>
Total operating expenses	<u>15,531,374</u>	<u>12,829,907</u>
Operating Loss	<u>(1,668,220)</u>	<u>(1,737,648)</u>
Nonoperating Revenues (Expenses)		
Interest income	6,739	6,963
Tax appropriations	908,874	833,346
Interest expense	(264,845)	(285,867)
Gain (Loss) on disposal of capital assets	1,000	(11,125)
Provider Relief Funds	682,512	300,800
Forgiveness of Paycheck Protection Program (PPP) Loan	<u>-</u>	<u>1,280,600</u>
Total nonoperating revenues (expenses)	<u>1,334,280</u>	<u>2,124,717</u>
Revenues in Excess of (less than) Expenses and Change in Net Position	(333,940)	387,069
Net Position (Deficit), Beginning of Year	<u>(4,529,170)</u>	<u>(4,916,239)</u>
Net Position (Deficit), End of Year	<u><u>\$ (4,863,110)</u></u>	<u><u>\$ (4,529,170)</u></u>

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

Statements of Cash Flows  
Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 13,131,775	\$ 11,617,442
Payments to suppliers and contractors	(6,070,529)	(5,740,435)
Payments to contract employees	(8,664,201)	(7,298,350)
Other receipts	<u>78,610</u>	<u>44,188</u>
Net Cash used for Operating Activities	<u>(1,524,345)</u>	<u>(1,377,155)</u>
Noncapital Related Financing Activities		
Tax appropriations	957,968	829,975
Net proceeds from Paycheck Protection Program Loan	-	1,280,600
Grants and contributions of Provider Relief Fund	682,512	300,800
Principal payments on long-term debt	(131,249)	(111,438)
Interest paid	(259,315)	(279,213)
Net proceeds from CMS advance payments	-	1,442,357
Recoupments of CMS advance payments	<u>(842,972)</u>	<u>-</u>
Net Cash from Noncapital Related Financing Activities	<u>406,944</u>	<u>3,463,081</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(90,183)	(100,999)
Interest paid	(5,530)	(6,654)
Purchase of property and equipment	(61,876)	(64,478)
Proceeds from sale of capital assets	<u>1,000</u>	<u>-</u>
Net Cash used for Capital and Related Financing Activities	<u>(156,589)</u>	<u>(172,131)</u>
Investing Activities		
Interest income	<u>6,739</u>	<u>6,963</u>
Net Change in Cash and Cash Equivalents	(1,267,251)	1,920,758
Cash and Cash Equivalents, Beginning of Year	<u>2,262,330</u>	<u>341,572</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 995,079</u></u>	<u><u>\$ 2,262,330</u></u>

Sequoiah County-City of Sallisaw Hospital Authority  
d/b/a Northeastern Health System Sequoyah  
Statements of Cash Flows  
Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Loss to Net Cash used for		
Operating Activities		
Operating Loss	\$ (1,668,220)	\$ (1,737,648)
Adjustments to reconcile operating loss to net cash		
used for operating activities		
Depreciation	205,754	326,417
Provision for bad debts	5,059,499	5,815,676
Changes in assets and liabilities		
Patient receivables	(5,622,268)	(5,246,305)
Supplies	(15,178)	(175,968)
Prepaid expenses and other	(116,510)	(2,800)
Accounts payable	722,578	(356,527)
Estimated third-party payor settlements	(90,000)	-
Net Cash used for Operating Activities	<u>\$ (1,524,345)</u>	<u>\$ (1,377,155)</u>
Supplemental Disclosure of Noncash Capital and Related		
Financing Activities		
Equipment financed through note payable	<u>\$ -</u>	<u>\$ 39,984</u>
Debt reduction in accounts payable	<u>\$ -</u>	<u>\$ 12,802</u>
Supplemental Disclosure of Noncash Noncapital Related Financing Activity		
Paycheck Protection Program Loan forgiveness	<u>\$ -</u>	<u>\$ 1,280,600</u>

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

Notes to Financial Statements  
March 31, 2022 and 2021

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**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

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

**Reporting Entity**

The Hospital is a 35-bed acute care hospital located in the city of Sallisaw, Oklahoma (City). The Hospital is a public trust created under the laws of the State of Oklahoma and is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma. The Hospital is governed by the Board of Trustees, which is appointed by the City. During 2018, the Hospital changed their trade name from Sequoyah Memorial Hospital to Northeastern Health System Sequoyah. Effective June 1, 2017, the Hospital signed a management service agreement with Tahlequah Hospital Authority (THA). The terms of the management service agreement are discussed in Note 12.

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.

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

Notes to Financial Statements  
March 31, 2022 and 2021

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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, 2022 and 2021.

*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, 2022 and 2021.

*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.



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### **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% and 7% of its financial support from city appropriations during the years ended March 31, 2022 and 2021.

### **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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of property and equipment are as follows:

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of (less than) expenses. 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.

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### **Compensated Absences**

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

### **Operating Revenues and Expenses**

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

### **Net Patient Service Revenue**

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

### **Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were approximately \$414,000 and \$366,000 for the years ended March 31, 2022 and 2021. Total direct and indirect costs related to these foregone charges were approximately \$130,000 and \$126,000 at March 31, 2022 and 2021, based on an average ratio of cost to gross charges.

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## 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 revenues in excess of (less than) expenses.

## 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.

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, 2022 and 2021:

	2022	2021
Medicare	27%	37%
Medicaid	24%	15%
Blue Cross	14%	11%
Commercial insurance	28%	25%
Other third-party payors and patients	7%	12%
	<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.

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**CMS Advance Payments**

The CMS advance payments balance consist 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, which will be recouped through Medicare claims processed beginning 365 days after payments are received and will continue until the balance of the advanced payments have been recouped, or for 29 months from the date that each advance payment was issued, at which point any remaining unpaid balance is due. The advance payments balance is noninterest bearing through the 29-month repayment period. The portion expected to be recouped in the next 12 months is included in current liabilities and the portion expected to be recouped in greater than 12 months is presented in long-term liabilities in the accompanying statements of net position.

**Note 3 - Provider Relief Fund**

The Hospital received \$682,512 and \$300,800 for the years ended March 31, 2022 and 2021 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes, and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring, and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of March 31, 2022 and 2021, the Hospital recognized \$682,512 in 2022 and \$300,800 in 2021 as revenue, included as nonoperating revenues on the statement of revenues, expenses, and changes in net position.

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**Note 4 - Deposits**

Cash consisted of cash deposits in banks as of March 31, 2022 and 2021.

**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, 2022 and 2021 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

**Note 5 - Capital Assets**

Capital assets additions, retirements, transfers, and balances for the year ended March 31, 2022 are as follows:

	Balance March 31, 2021	Additions	Transfers and Retirements	Balance March 31, 2022
Capital assets not being depreciated				
Land	\$ 193,633	\$ -	\$ -	\$ 193,633
Capital assets being depreciated				
Land improvements	\$ 34,488			\$ 34,488
Building and improvements	3,362,534	-	-	3,362,534
Major moveable and fixed equipment	9,127,028	61,876	-	9,188,904
Total capital assets being depreciated	12,524,050	\$ 61,876	\$ -	12,585,926
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	8,320,782	158,576	-	8,479,358
Total accumulated depreciation	11,076,113	\$ 205,754	\$ -	11,281,867
Net capital assets being depreciated	\$ 1,447,937			\$ 1,304,059
Capital assets, net	\$ 1,641,570			\$ 1,497,692

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Capital assets additions, retirements, transfers, and balances for the year ended March 31, 2021 are as follows:

	Balance March 31, 2020	Additions	Transfers and Retirements	Balance March 31, 2021
Capital assets not being depreciated				
Land	\$ 193,633	\$ -	\$ -	\$ 193,633
Capital assets being depreciated				
Land improvements	\$ 34,539	\$ -	\$ (51)	\$ 34,488
Building and improvements	3,362,534	-	-	3,362,534
Major moveable and fixed equipment	9,600,536	104,462	(577,970)	9,127,028
Total capital assets being depreciated	12,997,609	\$ 104,462	\$ (578,021)	12,524,050
Less accumulated depreciation for				
Land improvements	25,682	\$ 1,862	\$ -	27,544
Building and improvements	2,683,124	44,663	-	2,727,787
Major moveable and fixed equipment	8,607,786	279,892	(566,896)	8,320,782
Total accumulated depreciation	11,316,592	\$ 326,417	\$ (566,896)	11,076,113
Net capital assets being depreciated	\$ 1,681,017			\$ 1,447,937
Capital assets, net	\$ 1,874,650			\$ 1,641,570

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**Note 6 - Lease Obligations**

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capital leases and others as operating leases. Total lease expense for the years ended March 31, 2022 and 2021 for all operating leases was approximately \$51,000 and \$71,000. The capitalized leased assets consist of:

	2022	2021
Major movable equipment	\$ 364,361	\$ 364,361
Less accumulated amortization	<u>(304,501)</u>	<u>(231,629)</u>
	<u>\$ 59,860</u>	<u>\$ 132,732</u>

**Note 7 - Long-Term Debt**

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

	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)	31,863	-	(31,863)	-	-
Note payable (3)	<u>64,800</u>	<u>-</u>	<u>(18,720)</u>	<u>46,080</u>	<u>17,280</u>
Total notes from direct borrowings	<u>3,988,178</u>	<u>-</u>	<u>(149,969)</u>	<u>3,838,209</u>	<u>3,809,409</u>
Capital lease (6)	191,795	-	(51,471)	140,324	53,658
Capital lease (7)	<u>31,654</u>	<u>-</u>	<u>(19,992)</u>	<u>11,662</u>	<u>11,662</u>
Total capital leases	<u>223,449</u>	<u>-</u>	<u>(71,463)</u>	<u>151,986</u>	<u>65,320</u>
Total long-term debt	<u>\$ 4,211,627</u>	<u>\$ -</u>	<u>\$ (221,432)</u>	<u>\$ 3,990,195</u>	<u>\$ 3,874,729</u>

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A schedule of changes in the Hospital's long-term debt for the year ended March 31, 2021 is as follows:

	Balance March 31, 2020	Additions	Payments/ Forgiveness	Balance March 31, 2021	Due Within One Year
Notes from Direct Borrowings					
Note payable (1)	\$ 3,971,355	\$ -	\$ (79,840)	\$ 3,891,515	\$ 3,891,515
Note payable (2)	63,461	-	(31,598)	31,863	31,863
Note payable (3)	82,080	-	(17,280)	64,800	17,280
Note payable (4)	-	1,280,600	(1,280,600)	-	-
Total notes from direct borrowings	<u>4,116,896</u>	<u>1,280,600</u>	<u>(1,409,318)</u>	<u>3,988,178</u>	<u>3,940,658</u>
Capital lease (5)	21,047	-	(21,047)	-	-
Capital lease (6)	258,939	-	(67,144)	191,795	56,498
Capital lease (7)	-	39,984	(8,330)	31,654	19,992
Total capital leases	<u>279,986</u>	<u>39,984</u>	<u>(96,521)</u>	<u>223,449</u>	<u>76,490</u>
Total long-term debt	<u>\$ 4,396,882</u>	<u>\$ 1,320,584</u>	<u>\$ (1,505,839)</u>	<u>\$ 4,211,627</u>	<u>\$ 4,017,148</u>

The terms and due dates of the Hospital's long-term debt at March 31, 2022 and 2021 are as follows:

1. Demand note payable to bank with a variable interest rate Wall Street Journal Prime plus 1.75% (6.0% as of March 31, 2022). The Hospital will make monthly principal and interest installments of \$29,550 to December 28, 2040, secured by assets of the Hospital.
2. Promissory note to a physician with an interest rate of 10.00%, due in monthly installments of \$3,044, unsecured, paid off February 2022.
3. Vendor note payable with -0-% stated interest rate, initial payment of \$21,600 followed by monthly installments of \$1,440 beginning January 1, 2020, collateralized by associated equipment, due December 2024.
4. The Hospital was granted a \$1,280,600 loan under the PPP administered by a Small Business Administration (SBA) approved partner. During the year ended March 31, 2022, the loan obligation was legally released by the SBA and financial institution. The Hospital recognized \$1,280,600 of loan forgiveness income for the year ended March 31, 2021.
5. Capital lease with imputed interest rate of 3.25%, due in monthly installments of \$3,541, collateralized by associated equipment, paid off September 2020.
6. Capital lease with imputed interest rate of 2.74%, due in monthly installments of \$4,771, collateralized by associated equipment, due December 2024.
7. Capital lease with imputed interest rate of -0-%, due in monthly installments of \$1,666, collateralized by associated equipment, due October 2022.



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

Year Ending March 31,	Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2023	\$ 3,809,409	\$ 252,679	\$ 65,320	\$ 3,598
2024	17,280	-	55,147	2,111
2025	11,520	-	31,519	593
Total	<u>\$ 3,838,209</u>	<u>\$ 252,679</u>	<u>\$ 151,986</u>	<u>\$ 6,302</u>

**Note 8 - 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, 2022 and 2021 was as follows:

	2022	2021
Medicare	15%	14%
Medicaid	19%	5%
Blue Cross	12%	7%
Other commercial insurance	33%	21%
Other third-party payors and patients	21%	53%
	<u>100%</u>	<u>100%</u>

**Note 9 - 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.

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### Litigations, Claims, and Disputes

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity 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 10 - 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, 2022.

Statement of net position as of March 31, 2022:

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

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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 the 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>
Revenues in Excess of (less than) Expenses 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>

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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	6,739	-	6,739
Net Change in Cash and Cash Equivalents	(1,194,344)	(72,907)	(1,267,251)
Cash and Cash Equivalents, Beginning of Year	2,162,019	100,311	2,262,330
Cash and Cash Equivalents, End of Year	<u>\$ 967,675</u>	<u>\$ 27,404</u>	<u>\$ 995,079</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, 2021.

Statement of net position as of March 31, 2021:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
<b>Assets</b>				
Current assets	\$ 6,142,878	\$ 100,311	\$ (381,767)	\$ 5,861,422
Capital assets	1,556,767	84,803	-	1,641,570
Total assets	<u>\$ 7,699,645</u>	<u>\$ 185,114</u>	<u>\$ (381,767)</u>	<u>\$ 7,502,992</u>
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 11,134,534	\$ 381,767	\$ (381,767)	\$ 11,134,534
Long-term liabilities	897,628	-	-	897,628
Total liabilities	<u>12,032,162</u>	<u>381,767</u>	<u>(381,767)</u>	<u>12,032,162</u>
<b>Net Position (Deficit)</b>				
Net investment in capital assets	1,268,518	84,803	-	1,353,321
Unrestricted (deficit)	(5,601,035)	(281,456)	-	(5,882,491)
Total net position (deficit)	<u>(4,332,517)</u>	<u>(196,653)</u>	<u>-</u>	<u>(4,529,170)</u>
Total liabilities and net position (deficit)	<u>\$ 7,699,645</u>	<u>\$ 185,114</u>	<u>\$ (381,767)</u>	<u>\$ 7,502,992</u>

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Operating results and changes in net position for the year ended March 31, 2021:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 11,048,071	\$ -	\$ -	\$ 11,048,071
Other revenue	44,188	-	-	44,188
Total operating revenue	<u>11,092,259</u>	<u>-</u>	<u>-</u>	<u>11,092,259</u>
Operating Expenses				
Depreciation	318,515	7,902	-	326,417
Other operating expenses	12,495,551	7,939	-	12,503,490
Total operating expenses	<u>12,814,066</u>	<u>15,841</u>	<u>-</u>	<u>12,829,907</u>
Operating Loss	<u>(1,721,807)</u>	<u>(15,841)</u>	<u>-</u>	<u>(1,737,648)</u>
Nonoperating Revenues (Expenses)				
Interest income	6,880	83	-	6,963
Tax appropriations	833,346	-	-	833,346
Interest expense	(285,867)	-	-	(285,867)
Loss on the disposal of capital assets	(11,125)	-	-	(11,125)
Provider Relief Funds	300,800	-	-	300,800
Forgiveness of PPP Loan	1,280,600	-	-	1,280,600
Total nonoperating revenues (expenses)	<u>2,124,634</u>	<u>83</u>	<u>-</u>	<u>2,124,717</u>
Revenues in Excess of (less than) Expenses and Change in Net Position	402,827	(15,758)	-	387,069
Net Position (Deficit), Beginning of Year	<u>(4,735,344)</u>	<u>(180,895)</u>	<u>-</u>	<u>(4,916,239)</u>
Net Position (Deficit), End of Year	<u>\$ (4,332,517)</u>	<u>\$ (196,653)</u>	<u>\$ -</u>	<u>\$ (4,529,170)</u>

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

Notes to Financial Statements  
March 31, 2022 and 2021

Cash flows for the year ended March 31, 2021:

	Northeastern Health System Sequoyah	SMH Physician Group, LLC	Total
Net Cash from (used for) Operating Activities	\$ (1,440,690)	\$ 63,535	\$ (1,377,155)
Net Cash from Noncapital Related Financing Activities	3,463,081	-	3,463,081
Net Cash used for Capital and Related Financing Activities	(172,131)	-	(172,131)
Net Cash from Investing Activities	6,963	-	6,963
Net Change in Cash	1,857,223	63,535	1,920,758
Cash and Cash Equivalents, Beginning of Year	304,796	36,776	341,572
Cash and Cash Equivalents, End of Year	<u>\$ 2,162,019</u>	<u>\$ 100,311</u>	<u>\$ 2,262,330</u>

**Note 11 - Supplemental Hospital Offset Payment Program Act**

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will 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 \$257,147, for the year ended March 31, 2022. In return, the Hospital received \$911,236. The Hospital made SHOPP payments totaling \$294,470, for the year ended March 31, 2021. In return, the Hospital received \$472,874. 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, 2022 and 2021

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**Note 12 - 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. 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 \$8,679,716 and \$6,824,932 for contracted salary and benefits, management fees and other professional services in the years ended March 31, 2022 and 2021. As of March 31, 2022 and 2021, the Hospital owes THA \$6,006,785 and \$5,338,765 for contracted salary and benefits, management fees and other professional services. As of March 31, 2022 and 2021, the Hospital owes \$140,324 and \$191,795 for equipment leased from THA.

**Note 13 - Recurring Losses and Management Plans**

The Hospital has incurred operating losses during the years ended March 31, 2022 and 2021. For the year ended March 31, 2022, the Hospital experienced a decrease in net position of \$333,940. For the year ended March 31, 2021, the Hospital experienced an increase in net position of \$387,069. The Hospital is looking into areas to reduce cost without impacting patient care. The Hospital is in the fourth year of the management agreement which has resulted in additional services being provided and reduction of expenses at the Hospital. In addition, the Hospital may delay payments to the management company as needed. Management believes these plans alleviate substantial doubt about the Hospital's ability to continue as a going concern for one year from the report date.

**Note 14 - Subsequent Events**

On May 5, 2022, the Hospital obtained a note payable in the amount of \$128,232 for equipment. The Hospital is required to make monthly payments of \$1,268 including interest at 3.50%. The note payable matures May 5, 2032.

The Hospital entered into an agreement for equipment. The agreement requires monthly payments of \$2,179 including interest at 3.50% for 60 months.

The Hospital has evaluated subsequent events through December 16, 2022 the date which the financial statements were available to be issued.



**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, 2022, 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 16, 2022.

**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 Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
December 16, 2022