

Grady Memorial Hospital Authority

Auditor's Reports and Financial Statements

December 31, 2012 and 2011



Grady Memorial Hospital Authority
December 31, 2012 and 2011

Contents

Independent Auditor’s Report on Financial Statements	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26
Schedule of Findings and Responses	28

Independent Auditor's Report on Financial Statements

Board of Trustees
Grady Memorial Hospital Authority
Chickasha, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Grady Memorial Hospital Authority (the Authority), which comprise of balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 April 23, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

Tulsa, Oklahoma
April 23, 2013

Grady Memorial Hospital Authority

Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

Introduction

This management's discussion and analysis of the financial performance of Grady Memorial Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents and short-term investments increased in 2012 by \$597,600 or 45% and decreased in 2011 by \$168,084 or 9%.
- Patient accounts receivable decreased in 2012 by \$428,751 or 8% and increased in 2011 by \$675,327 or 15%.
- The Authority reported operating income in 2012 of \$12,416 and operating loss in 2011 of \$608,963. The operating income in 2012 improved by \$621,379 or 102% compared to the operating loss reported in 2011. The operating loss in 2011 improved by \$1,229,420 or 67% compared to the operating loss reported in 2010.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority 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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the accompanying balance sheets. The Authority's net position decreased by \$23,636 or 0.2% in 2012 from 2011 and decreased by \$616,350 or 5% in 2011 from 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2012	2011	2010
Assets			
Cash and cash equivalents	\$ 1,909,424	\$ 1,304,574	\$ 1,175,652
Short-term investments	396,000	403,250	700,256
Patient accounts receivable, net	4,820,844	5,249,595	4,574,268
Other current assets	1,359,382	1,460,428	1,725,534
Capital assets, net	12,400,589	12,185,837	11,990,539
Other noncurrent assets	571,853	557,759	612,609
Total assets	<u>\$ 21,458,092</u>	<u>\$ 21,161,443</u>	<u>\$ 20,778,858</u>
Liabilities			
Long-term debt (including current portion)	\$ 4,631,824	\$ 4,393,998	\$ 3,899,079
Other current and noncurrent liabilities	4,577,006	4,494,547	3,990,531
Total liabilities	<u>9,208,830</u>	<u>8,888,545</u>	<u>7,889,610</u>
Net Position			
Net investment in capital assets	7,768,765	7,741,981	8,077,280
Unrestricted	4,480,497	4,530,917	4,811,968
Total net position	<u>12,249,262</u>	<u>12,272,898</u>	<u>12,889,248</u>
Total liabilities and net position	<u>\$ 21,458,092</u>	<u>\$ 21,161,443</u>	<u>\$ 20,778,858</u>

Significant changes in the Authority's 2012 assets are found in the categories of cash and cash equivalents and patient accounts receivable. Cash and cash equivalents increased in 2012 by \$604,850 or 46%. This increase was the result of not funding capital equipment projects that were paid for with new debt in the current year. Patient accounts receivable decreased in 2012 by \$428,751 or 8% due primarily to a decrease in physician clinic accounts receivable due to increases in collection efforts during 2012. Days' net revenue in net accounts receivable was 43 days at December 31, 2012, and 52 days at December 31, 2011. This decrease in days' revenue in accounts receivable is attributable to a decrease in patient census during fiscal year 2012.

Significant changes in the Authority's 2012 liabilities are related to long-term debt. Long-term debt increased by \$237,826 or 5% in 2012 from 2011. This increase was due to additional debt related to capital asset additions incurred during 2012. See *Note 9* of the financial statements.

Significant changes in the Authority's 2011 assets are found in the categories of cash and cash equivalents, short-term investments and patient accounts receivable. Cash and cash equivalents and short-term investments decreased in 2011 by \$168,084 or 9%. This decrease was the result of capital equipment projects paid for with available funds. Patient accounts receivable increased in 2011 by \$675,327 or 15% due primarily to payment and billing delays in the billing and collection process at year-end. Days' net revenue in net accounts receivable was 52 days at December 31, 2011, and 46 days at December 31, 2010. This increase in days' revenue in accounts receivable is attributable to an increase in patient census during fiscal year 2011.

Significant changes in the Authority's 2011 liabilities are related to long-term debt. Long-term debt increased by \$494,919 or 13% in 2011 from 2010. This increase was due to additional debt related to capital asset additions incurred during 2011. See *Note 9* of the financial statements.

Operating Results and Changes in the Authority's Net Position

In 2012, the Authority's net position decreased by \$23,636 as shown in Table 2. This decrease is made up of several different components and represents a change of \$592,714 or 96% compared with the decrease in net position for 2011 of \$616,350.

Table 2: Operating Results and Changes in Net Position

	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 41,104,638	\$ 37,133,292	\$ 36,543,004
Capitation revenue	151,505	136,817	116,538
Other operating revenues	<u>825,411</u>	<u>1,345,586</u>	<u>825,497</u>
Total operating revenues	<u>42,081,554</u>	<u>38,615,695</u>	<u>37,485,039</u>
Operating Expenses			
Salaries, wages and employee benefits	24,517,673	23,012,251	23,684,161
Purchased services and professional fees	4,688,582	4,685,203	4,240,274
Supplies and other expenses	11,016,886	9,829,858	9,644,743
Depreciation and amortization	<u>1,845,997</u>	<u>1,697,346</u>	<u>1,754,244</u>
Total operating expenses	<u>42,069,138</u>	<u>39,224,658</u>	<u>39,323,422</u>
Operating Income (Loss)	<u>12,416</u>	<u>(608,963)</u>	<u>(1,838,383)</u>
Nonoperating Revenues (Expenses)			
Noncapital gifts and grants	18,095	38,646	10,783
Investment income	113,266	99,681	161,445
Interest expense	<u>(175,716)</u>	<u>(198,283)</u>	<u>(216,273)</u>
Total nonoperating revenues (expenses)	<u>(44,355)</u>	<u>(59,956)</u>	<u>(44,045)</u>
Deficiency of Revenues over Expenses Before Capital Grants and Gifts	(31,939)	(668,919)	(1,882,428)
Gifts to Purchase Capital Assets and Other Capital Grants	<u>8,303</u>	<u>52,569</u>	<u>33,887</u>
Change in Net Position	<u>\$ (23,636)</u>	<u>\$ (616,350)</u>	<u>\$ (1,848,541)</u>

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Authority has reported operating income in the current year and operating losses in each of the past two years. This is consistent with the Authority's recent operating history as the Authority was formed and is operated primarily to serve residents of Chickasha, Oklahoma, and the surrounding area.

Operating income for 2012 improved by \$621,379 or 102% as compared to the operating loss in 2011. The primary components of the improvement in operating income in 2012 were:

- An increase in net patient service revenue of \$3,971,346 or 11% from 2011 to 2012 due primarily to an overall increase in volumes and receipt of approximately \$2,863,000 for the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP).
- A decrease in other operating revenues of \$520,175 or 39% from 2011 to 2012 due primarily to the Authority earning revenue under the state Medicaid electronic health records incentive program in 2011 but none in 2012.
- An increase in salaries, wages and employee benefits of \$1,505,422 or 7% from 2011 to 2012 due primarily to increases in wages and physician production as well as the addition of a hospitalist program.
- An increase in supplies and other expenses of \$1,187,028 or 12% from 2011 to 2012 due primarily to the payment of approximately \$1,229,000 of SHOPP assessment fees.

Operating loss for 2011 decreased by \$1,229,420 or 67% as compared to 2010. The primary components of the improvement in operating loss in 2011 were:

- An increase in net patient service revenue of \$590,288 or 2% from 2010 to 2011 due primarily to an overall increase in volumes.
- An increase in other operating revenues of \$520,089 or 63% from 2010 to 2011 due primarily to the Authority earning revenue under the state Medicaid electronic health records incentive program.
- A decrease in salaries, wages and employee benefits of \$671,910 or 3% from 2010 to 2011 due primarily to staffing adjustments.
- An increase in purchased services and professional fees expenses of \$444,929 or 11% from 2010 to 2011 due primarily to the use of additional contract nursing during the year.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital gifts, investment income and interest expense. There was no significant change in these amounts between 2011 and 2012.

The Authority's Cash Flows

Net cash provided by operating activities in 2012 increased by \$1,323,230 or 96% from 2011. Receipts from and on behalf of patients increased by approximately \$4,613,000 due to the receipt of SHOPP funds. Payments to suppliers, contractors and employees increased by approximately \$2,770,000 due to the increase of supplies and other expenses and the payment of SHOPP assessment fees.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2012 and 2011, the Authority had \$12,400,589 and \$12,185,837, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Authority had major additions in computer equipment related to the electronic health records system implementation. In 2011, the Authority had major additions in computer equipment related to the electronic health records system implementation, purchase of scanner equipment and an MRI.

Debt

At December 31, 2012 and 2011, the Authority had \$4,631,824 and \$4,393,998, respectively, in notes payable and capital lease obligations outstanding. In 2012, the Authority was advanced an additional \$1,081,662 of an existing revenue note and entered into new capital lease obligations of \$540,916. In 2011, the Authority entered into new long-term note payable agreements totaling \$1,789,807 and refinanced \$1,618,598 of an existing revenue note.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Business Administration by mail at 2220 Iowa Avenue, Chickasha, Oklahoma 73018.

Grady Memorial Hospital Authority

Balance Sheets

December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 1,909,424	\$ 1,304,574
Short-term investments	396,000	403,250
Patient accounts receivable, net of allowance; 2012 – \$1,759,000, 2011 – \$1,600,000	4,820,844	5,249,595
Estimated amounts due from third-party payers	184,722	270,000
Supplies	659,859	681,301
Prepaid expenses and other	514,801	509,127
	<u>8,485,650</u>	<u>8,417,847</u>
Total current assets	8,485,650	8,417,847
Capital Assets, Net	12,400,589	12,185,837
Other Assets	<u>571,853</u>	<u>557,759</u>
Total assets	<u>\$ 21,458,092</u>	<u>\$ 21,161,443</u>

Liabilities and Net Position

Current Liabilities		
Note payable	\$ 205,173	\$ 233,761
Current maturities of long-term debt	1,412,468	1,345,887
Accounts payable	1,098,087	1,540,821
Accrued payroll and expenses	3,273,746	2,719,965
	<u>5,989,474</u>	<u>5,840,434</u>
Total current liabilities	5,989,474	5,840,434
Long-Term Debt	<u>3,219,356</u>	<u>3,048,111</u>
Total liabilities	<u>9,208,830</u>	<u>8,888,545</u>
Net Position		
Net investment in capital assets	7,768,765	7,741,981
Unrestricted	4,480,497	4,530,917
	<u>12,249,262</u>	<u>12,272,898</u>
Total net position	12,249,262	12,272,898
Total liabilities and net position	<u>\$ 21,458,092</u>	<u>\$ 21,161,443</u>

Grady Memorial Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$6,943,410, 2011 – \$7,232,868	\$ 41,104,638	\$ 37,133,292
Capitation revenue	151,505	136,817
Other	825,411	1,345,586
Total operating revenues	42,081,554	38,615,695
Operating Expenses		
Salaries and wages	20,725,138	18,941,614
Employee benefits	3,792,535	4,070,637
Purchased services and professional fees	4,688,582	4,685,203
Supplies and other expenses	11,016,886	9,829,858
Depreciation and amortization	1,845,997	1,697,346
Total operating expenses	42,069,138	39,224,658
Operating Income (Loss)	12,416	(608,963)
Nonoperating Revenues (Expenses)		
Noncapital gifts and grants	18,095	38,646
Investment income	113,266	99,681
Interest expense	(175,716)	(198,283)
Total nonoperating revenues (expenses)	(44,355)	(59,956)
Deficiency of Revenues over Expenses Before Capital Grants and Gifts	(31,939)	(668,919)
Gifts to Purchase Capital Assets and Other Capital Grants	8,303	52,569
Decrease in Net Position	(23,636)	(616,350)
Net Position, Beginning of Year	12,272,898	12,889,248
Net Position, End of Year	\$ 12,249,262	\$ 12,272,898

Grady Memorial Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 41,770,172	\$ 37,157,389
Payments to suppliers and contractors	(15,875,705)	(14,078,155)
Payments to employees	(23,963,892)	(23,041,922)
Other receipts and payments, net	825,411	1,345,586
Net cash provided by operating activities	2,755,986	1,382,898
Noncapital Financing Activities		
Noncapital gifts and grants	18,095	38,646
Proceeds from issuance of note payable	193,413	201,495
Principal paid on notes payable	(427,174)	(412,059)
Interest paid on notes payable	(7,036)	(6,542)
Net cash used in noncapital financing activities	(222,702)	(178,460)
Capital and Related Financing Activities		
Principal paid on long-term debt	(1,384,752)	(1,294,888)
Interest paid on long-term debt	(168,680)	(191,741)
Proceeds from issuance of long-term debt	1,081,662	1,789,807
Payment of deferred financing costs	-	(26,307)
Purchase of capital assets	(1,569,478)	(1,851,676)
Proceeds from sales of capital assets	3,350	1,200
Capital grants and gifts	8,303	52,569
Net cash used in capital and related financing activities	(2,029,595)	(1,521,036)
Investing Activities		
Purchases of short-term investments	(297,000)	(297,019)
Sale of short-term investments	304,250	594,025
Investment income received	93,911	148,514
Net cash provided by investing activities	101,161	445,520
Increase in Cash and Cash Equivalents	604,850	128,922
Cash and Cash Equivalents, Beginning of Year	1,304,574	1,175,652
Cash and Cash Equivalents, End of Year	\$ 1,909,424	\$ 1,304,574

	<u>2012</u>	<u>2011</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash		
Provided by Operating Activities		
Operating income (loss)	\$ 12,416	\$ (608,963)
Depreciation and amortization	1,845,997	1,697,346
Provision for uncollectible accounts	6,943,410	7,232,868
Loss on disposal of capital assets	1,698	25,834
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(6,514,659)	(7,640,588)
Supplies and prepaid expenses	198,437	214,175
Estimated amounts due from third-party payers	85,278	295,000
Accounts payable and accrued expenses	183,409	167,226
	<u>\$ 2,755,986</u>	<u>\$ 1,382,898</u>
Net cash provided by operating activities		
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	\$ 540,916	\$ -
Financed insurance premiums	\$ 205,173	\$ 233,761
Capital asset additions in accounts payable	\$ -	\$ 49,858
Prepaid expenses in accounts payable	\$ -	\$ 22,504

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Grady Memorial Hospital Authority (the Authority) is a public trust which operates Grady Memorial Hospital (the Hospital). Grady County (the County) owns the Hospital's capital assets, and on September 1, 1982, the Board of County Commissioners of Grady County created the Authority to operate, control and manage all matters concerning the Hospital and the public trust. A lease agreement was entered into on January 1, 1983, between the County and the Authority. The lease term is for 50 years for a nominal rental amount. The Board of County Commissioners appoints the members of the Authority's Board of Trustees.

The Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Chickasha, Oklahoma, and the surrounding area. The Authority also operates a physicians' clinic in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers.

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Risk Management

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

The Authority is self-insured for a portion of the risks related to workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the weighted-average cost method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	10–12 years
Buildings and leasehold improvements	5–40 years
Equipment	3–25 years

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Investment in Joint Venture

The Authority has an ownership (equity) interest in a joint venture – Heartland Healthcare Reciprocal Risk Retention Group (Heartland). The investment in the joint venture is recorded using the equity method of accounting (cost plus equity in the joint venture’s undistributed net income or loss since acquisition). See *Note 13* for additional information regarding the Heartland joint venture.

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date, if any, is included in other long-term liabilities.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As a governmental entity, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, the Authority completed the first-year requirements under the Oklahoma Medicaid program and has recorded revenue of approximately \$484,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

The Authority expects to complete the first-year requirements for Medicare and the second-year requirements for Medicaid in 2013.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2014. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

During the year ended December 31, 2012, the Authority received approximately \$2,863,000 in SHOPP funds and paid approximately \$1,229,000 in SHOPP assessment fees. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

The amounts received and paid during the year ended December 31, 2012, represent 18 months of SHOPP revenue and expense as the program was not approved until January 2012 but was retroactive to July 1, 2011. The estimated annual amounts to be received and paid by the Hospital over the term of the SHOPP program are approximately \$1,915,000 and \$820,000, respectively.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or visit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through December 31, 2009.

Medicaid – Inpatient services and substantially all outpatient services rendered to the state's Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors with no retroactive adjustment.

Approximately 61% and 60% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 3: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires collateralization of all deposits with federal depository insurance and other acceptable collateral.

At December 31, 2012 and 2011, approximately \$1,968,000 and \$1,952,000 of the Authority's bank balances of approximately \$2,594,000 and \$2,489,000, respectively, were uninsured with collateral held by the pledging financial institution.

Summary of Carrying Values

The carrying values of deposits shown above are included in the accompanying balance sheets as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,909,424	\$ 1,304,574
Short-term investments	<u>396,000</u>	<u>403,250</u>
	<u>\$ 2,305,424</u>	<u>\$ 1,707,824</u>

Investment Income

Investment income for the years ended December 31, 2012 and 2011, consisted of interest income and income from investment in joint venture.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 1,377,537	\$ 1,605,591
Medicaid	603,570	728,737
Other third-party payers	2,848,861	2,882,980
Patients	<u>1,749,876</u>	<u>1,632,287</u>
	6,579,844	6,849,595
Less allowance for uncollectible accounts	<u>1,759,000</u>	<u>1,600,000</u>
	<u>\$ 4,820,844</u>	<u>\$ 5,249,595</u>

Grady Memorial Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 74,234	\$ -	\$ -	\$ -	\$ 74,234
Land improvements	603,382	-	-	-	603,382
Buildings and leasehold improvements	16,443,207	210,619	-	-	16,653,826
Equipment	22,672,412	975,654	(290,069)	812,572	24,170,569
Construction in progress	329,562	874,263	(4,229)	(812,572)	387,024
	<u>40,122,797</u>	<u>2,060,536</u>	<u>(294,298)</u>	<u>-</u>	<u>41,889,035</u>
Less accumulated depreciation					
Land improvements	576,975	6,958	-	-	583,933
Buildings and leasehold improvements	9,132,899	481,054	-	-	9,613,953
Equipment	18,227,086	1,352,725	(289,251)	-	19,290,560
	<u>27,936,960</u>	<u>1,840,737</u>	<u>(289,251)</u>	<u>-</u>	<u>29,488,446</u>
Capital assets, net	<u>\$ 12,185,837</u>	<u>\$ 219,799</u>	<u>\$ (5,047)</u>	<u>\$ -</u>	<u>\$ 12,400,589</u>
	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 74,234	\$ -	\$ -	\$ -	\$ 74,234
Land improvements	603,382	-	-	-	603,382
Buildings and leasehold improvements	15,999,161	-	-	444,046	16,443,207
Equipment	21,846,057	285,134	(496,917)	1,038,138	22,672,412
Construction in progress	209,526	1,602,220	-	(1,482,184)	329,562
	<u>38,732,360</u>	<u>1,887,354</u>	<u>(496,917)</u>	<u>-</u>	<u>40,122,797</u>
Less accumulated depreciation					
Land improvements	567,621	9,354	-	-	576,975
Buildings and leasehold improvements	8,655,415	477,484	-	-	9,132,899
Equipment	17,518,785	1,178,184	(469,883)	-	18,227,086
	<u>26,741,821</u>	<u>1,665,022</u>	<u>(469,883)</u>	<u>-</u>	<u>27,936,960</u>
Capital assets, net	<u>\$ 11,990,539</u>	<u>\$ 222,332</u>	<u>\$ (27,034)</u>	<u>\$ -</u>	<u>\$ 12,185,837</u>

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 6: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's workers' compensation and employee health insurance plans. The Authority is self-insured for health claims of participating employees and dependents up to an annual amount of \$80,000 per person. The Authority is self-insured for workers' compensation claims of participating employees up to an annual amount of \$350,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amounts.

A provision is accrued for self-insured employee health claims and workers' compensation claims, including both claims reported and claims incurred but not yet reported. The accruals are estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Authority's estimates will change by a material amount in the near term.

Activity in the Authority's accrued claims liabilities during 2012 and 2011 is summarized as follows:

	December 31, 2012	
	Workers' Compensation	Employee Health
Balance, beginning of year	\$ 76,693	\$ 296,889
Current year claims incurred and changes in estimates for claims incurred in prior years	22,082	2,068,009
Claims and expenses paid	(49,556)	(2,022,328)
Balance, end of year	\$ 49,219	\$ 342,570

	December 31, 2011	
	Workers' Compensation	Employee Health
Balance, beginning of year	\$ 54,791	\$ 368,211
Current year claims incurred and changes in estimates for claims incurred in prior years	172,492	2,311,058
Claims and expenses paid	(150,590)	(2,382,380)
Balance, end of year	\$ 76,693	\$ 296,889

Grady Memorial Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a member of Heartland Healthcare Reciprocal Risk Retention Group (Heartland), an entity approved by the State of Vermont to provide hospital professional liability and general liability coverage to its subscribers. Heartland was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Heartland members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 13* for additional information about Heartland.

Note 8: Short-Term Notes Payable

The Authority finances certain insurance premium amounts with short-term notes payable. The following is a summary of short-term notes payable transactions for the Authority for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 233,761	\$ 210,564
Additions	398,586	435,256
Deductions	<u>(427,174)</u>	<u>(412,059)</u>
Balance, end of year	<u>\$ 205,173</u>	<u>\$ 233,761</u>

Grady Memorial Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (B)	\$ 619,928	\$ -	\$ (199,867)	\$ 420,061	\$ 207,655
Note payable, GE (C)	1,116,375	-	(310,276)	806,099	292,842
Revenue note, Series 2011 (D)	2,199,811	1,081,662	(680,078)	2,601,395	664,157
Capital lease obligations	457,884	540,916	(194,531)	804,269	247,814
	<u>\$ 4,393,998</u>	<u>\$ 1,622,578</u>	<u>\$ (1,384,752)</u>	<u>\$ 4,631,824</u>	<u>\$ 1,412,468</u>

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue note, Series 2002 (A)	\$ 2,285,426	\$ -	\$ (2,285,426)	\$ -	\$ -
Note payable, bank (B)	816,129	-	(196,201)	619,928	199,729
Note payable, GE (C)	110,000	1,208,594	(202,219)	1,116,375	284,057
Revenue note, Series 2011 (D)	-	2,199,811	-	2,199,811	682,496
Capital lease obligations	687,524	-	(229,640)	457,884	179,605
	<u>\$ 3,899,079</u>	<u>\$ 3,408,405</u>	<u>\$ (2,913,486)</u>	<u>\$ 4,393,998</u>	<u>\$ 1,345,887</u>

- (A) Originally due February 6, 2014; principal and interest at 5.49% payable monthly in the amount of \$65,086; secured by pledge of the Authority's gross revenues and a security interest in a mortgage and lien on certain of the Authority's real property. This note was refinanced in December 2011, see (D) below.
- (B) Due December 16, 2014; principal and interest at 3.90% payable annually beginning January 16, 2010, in the amount of \$18,374; secured by certain equipment of the Authority.
- (C) Due May 1, 2016; monthly interest only payments at 3.05% through May 1, 2011, then principal and interest at 3.05% payable monthly in the amount of \$28,334; secured by certain equipment of the Authority.
- (D) Due December 22, 2017; monthly interest only payments at 4.0% through January 2012 then principal and interest at 4.0% payable monthly in the amount of \$63,000; secured by certain equipment of the Authority. Total loan commitment is for \$4,000,000, of which \$3,281,473 had been drawn by the Authority as of December 31, 2012.

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

The debt service requirements of the revenue note and notes payable as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 1,288,163	\$ 1,164,654	\$ 123,509
2014	1,228,216	1,147,175	81,041
2015	950,763	908,544	42,219
2016	616,133	607,182	8,951
	<u>\$ 4,083,275</u>	<u>\$ 3,827,555</u>	<u>\$ 255,720</u>

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 and 2011, had total costs of \$1,182,515 and \$676,212 and accumulated depreciation of \$405,627 and \$211,555, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest from 2.98% to 10.33%, together with the present value of the future minimum lease payments, at December 31, 2012:

Year Ending December 31,	
2013	\$ 291,515
2014	198,801
2015	178,142
2016	139,813
2017	113,275
Total minimum lease payments	<u>921,546</u>
Less amount representing interest	<u>117,277</u>
Present value of future minimum lease payments	<u>\$ 804,269</u>

Grady Memorial Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 10: Internally Designated Net Position

At December 31, 2012 and 2011, unrestricted net position has been designated by the Authority's Board of Trustees for capital acquisitions and self-insured claims. These funds were designated for the following purposes:

	2012	2011
Capital acquisitions	\$ 1,227,524	\$ 817,001
Self-insured claims	68,933	68,430
Total designated net position	\$ 1,296,457	\$ 885,431

Designated net position remains under the control of the Board of Trustees which may, at its discretion, later use this net position for other purposes.

Note 11: Charity Care and Other Community Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges related to these services are as follows:

	2012	2011
Medicaid contractual allowance	\$ 8,999,000	\$ 12,119,000
Charity care charges	1,700,000	1,788,000
	\$ 10,699,000	\$ 13,907,000

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, community educational services and various support groups.

Grady Memorial Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 12: Pension Plans

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates made by the Authority, expressed as a percentage of covered payroll, were 2.0% and 1.8% for 2012 and 2011, respectively. Contributions actually made by plan members and the Authority were approximately \$614,000 and \$188,000 during 2012 and \$612,000 and \$173,000 during 2011, respectively.

Note 13: Investment in Joint Venture

The Authority is a subscriber (member) of Heartland and at December 31, 2012 and 2011, had an approximate 7% ownership (equity) interest in Heartland. Heartland was formed as an unincorporated association approved by the State of Vermont to provide hospital professional liability and general liability coverage to its subscribers. The Authority's investment in Heartland amounted to approximately \$551,000 and \$531,000 at December 31, 2012 and 2011, respectively.

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverages from Heartland (see *Note 7*). For the years ended December 31, 2012 and 2011, the Authority paid approximately \$366,000 and \$323,000, respectively, to Heartland for the coverage.

Grady Memorial Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Financial position and results of operations summarized from Heartland’s unaudited financial statements for the year ended December 31, 2012, and the audited financial statements for the fiscal year ended December 31, 2011, are shown below:

	2012 (Unaudited)	2011 (Audited)
Cash and cash equivalents	\$ 2,339,418	\$ 1,343,003
Investments at fair value	11,885,519	11,598,785
Other assets	<u>251,971</u>	<u>543,541</u>
Total assets	<u>14,476,908</u>	<u>13,485,329</u>
Unpaid losses and loss adjustment expenses	5,904,572	5,120,702
Other liabilities	<u>230,823</u>	<u>240,717</u>
Total liabilities	<u>6,135,395</u>	<u>5,361,419</u>
Subscribers’ surplus	<u>\$ 8,341,513</u>	<u>\$ 8,123,910</u>
Revenues	<u>\$ 4,386,568</u>	<u>\$ 3,694,714</u>
Net income	<u>\$ 1,224,750</u>	<u>\$ 1,156,919</u>

Complete financial statements of Heartland may be obtained by contacting the Authority’s management at 405.224.2300.

Note 14: Contingencies and Other Matters

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority’s commercial insurance or self-insurance programs (discussed elsewhere in these notes); for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Grady Memorial Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The State of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Trustees
Grady Memorial Hospital Authority
Chickasha, 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 Grady Memorial Hospital Authority (the Authority), which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2013.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
Grady Memorial Hospital Authority

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matter

We noted a certain matter that we reported to the Authority's management in a separate letter dated April 23, 2013.

The purpose of this communication 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
April 23, 2013

Grady Memorial Hospital Authority
Schedule of Findings and Responses
Year Ended December 31, 2012

Reference Number	Finding
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No matters are reportable.