# Grady Memorial Hospital Authority

Auditor's Reports and Financial Statements

December 31, 2014 and 2013

BKD LLP
CPAs & Advisors

# Grady Memorial Hospital Authority
## December 31, 2014 and 2013

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# Independent Auditor's Report

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 the balance sheets as of December 31, 2014 and 2013, 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 opinion.

### *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, 2014 and 2013, 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 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 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 April 27, 2015, 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* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
April 27, 2015

# Grady Memorial Hospital Authority
## Management's Discussion and Analysis
## Years Ended December 31, 2014 and 2013

### *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, 2014 and 2013. 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 2014 by $59,640 or 3% and increased in 2013 by $28,552 or 2%.
- Patient accounts receivable increased in 2014 by $1,412,968 or 31% and decreased in 2013 by $304,812 or 6%.
- Accounts payable decreased by $642,796 or 31% in 2014 and increased by $969,470 or 88% in 2013.
- The Authority reported an operating income in 2014 of $1,679,389 and an operating loss in 2013 of $1,665,596. The operating results in 2014 improved by $3,344,985 or 201% compared to the operating loss reported in 2013. The operating loss in 2013 worsened by $1,678,012 or 13,515% compared to the operating income reported in 2012.

### *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 organization's finances is, "Is the organization 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 and liabilities—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 and liabilities reported in the accompanying balance sheets. The Authority's net position increased by $1,557,650 or 15% in 2014 from 2013 and decreased by $1,804,513 or 15% in 2013 from 2012 as shown in Table 1.

### *Table 1: Assets, Liabilities and Net Position*

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 1,997,616 | $ 1,937,976 | $ 1,909,424 |
| Short-term investments | 297,000 | 396,000 | 396,000 |
| Patient accounts receivable, net | 5,929,000 | 4,516,032 | 4,820,844 |
| Other current assets | 1,949,687 | 1,451,671 | 1,359,382 |
| Capital assets, net | 10,106,932 | 11,877,096 | 12,400,589 |
| Other noncurrent assets | 631,056 | 628,545 | 571,853 |
| Total assets | $ 20,911,291 | $ 20,807,320 | $ 21,458,092 |
| **Liabilities** | | | |
| Long-term debt (including current portion) | $ 3,722,410 | $ 4,557,687 | $ 4,631,824 |
| Other current and noncurrent liabilities | 5,186,482 | 5,804,884 | 4,577,006 |
| Total liabilities | 8,908,892 | 10,362,571 | 9,208,830 |
| **Net Position** | | | |
| Net investment in capital assets | 6,373,354 | 7,319,409 | 7,768,765 |
| Unrestricted | 5,629,045 | 3,125,340 | 4,480,497 |
| Total net position | 12,002,399 | 10,444,749 | 12,249,262 |
| Total liabilities and net position | $ 20,911,291 | $ 20,807,320 | $ 21,458,092 |

Significant changes in the Authority's 2014 assets are found in the categories of patient accounts receivable, net of capital assets and estimated amounts due from third-party payers. Patient accounts receivable increased in 2014 by $1,412,968 or 31% due primarily to an overall increase in patient census during fiscal year 2014. Days' net revenue in net accounts receivable was 53 days at December 31, 2014, and 44 days at December 31, 2013. The Authority's net capital assets decreased in 2014 due to depreciation expense exceeding current year additions. Estimated amounts due from third-party payers increased by $727,500 or 219% due primarily to an accrual of $935,000 for year one electronic health record (EHR) incentive payments due from the Medicare program.

The most significant changes in the Authority's 2014 liabilities relate to accounts payable and long-term debt. Accounts payable decreased by $642,796 or 31% due to improved cash flow related to volume increases that lead to an increase in payments to vendors. During 2014, the Authority entered into a new note payable agreement for approximately $982,000, and used the proceeds to retire existing debt. In addition to the refinancing, the principal payments on long-term debt in excess of new debt proceeds caused the total balance of long-term debt to decrease by approximately $835,000 or 18% from 2014 to 2013. See *Note 9* of the financial statements.

Significant changes in the Authority's 2013 assets are found in the categories of patient accounts receivable and estimated amounts due from third-party payers. Patient accounts receivable decreased in 2013 by $304,812 or 6% due primarily to an overall decrease in patient census during fiscal year 2013. Days' net revenue in net accounts receivable was 44 days at December 31, 2013, and 43 days at December 31, 2012. Estimated amounts due from third-party payers increased by $147,778 or 80% due primarily to an accrual of $350,000 for year two EHR incentive payments due from the Medicaid program.

The most significant changes in the Authority's 2013 liabilities relate to accounts payable. Accounts payable increased by $969,470 or 88% due to a reduction in cash flow related to volume decreases that lead to a reduction in payments to vendors.

### *Operating Results and Changes in the Authority's Net Position*

In 2014, the Authority's net position increased by $1,557,650 as shown in Table 2. This increase is made up of several different components and represents an increase of $3,362,163 or 186% compared with the decrease in net position for 2013 of $1,804,513.

### *Table 2: Operating Results and Changes in Net Position*

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Net patient service revenue | $ 41,063,765 | $ 37,306,909 | $ 41,104,638 |
| Capitation revenue | 277,884 | 216,807 | 151,505 |
| Other operating revenues | 1,994,353 | 2,742,828 | 825,411 |
| Total operating revenues | 43,336,002 | 40,266,544 | 42,081,554 |
| **Operating Expenses** | | | |
| Salaries, wages and employee benefits | 24,659,905 | 25,176,447 | 24,517,673 |
| Purchased services and professional fees | 4,049,966 | 4,071,943 | 4,688,582 |
| Supplies and other expenses | 10,917,221 | 10,538,344 | 11,016,886 |
| Depreciation and amortization | 2,029,521 | 2,145,406 | 1,845,997 |
| Total operating expenses | 41,656,613 | 41,932,140 | 42,069,138 |
| **Operating Income (Loss)** | 1,679,389 | (1,665,596) | 12,416 |
| **Nonoperating Revenues (Expenses)** | | | |
| Noncapital gifts and grants | 44,569 | - | 18,095 |
| Investment income | 13,866 | 68,064 | 113,266 |
| Interest expense | (180,174) | (206,981) | (175,716) |
| Total nonoperating revenues (expenses) | (121,739) | (138,917) | (44,355) |
| **Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts** | 1,557,650 | (1,804,513) | (31,939) |
| **Gifts to Purchase Capital Assets and Other Capital Grants** | - | - | 8,303 |
| **Change in Net Position** | $ 1,557,650 | $ (1,804,513) | $ (23,636) |

### *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 operating income for 2014 increased by $3,344,985 as compared to the operating loss in 2013. The primary components of the increase in operating results in 2014 were:

- An increase in net patient service revenue of $3,756,856 or 10% from 2013 to 2014 due primarily to an overall increase in volumes
- A decrease in other operating revenues of $748,475 or 27% from 2013 to 2014 due primarily to the Authority earning approximately $935,000 of revenue under the Medicare and state Medicaid EHR incentive programs in 2014 compared to approximately $1,875,000 in 2013
- A decrease in salaries, wages and employee benefits of $516,542 or 2% from 2013 to 2014 due primarily to decreases in wages and workforce, as well as decreases in health insurance and workers' compensation costs
- An increase in supplies and other expenses of $378,877 or 4% from 2013 to 2014 due primarily to an increase in supplies expense of approximately $385,000

The operating loss for 2013 decreased by $1,678,012 as compared to the operating income in 2012. The primary components of the decrease in operating results in 2013 were:

- A decrease in net patient service revenue of $3,797,729 or 9% from 2012 to 2013 due primarily to an overall decrease in volumes and a reduction of approximately $1,127,000 of funds for the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP)
- An increase in other operating revenues of $1,917,417 or 232% from 2012 to 2013 due primarily to the Authority earning approximately $1,875,000 of revenue under the Medicare and state Medicaid EHR incentive programs in 2013
- An increase in salaries, wages and employee benefits of $658,774 or 3% from 2012 to 2013 due primarily to increases in wages, health insurance and workers' compensation costs
- A decrease in purchased services and professional fees of $616,639 or 13% from 2012 to 2013 due primarily to a decrease in contract labor expenses, including hospitalists and nurses
- A decrease in supplies and other expenses of $478,542 or 4% from 2012 to 2013 due primarily to the reduction in SHOPP assessment fees of approximately $377,000

### *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 2013 and 2014.

### *The Authority's Cash Flows*

Net cash provided by operating activities in 2014 decreased by $432,515 or 23% from 2013. Receipts from and on behalf of patients increased by approximately $1,520,000 due to increased patient volume. Payments to suppliers, contractors and employees increased by approximately $1,204,000 due to the decrease in accounts payable.

### *Capital Assets and Debt Administration*

#### Capital Assets

At December 31, 2014 and 2013, the Authority had $10,106,932 and $11,877,096, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Authority had major additions in computer equipment related to the EHR system implementation.

#### Debt

At December 31, 2014 and 2013, the Authority had $3,722,410 and $4,557,687, respectively, in notes payable and capital lease obligations outstanding. In 2014, the Authority entered into a new long-term note payable agreement for $981,807 to purchase equipment and payoff existing debt and borrowed the final $66,231 on the Series 2011 Revenue Note. In 2013, the Authority was advanced an additional $652,296 of an existing revenue note, entered into a new long-term note payable agreement for $500,295 to finance capital additions related to the EHR system, entered into a new long-term note payable agreement for $102,594 for the purchase of a clinic in Tuttle, Oklahoma, and entered into new capital lease obligations of $239,818. See *Note 9* of the financial statements.

### *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, 2014 and 2013

### Assets

| | 2014 | 2013 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,997,616 | $ 1,937,976 |
| Short-term investments | 297,000 | 396,000 |
| Patient accounts receivable, net of allowance; 2014 – $3,642,000, 2013 – $1,910,000 | 5,929,000 | 4,516,032 |
| Estimated amounts due from third-party payers | 1,060,000 | 332,500 |
| Supplies | 559,808 | 565,132 |
| Prepaid expenses and other | 329,879 | 554,039 |
| Total current assets | 10,173,303 | 8,301,679 |
| **Capital Assets, Net** | 10,106,932 | 11,877,096 |
| **Other Assets** | 631,056 | 628,545 |
| Total assets | $ 20,911,291 | $ 20,807,320 |

### Liabilities and Net Position

| | 2014 | 2013 |
|---|---|---|
| **Current Liabilities** | | |
| Notes payable | $ 4,898 | $ 264,862 |
| Current maturities of long-term debt | 1,250,708 | 1,410,607 |
| Accounts payable | 1,424,761 | 2,067,557 |
| Accrued payroll and expenses | 3,756,823 | 3,472,465 |
| Total current liabilities | 6,437,190 | 7,215,491 |
| **Long-Term Debt** | 2,471,702 | 3,147,080 |
| Total liabilities | 8,908,892 | 10,362,571 |
| **Net Position** | | |
| Net investment in capital assets | 6,373,354 | 7,319,409 |
| Unrestricted | 5,629,045 | 3,125,340 |
| Total net position | 12,002,399 | 10,444,749 |
| Total liabilities and net position | $ 20,911,291 | $ 20,807,320 |

# Grady Memorial Hospital Authority

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

## Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2014 – $7,118,681, 2013 – $7,510,794 | $ 41,063,765 | $ 37,306,909 |
| Capitation revenue | 277,884 | 216,807 |
| Other | 1,994,353 | 2,742,828 |
| Total operating revenues | 43,336,002 | 40,266,544 |
| **Operating Expenses** | | |
| Salaries and wages | 20,775,390 | 21,004,364 |
| Employee benefits | 3,884,515 | 4,172,083 |
| Purchased services and professional fees | 4,049,966 | 4,071,943 |
| Supplies and other expenses | 10,917,221 | 10,538,344 |
| Depreciation and amortization | 2,029,521 | 2,145,406 |
| Total operating expenses | 41,656,613 | 41,932,140 |
| **Operating Income (Loss)** | 1,679,389 | (1,665,596) |
| **Nonoperating Revenues (Expenses)** | | |
| Noncapital gifts and grants | 44,569 | - |
| Investment income | 13,866 | 68,064 |
| Interest expense | (180,174) | (206,981) |
| Total nonoperating revenues (expenses) | (121,739) | (138,917) |
| **Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Change in Net Position** | 1,557,650 | (1,804,513) |
| **Net Position, Beginning of Year** | 10,444,749 | 12,249,262 |
| **Net Position, End of Year** | $ 12,002,399 | $ 10,444,749 |

# Grady Memorial Hospital Authority

## Statements of Cash Flows

## Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Activities** | | |
| Receipts from and on behalf of patients | $ 39,201,181 | $ 37,680,750 |
| Payments to suppliers and contractors | (15,321,922) | (13,585,395) |
| Payments to employees | (24,445,672) | (24,977,728) |
| Other receipts and payments, net | 1,994,353 | 2,742,828 |
| Net cash provided by operating activities | 1,427,940 | 1,860,455 |
| **Noncapital Financing Activities** | | |
| Noncapital gifts and grants | 44,569 | - |
| Proceeds from issuance of notes payable | 24,491 | 492,337 |
| Principal paid on notes payable | (284,455) | (432,648) |
| Interest paid on notes payable | - | (7,664) |
| Net cash provided by (used in) noncapital financing activities | (215,395) | 52,025 |
| **Capital and Related Financing Activities** | | |
| Principal paid on long-term debt | (1,883,315) | (1,569,140) |
| Interest paid on long-term debt | (180,174) | (199,317) |
| Proceeds from issuance of long-term debt | 1,048,038 | 1,255,185 |
| Purchase of capital assets | (258,405) | (1,390,044) |
| Proceeds from sales of capital assets | 15,857 | 13,278 |
| Net cash used in capital and related financing activities | (1,257,999) | (1,890,038) |
| **Investing Activities** | | |
| Purchases of short-term investments | (297,000) | (396,000) |
| Sale of short-term investments | 396,000 | 396,000 |
| Investment income received | 6,094 | 6,110 |
| Net cash provided by investing activities | 105,094 | 6,110 |
| **Increase in Cash and Cash Equivalents** | 59,640 | 28,552 |
| **Cash and Cash Equivalents, Beginning of Year** | 1,937,976 | 1,909,424 |
| **Cash and Cash Equivalents, End of Year** | $ 1,997,616 | $ 1,937,976 |

| | 2014 | 2013 |
|---|---|---|
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities** | | |
| Operating income (loss) | $ 1,679,389 | $ (1,665,596) |
| Depreciation and amortization | 2,029,521 | 2,145,406 |
| Provision for uncollectible accounts | 7,118,681 | 7,510,794 |
| Gain on disposal of capital assets | (378) | (67) |
| Changes in operating assets and liabilities | | |
| Patient and other accounts receivable, net | (8,531,649) | (7,205,982) |
| Supplies and prepaid expenses | 229,484 | 55,489 |
| Estimated amounts due from third-party payers | (727,500) | (147,778) |
| Self-insured liability | 70,125 | 152,409 |
| Accounts payable and accrued expenses | (439,733) | 1,015,780 |
| Net cash provided by operating activities | $ 1,427,940 | $ 1,860,455 |
| **Supplemental Cash Flows Information** | | |
| Capital lease obligation incurred for capital assets | $ - | $ 239,818 |
| Financed insurance premiums | $ - | $ 264,862 |
| Capital asset additions in accounts payable | $ 11,168 | $ - |

## 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 the 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 physician clinics 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 and liabilities 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 and liabilities 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, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

### *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 its exposure to risk of loss 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 and income from joint venture.

### *Patient Accounts Receivable*

The Authority reports patient accounts receivable for services rendered at net realizable amounts due 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 |

### *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 two 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

### *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 due 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.

### *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 (EHR) technology. 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 (CMS). Payment under both programs are contingent on the Authority 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 2013, the Authority completed the first-year requirements under the Medicare program and the second-year requirements under the Oklahoma Medicaid program. The Authority has recorded revenue of approximately $1,525,000 and $350,000 for Medicare and Medicaid, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

In 2014, the Authority completed the second-year requirements under the Medicare program, and the third-year requirements for Medicaid. The Authority has recorded revenue of approximately $840,000 and $95,000 for Medicare and Medicaid, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

### *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, 2017. 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.

During the years ended December 31, 2014 and 2013, the Authority had the following activity related to the SHOPP program:

| | 2014 | 2013 |
|---|---|---|
| SHOPP funds received | $ 2,083,000 | $ 1,736,000 |
| SHOPP assessment fees paid | 950,000 | 852,000 |
| Net benefit under SHOPP | $ 1,133,000 | $ 884,000 |

The annual amounts to be received and paid by the Authority over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the remaining term of the SHOPP program is not expected to be materially different than the net amounts received in 2014. 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.

## 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. 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, 2012.

**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 58% and 61% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, 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.

## 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, 2014 and 2013, none of the Authority's bank balances of approximately $3,231,000 and $2,643,000, respectively, were uninsured and uncollateralized.

### *Summary of Carrying Values*

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

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 1,997,616 | $ 1,937,976 |
| Short-term investments | 297,000 | 396,000 |
| | $ 2,294,616 | $ 2,333,976 |

### *Investment Income*

Investment income for the years ended December 31, 2014 and 2013, consisted of interest income and income from investment in joint venture (see *Note 13*).

## 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, 2014 and 2013, consisted of:

| | 2014 | 2013 |
|---|---|---|
| Medicare | $ 1,476,733 | $ 906,975 |
| Medicaid | 632,132 | 566,114 |
| Other third-party payers | 3,740,503 | 2,699,219 |
| Patients | 3,721,632 | 2,253,724 |
| | 9,571,000 | 6,426,032 |
| Less allowance for uncollectible accounts | 3,642,000 | 1,910,000 |
| | $ 5,929,000 | $ 4,516,032 |

# Grady Memorial Hospital Authority
## Notes to Financial Statements
## December 31, 2014 and 2013

### Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2014 and 2013, was:

**2014**

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 74,234 | $ - | $ - | $ - | $ 74,234 |
| Land improvements | 603,382 | - | - | - | 603,382 |
| Buildings and leasehold improvements | 17,004,878 | - | - | - | 17,004,878 |
| Equipment | 25,524,335 | 209,484 | (559,029) | 231,150 | 25,405,940 |
| Construction in progress | 183,916 | 60,089 | (12,855) | (231,150) | - |
| | 43,390,745 | 269,573 | (571,884) | - | 43,088,434 |
| Less accumulated depreciation | | | | | |
| Land improvements | 590,697 | 4,970 | - | - | 595,667 |
| Buildings and leasehold improvements | 10,127,852 | 508,908 | - | - | 10,636,760 |
| Equipment | 20,795,100 | 1,510,381 | (556,406) | - | 21,749,075 |
| | 31,513,649 | 2,024,259 | (556,406) | - | 32,981,502 |
| Capital assets, net | $ 11,877,096 | $ (1,754,686) | $ (15,478) | $ - | $ 10,106,932 |

**2013**

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 74,234 | $ - | $ - | $ - | $ 74,234 |
| Land improvements | 603,382 | - | - | - | 603,382 |
| Buildings and leasehold improvements | 16,653,826 | 90,000 | - | 261,052 | 17,004,878 |
| Equipment | 24,170,569 | 570,534 | (128,152) | 911,384 | 25,524,335 |
| Construction in progress | 387,024 | 969,328 | - | (1,172,436) | 183,916 |
| | 41,889,035 | 1,629,862 | (128,152) | - | 43,390,745 |
| Less accumulated depreciation | | | | | |
| Land improvements | 583,933 | 6,764 | - | - | 590,697 |
| Buildings and leasehold improvements | 9,613,953 | 513,899 | - | - | 10,127,852 |
| Equipment | 19,290,560 | 1,619,299 | (114,759) | - | 20,795,100 |
| | 29,488,446 | 2,139,962 | (114,759) | - | 31,513,649 |
| Capital assets, net | $ 12,400,589 | $ (510,100) | $ (13,393) | $ - | $ 11,877,096 |

## 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 $400,000. 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 the Authority's estimates will change by a material amount in the near term.

Activity in the Authority's accrued claims liabilities during 2014 and 2013 is summarized as follows:

| | Workers' Compensation | |
|---|---|---|
| | 2014 | 2013 |
| Balance, beginning of year | $ 197,035 | $ 49,219 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 69,897 | 247,569 |
| Claims and expenses paid | (95,716) | (99,753) |
| Balance, end of year | $ 171,216 | $ 197,035 |

| | Employee Health | |
|---|---|---|
| | 2014 | 2013 |
| Balance, beginning of year | $ 347,163 | $ 342,570 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 2,213,190 | 2,209,245 |
| Claims and expenses paid | (2,117,246) | (2,204,652) |
| Balance, end of year | $ 443,107 | $ 347,163 |

## 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 financed certain insurance premium amounts with short-term notes payable in 2013. During 2014, these premiums were billed to and paid by the Authority monthly. The following is a summary of short-term notes payable transactions for the Authority for the years ended December 31, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Balance, beginning of year | $ 264,862 | $ 205,173 |
| Additions | 24,491 | 492,337 |
| Deductions | (284,455) | (432,648) |
| Balance, end of year | $ 4,898 | $ 264,862 |

## Note 9: Long-Term Debt

The following is a summary of long-term debt transactions for the Authority for the years ended December 31, 2014 and 2013:

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Note payable, bank (A) | $ 212,356 | $ - | $ (212,356) | $ - | $ - |
| Note payable (B) | 486,227 | - | (232,068) | 254,159 | 173,623 |
| Revenue note, Series 2011 (C) | 2,580,725 | 66,231 | (688,187) | 1,958,769 | 695,680 |
| Note payable (D) | 446,954 | - | (446,954) | - | - |
| Note payable (E) | 99,615 | - | (18,481) | 81,134 | 19,544 |
| Note payable (F) | - | 981,807 | (75,029) | 906,778 | 168,722 |
| Capital lease obligations | 731,810 | - | (210,240) | 521,570 | 193,139 |
| Total long-term debt | $ 4,557,687 | $ 1,048,038 | $ (1,883,315) | $ 3,722,410 | $ 1,250,708 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Note payable, bank (A) | $ 420,061 | $ - | $ (207,705) | $ 212,356 | $ 212,356 |
| Note payable (B) | 806,099 | - | (319,872) | 486,227 | 216,523 |
| Revenue note, Series 2011 (C) | 2,601,395 | 652,296 | (672,966) | 2,580,725 | 664,991 |
| Note payable (D) | - | 500,295 | (53,341) | 446,954 | 94,566 |
| Note payable (E ) | - | 102,594 | (2,979) | 99,615 | 18,503 |
| Capital lease obligations | 804,269 | 239,818 | (312,277) | 731,810 | 203,668 |
| Total long-term debt | $ 4,631,824 | $ 1,495,003 | $ (1,569,140) | $ 4,557,687 | $ 1,410,607 |

(A) Paid off on August 4, 2014, from proceeds of note payable (F); original payments of 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.

(B) 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.

(C) 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 the final $66,231 was drawn by the Authority during the year ended December 31, 2014.

(D) Paid off on August 4, 2014, from proceeds of note payable (F); original payments of principal and interest at 3.9% payable monthly beginning June 10, 2013, in the amount of $9,193; secured by certain equipment of the Authority.

(E) Due October 22, 2018; principal and interest at 5.49% payable monthly beginning November 22, 2013, in the amount of $1,959; secured by a building and land purchased in Tuttle, Oklahoma.

(F) Due August 4, 2019; principal and interest at 3.9% payable monthly beginning September 4, 2014, in the amount of $18,039; secured by certain equipment and accounts receivable held by the Authority. The proceeds of this note payable were used to refinance notes (A) and (D) and to fund purchases of capital assets.

The debt service requirements of the revenue note and notes payable as of December 31, 2014, are as follows:

| Year Ending December 31, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2015 | $ 1,162,470 | $ 1,057,569 | $ 104,901 |
| 2016 | 1,077,126 | 1,010,796 | 66,330 |
| 2017 | 793,445 | 764,987 | 28,458 |
| 2018 | 236,087 | 225,671 | 10,416 |
| 2019 | 143,902 | 141,817 | 2,085 |
| | $ 3,413,030 | $ 3,200,840 | $ 212,190 |

### *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, 2014 and 2013, had total costs of $1,050,824 and $1,096,305 and accumulated depreciation of $466,328 and $319,469, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest from 1.35% to 10.33%, together with the present value of the future minimum lease payments, at December 31, 2014:

| Year Ending December 31, | |
|---|---|
| 2015 | $ 218,954 |
| 2016 | 180,710 |
| 2017 | 146,212 |
| 2018 | 10,993 |
| 2019 | 10,410 |
| 2020 | 1,735 |
| Total minimum lease payments | 569,014 |
| Less amount representing interest | 47,444 |
| Present value of future minimum lease payments | $ 521,570 |

## Note 10: Internally Designated Net Position

At December 31, 2014 and 2013, a portion of 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:

| | 2014 | 2013 |
|---|---|---|
| Capital acquisitions | $ 1,248,905 | $ 1,535,421 |
| Self-insured claims | 110,376 | 59,364 |
| Total designated net position | $ 1,359,281 | $ 1,594,785 |

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 costs related to charity care services for the years ended December 31, 2014 and 2013, were approximately $417,000 and $481,000, respectively.

The costs of uncompensated care is estimated by applying the ratio of costs to gross charges from the most recently filed Medicare cost report to the gross uncompensated charges. In addition to uncompensated costs, 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 screenings and assessments, prenatal education and care, community educational services and various support groups.

## 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 and plan members, expressed as a percentage of covered payroll, were 1.6% and 5.2% for 2014 and 1.7% and 4.9% for 2013, respectively. Contributions actually made by plan members and the Authority were approximately $626,000 and $185,000 during 2014 and $549,000 and $188,000 during 2013, respectively.

## Note 13: Investment in Joint Venture

The Authority is a subscriber (member) of Heartland and at December 31, 2014 and 2013, 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 $621,000 and $613,000 at December 31, 2014 and 2013, 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, 2014 and 2013, the Authority paid approximately $224,000 and $227,000, respectively, to Heartland for the coverage.

Financial position and results of operations summarized from Heartland's unaudited financial statements for the year ended December 31, 2014, and the audited financial statements for the fiscal year ended December 31, 2013, are shown below:

| | 2014 (Unaudited) | 2013 (Audited) |
|---|---|---|
| Cash and cash equivalents | $ 1,051,118 | $ 1,691,220 |
| Investments at fair value | 13,119,231 | 13,125,214 |
| Other assets | 581,494 | 252,615 |
| Total assets | 14,751,843 | 15,069,049 |
| Unpaid losses and loss adjustment expenses | 5,561,263 | 5,749,816 |
| Other liabilities | 232,697 | 269,012 |
| Total liabilities | 5,793,960 | 6,018,828 |
| Subscribers' surplus | $ 8,957,883 | $ 9,050,221 |
| Revenues | $ 3,049,140 | $ 3,331,650 |
| Net income | $ 59,386 | $ 536,255 |

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.

## 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 Authority'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 Authority's net patient service revenue. Additionally, it is possible the Authority will experience payment delays and other operational challenges during PPACA's implementation.

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# 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, 2014, 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 27, 2015.

## *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 and Other Matters*

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*.

We noted certain matters that we reported to the Authority's management in a separate letter dated April 27, 2015.

### *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 entity'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
April 27, 2015

# Grady Memorial Hospital Authority

## Schedule of Findings and Responses

## Year Ended December 31, 2014

| Reference Number | Finding |
| --- | --- |
| | No matters are reportable. |