



# Knapp Medical Center v. Grass, 2014 Tex. App. LEXIS 67 (Tex. App. 2014)

Topics Covered: Freedom of Information Act, Hospitals and Physician Advocacy

## **Outcome: Very Unfavorable**

### **Issue**

The issue in this case was whether a nonprofit hospital had to disclose various of its financial documents to members of the public who ask to see them.

### **AMA Interest**

The AMA believes that physicians have both the right and the responsibility to participate in activities contributing to the improvement of their community and the betterment of public health.

### **Case Summary**

Knapp Medical Center (KMC) was organized as a privately owned corporation under the Texas Nonprofit Corporations Act. KMC signed an agreement to be purchased by South Texas Health System (STHS), a subsidiary of Universal Health Services, Inc. (UHS).

Several physicians on the KMC medical staff have openly questioned whether the sale would be in the public interest. In essence, the physicians have said that the KMC management “deliberately weakened the hospital by doing away with key medical procedures and demoralizing the spirit of staff so that it was ripe for sale.” The physicians also assert that KMC unduly enriched its administrators, and they suspect that those administrators may be receiving special favors from STHS or UHS to facilitate the transaction.

In an attempt to learn more about KMC and the contemplated sale, the physicians asked KMC to provide them with board minutes and other financial information. KMC refused, arguing that because it is privately owned it does not have to make such a disclosure. KMC also contended that the dissident physicians have an ownership interest in a physician-owned hospital that competes with KMC, and it might harm KMC to produce the documents.

In response, the physicians hired an attorney, Jeffrey C. Grass, to represent them in their battle with KMC. Mr. Grass sent KMC a letter demanding an inspection of KMC’s records. He contended that KMC was required to produce documents under a provision of the Texas Nonprofit Corporations Act, which required a Texas nonprofit corporation to make its records available for inspection by the general public. KMC refused the request, arguing that it was excused from the disclosure obligation by an exception in the Nonprofit Corporations Act. Mr. Grass asserted otherwise.

KMC sued Mr. Grass, seeking a declaratory judgment as to its obligations to make disclosure to him and his clients. The trial court found that KMC was subject to the disclosure requirements under the Texas Nonprofit Corporations Act and ruled in favor of Mr. Grass. KMC appealed to the Texas Court of Appeals.

On June 6, 2013, the Court of Appeals by a split decision reversed the trial court. It held that the public contributions to KMC were made through a foundation that was legally distinct from KMC, and this separateness was sufficient to exempt KMC from complying with the corporate disclosure law. Mr. Grass and his clients asked the Texas Supreme Court to hear the case, but the Supreme Court declined jurisdiction. Grass moved for rehearing of the denial, but the Texas Supreme Court denied that motion.

### **Litigation Center Involvement**

The Litigation Center, along with the Texas Medical Association, filed an *amicus* brief in the Texas Court of Appeals, supporting the physicians' right to access the hospital's documents. In addition, the Litigation Center and TMA also contributed to the physicians' legal expenses.

The Litigation Center also filed an *amicus* brief in support of the petition in the Texas Supreme Court for rehearing.

Texas Court of Appeals brief

Texas Supreme Court brief in support for rehearing