

Ryder Memorial Hospital, Inc.

Single Audit Report

December 31, 2012 and 2011

## Table of Contents

Independent Auditors' Report	1-2
Financial Statements	
Balance Sheets	3-4
Statements of Operations and Changes in Unrestricted Net Assets	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-28
Schedules of Expenditures of Federal Financial Assistance Awards	29
Notes to the Schedules of Expenditures of Federal Financial Assistance Awards	30
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31-32
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	33-35
Schedule of Findings and Questioned Costs	36-37
Summary Schedule of Prior Year Findings	38

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Ryder Memorial Hospital, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Ryder Memorial Hospital, Inc. - a nonprofit organization - which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations and changes in unrestricted net assets, 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.

Auditors' 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.

To the Board of Directors  
 Ryder Memorial Hospital, Inc.  
 Page 2

Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2013, on our consideration of Ryder Memorial Hospital Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Ryder Memorial Hospital Inc.'s internal control over financial reporting and compliance.



*FPV Galindez*

San Juan, Puerto Rico  
 April 10, 2013

Ryder Memorial Hospital, Inc.

Balance Sheets

December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 923,958	\$ 954,196
Certificates of deposits	4,554,359	4,477,244
Assets limited as to use required for current liabilities	645,618	621,228
Investments in securities	1,532,754	1,276,340
Accounts receivable, net	15,086,339	13,551,952
Estimated third-party payor settlement	196,210	68,488
Inventories	1,588,616	1,669,570
Prepaid expenses	54,478	-
Due from related organizations	<u>450,765</u>	<u>371,469</u>
Total current assets	<u>25,033,097</u>	<u>22,990,487</u>
Assets limited as to use under loan agreement-held by trustee	3,653,135	3,634,409
Other assets limited as to use	1,001,547	1,001,216
Less amount required to meet current obligations	<u>(645,618)</u>	<u>(621,228)</u>
Noncurrent assets limited as to use	<u>4,009,064</u>	<u>4,014,397</u>
Deferred bonds financing cost	<u>82,092</u>	<u>94,647</u>
Property and equipment, net	<u>24,323,001</u>	<u>26,229,944</u>
Total assets	<u>\$ 53,447,254</u>	<u>\$ 53,329,475</u>

(Continue)

Ryder Memorial Hospital, Inc.

Balance Sheets (Continued)

December 31, 2012 and 2011

Liabilities and Unrestricted Net Assets

	<u>2012</u>	<u>2011</u>
Current liabilities		
Bank line of credit	\$ 1,540,000	\$ -
Current installments of long-term debts	693,437	653,093
Current portion of capital lease obligations	1,012,265	979,323
Accounts payable and accrued liabilities	14,799,541	15,241,787
Due to related organizations	143,735	149,369
Accrued interest payable	<u>105,618</u>	<u>111,228</u>
Total current liabilities	<u>18,294,596</u>	<u>17,134,800</u>
Long-term debts, excluding current installments	11,480,050	12,173,488
Capital lease obligations, excluding current portion	<u>1,250,249</u>	<u>2,264,925</u>
Total liabilities	<u>31,024,895</u>	<u>31,573,213</u>
Unrestricted net assets	<u>22,422,359</u>	<u>21,756,262</u>
Total liabilities and unrestricted net assets	<u>\$ 53,447,254</u>	<u>\$ 53,329,475</u>

See notes to financial statements.

Ryder Memorial Hospital, Inc.

Statements of Operations and Changes in Unrestricted Net Assets

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Patient service revenue, net	\$ 59,523,950	\$ 57,652,813
Other operating revenues	<u>2,732,058</u>	<u>2,742,170</u>
Total revenues	<u>62,256,008</u>	<u>60,394,983</u>
Expenses		
Salaries and wages	23,539,982	23,639,720
Employee benefits	3,339,466	3,306,615
Professional services	5,656,428	6,140,361
Supplies	17,351,146	16,664,113
Provision for bad debts	1,634,394	1,290,438
Provision for claim losses	1,104,000	804,000
Other	<u>5,715,947</u>	<u>5,405,717</u>
Total expenses	<u>58,341,363</u>	<u>57,250,964</u>
Income from operations before depreciation and amortization, interest and non-operating activities	<u>3,914,645</u>	<u>3,144,019</u>
Depreciation and amortization	2,522,315	2,801,756
Interest	<u>1,088,003</u>	<u>1,160,288</u>
	<u>3,610,318</u>	<u>3,962,044</u>
Income (loss) from operations before non-operating activities	<u>304,327</u>	<u>(818,025)</u>
Non-operating activities		
Income on investments on assets limited as to use	<u>361,770</u>	<u>168,019</u>
Change in net assets	666,097	(650,006)
Unrestricted net assets, at beginning of year	<u>21,756,262</u>	<u>22,406,268</u>
Unrestricted net assets, at end of year	<u>\$ 22,422,359</u>	<u>\$ 21,756,262</u>

See notes to financial statements.

Ryder Memorial Hospital, Inc.

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from patients and third party payors	\$ 56,227,447	\$ 58,934,001
Other receipts	2,475,387	2,841,903
Cash paid to employees, suppliers and others	(57,133,353)	(58,309,788)
Interest received	353,116	168,019
Interest paid	<u>(1,081,058)</u>	<u>(1,152,203)</u>
Net cash provided by operating activities	<u>841,539</u>	<u>2,481,932</u>
Cash flows from investing activities:		
Proceeds from investment sale	832,357	-
Purchases of investments	(895,999)	(1,077,190)
Acquisition and construction of capital assets	(617,135)	(1,322,613)
(Increase) in assets limited as to use	(19,057)	(1,268,585)
(Investments in) redemptions of certificates of deposit	<u>(77,115)</u>	<u>2,108,254</u>
Net cash (used in) investing activities	<u>(776,949)</u>	<u>(1,560,134)</u>
Cash flows from financing activities:		
Proceeds from line of credit	3,405,000	-
Repayments of line of credit	(1,865,000)	-
Principal payments on long-term debts	(653,094)	(635,341)
Principal payments on capital lease obligations	<u>(981,734)</u>	<u>(933,370)</u>
Net cash (used in) financing activities	<u>(94,828)</u>	<u>(1,568,711)</u>
Net (decrease) in cash and cash equivalents	(30,238)	(646,913)
Cash and cash equivalents at beginning of year	<u>954,196</u>	<u>1,601,109</u>
Cash and cash equivalents at the end of year	<u>\$ 923,958</u>	<u>\$ 954,196</u>

(Continue)

Ryder Memorial Hospital, Inc.

Statements of Cash Flows (Continued)

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of change in net assets		
to net cash provided by operating activities:		
Change in net assets	\$ 666,097	\$ (650,006)
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	2,522,315	2,801,756
Gain on investment sale	(81,707)	-
Provision for bad debts	1,634,394	1,290,438
Provision for claim losses	1,104,000	804,000
Amortization of bond issue cost	12,555	13,311
Loss on disposition of assets	1,763	-
Unrealized holding loss (gain) on investments in securities	(111,065)	43,788
Net changes in operating assets and liabilities	<u>(4,906,813)</u>	<u>(1,821,355)</u>
Net cash provided by operating activities	<u>\$ 841,539</u>	<u>\$ 2,481,932</u>
Supplemental disclosure of non-cash investing activities		
Retirement of fully depreciated property and equipment	<u>\$ 20,448</u>	<u>\$ -</u>

See notes to financial statements.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Organization and summary of significant accounting policies

Organization

Ryder Memorial Hospital, Inc. (the Hospital) is a not-for-profit Puerto Rico corporation that provides, together with certain affiliated companies, preventive, primary, acute, chronic, rehabilitative and supportive care through the following programs:

- Inpatient and Outpatient Services
- Health Plan
- Ambulatory Surgery Center
- Home Care Program
- Hospice Program
- Elderly Housing Projects – independent living for the elderly
- Elderly Housing Projects – independent living with assisted care for the elderly and handicaps
- Custodial Home – institutional living for the elderly
- Preventive Medicine Program
- Integral Care for AIDS Patients
- School of Practical Nurses
- Institutional Care for Alzheimer Patients
- Charity Foundation

Summary of significant accounting policies

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

For purposes of the statement of cash flows, the Hospital considers currency on hand and demand deposits purchased with a maturity of three months or less to be cash equivalents.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 1 - Organization and summary of significant accounting policies - (continued)

Certificates of deposits

The Hospital maintains investments in certificates of deposit with original maturities of one (1) year.

Net patient service revenue

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

During 2012, the Hospital adopted the requirements of the FASB *Accounting Standards Update* No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities*. The standard update requires healthcare entities that recognize a significant amount of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay to present as separate line items on the face of the statement of operations, the provision for bad debts, related to patient service revenue as a deduction from patient revenue (net of contractual allowances and discounts).

The standard update also requires disclosing by major payor source of revenue; the Hospital's policy for assessing collectability in determining the timing and amount of patient service revenue to be recognized, and qualitative and quantitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable.

Valuation of accounts receivable

Hospital's management makes judgments as to the collectability of accounts receivables based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivables. This allowance adjusts gross patient service accounts receivable downward to their estimated net realizable value. To determine the allowance for doubtful accounts, management reviews specific customer risk based on evaluation of the collectability of each receivable.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 1 - Organization and summary of significant accounting policies - (continued)

Inventories

Inventories of medicines and supplies are stated at the lower of cost or market. Cost flow assumption is determined based on the first-in first out basis.

Assets limited as to use

Assets limited as to use primarily include assets set aside by the Hospital under the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (the Authority) trust agreement for payment of principal and interest on bonds, for future capital improvements, assets held by trustee under self-insurance trust arrangement and others. Amounts required to meet current liabilities of the Hospital have been reclassified as current assets in the balance sheets at December 31, 2012 and 2011.

Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost for the construction of those capital assets.

Deferred financing costs are amortized over the period the obligation is outstanding using the interest method.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method based on rates recommended by the American Hospital Association guidelines, ranging from 3 to 40 years. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 1 - Organization and summary of significant accounting policies - (continued)

Impairment of long-lived assets

In accordance with the provisions of FASB Accounting Standards Codification, Topic of Accounting for the Impairment or Disposal of Long-Lived Assets, management reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable. As of December 31, 2012 and 2011, management believes that long-lived assets are not impaired at the individual asset or the asset group level.

Revenues and expenses

All revenues and net gains are reported as increases in unrestricted net assets. All expenses and losses are reported as decreases in unrestricted net assets.

Income and other taxes

The Hospital is a not-for-profit corporation exempt from the payment of Puerto Rico income taxes under Section 1101.01 of the Puerto Rico Internal Revenue Code, property, excise and municipal license taxes under various sections of the applicable laws and acts of Puerto Rico and on United States taxes under Section 501 (c) (3) of Internal Revenue Code; accordingly no provision for such taxes has been made in the accompanying financial statements.

Fair value measurements

The Hospital accounts for its investments in accordance with the provisions of Financial Accounting Standards Codification Topic of "Accounting for Certain Investments Held by Not-for-Profit Entities", which requires that investments be stated at fair value with unrealized gains and losses, as applicable, be included in the statement of operations and changes in unrestricted net assets. Such investments, which consist in debt and equity securities are measured at their fair value in the balance sheets.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 2 - Accounts receivable

Accounts receivable at December 31, consist of:

	<u>2012</u>	<u>2011</u>
Patient and third-party payors	\$18,396,359	\$16,149,355
Other	<u>1,015,667</u>	<u>572,008</u>
Total	19,412,026	16,721,363
Less: allowance for doubtful accounts	<u>4,325,687</u>	<u>3,169,411</u>
Accounts receivable, net	<u>\$15,086,339</u>	<u>\$13,551,952</u>

Changes in allowance for doubtful accounts for the years ended December 31, were as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 3,169,411	\$ 3,718,764
Provision charged to operations	1,634,394	1,290,438
Write-off of uncollectible accounts	<u>(478,118)</u>	<u>(1,839,791)</u>
Balance, end of year	<u>\$ 4,325,687</u>	<u>\$ 3,169,411</u>

Note 3 - Investments in securities

The investments in securities at December 31, consist of the following:

2012:

<u>Description</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Loss</u>
Equity securities	\$ 13,559	\$ 2,629	\$ (10,930)
Government bonds	942,069	933,168	(8,901)
Mutual funds	<u>645,873</u>	<u>596,957</u>	<u>(48,916)</u>
	<u>\$1,601,501</u>	<u>\$1,532,754</u>	<u>\$ (68,747)</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 3 - Investments in securities – (continued)

2011:

<u>Description</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Loss</u>
Equity securities	\$ 13,559	\$ 2,444	\$ (11,115)
Government bonds	1,067,470	1,033,593	(33,877)
Mutual Funds	<u>375,123</u>	<u>240,303</u>	<u>(134,820)</u>
	<u>\$1,456,152</u>	<u>\$1,276,340</u>	<u>\$(179,812)</u>

During years ended December 31, 2012 and 2011 unrealized gain (losses) due to change in market value in such investments were \$111,065 and \$(43,788), respectively.

Note 4 - Assets limited as to use

The composition of assets limited as to use at December 31, is set forth in the following table. Investments are stated at fair value.

	<u>2012</u>	<u>2011</u>
Cash, cash equivalents and government obligations under bonds indenture agreement, at fair value, held by trustee	\$3,653,135	\$3,634,409
Cash, cash equivalents and government obligations under malpractice funding arrangement, at fair value, held by trustee	1,000,000	1,000,000
Cash, Nursing School	<u>1,547</u>	<u>1,216</u>
	4,654,682	4,635,625
Less amount required to meet current obligations	<u>(645,618)</u>	<u>(621,228)</u>
	<u>\$4,009,064</u>	<u>\$4,014,397</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 4 - Assets limited as to use - (continued)

Investment income, gains and/or losses for assets limited as to use, cash, cash equivalents, and other investments are comprised of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 97,091	\$ 161,708
Income of funds held by trustee under bonds indenture and malpractice funding agreements	<u>264,679</u>	<u>6,311</u>
	<u>\$ 361,770</u>	<u>\$ 168,019</u>

Note 5 - Fair value measurements

Financial Accounting Standards Codification Topic of Fair Value Measurements (the Codification) establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in the active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under the Codification are described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date.
- Level 2 - Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs that are unobservable for the asset or liability.

The fair values of the Hospital Level 1 assets were determined through quoted market prices.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 5 - Fair value measurements - (continued)

use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes fair value measurements, by level, at December 31, for financial assets and liabilities, measured at fair value on a recurring basis in the Hospital financial statements:

2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i><u>Investments:</u></i>				
Mutual Funds	\$ 596,957	\$ -	\$ -	\$ 596,957
Fixed income securities	933,168			933,168
Marketable Securities	<u>2,629</u>	<u>-</u>	<u>-</u>	<u>2,629</u>
	<u>\$1,532,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,532,754</u>
<i><u>Assets set aside under indenture agreement:</u></i>				
Interest bearing time deposits	\$3,653,135	\$ -	\$ -	\$3,653,135
Mutual Funds	-	-	-	-
Marketable debt securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$3,653,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,653,135</u>
<i><u>Assets set aside under insurance trust fund:</u></i>				
Interest bearing time deposits	\$ -	\$ -	\$ -	\$ -
Mutual funds	1,000,000	-	-	1,000,000
U.S. Government and agency obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,000,000</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 5 - Fair value measurements - (continued)

2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Investments:</i>				
Mutual Funds	\$ 240,303	\$ -	\$ -	\$ 240,303
Fixed income securities	1,033,593			1,033,593
Marketable Securities	<u>2,444</u>	<u>-</u>	<u>-</u>	<u>2,444</u>
	<u>\$1,276,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,276,340</u>
<i>Assets set aside under indenture agreement:</i>				
Interest bearing time deposits	\$3,634,409	\$ -	\$ -	\$3,634,409
Mutual Funds	-	-	-	-
Marketable debt securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$3,634,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,634,409</u>
<i>Assets set aside under insurance trust fund:</i>				
Interest bearing time deposits	\$ -	\$ -	\$ -	\$ -
Mutual funds	1,000,000	-	-	1,000,000
U.S. Government and agency obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,000,000</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 6 - Property and equipment

Property and equipment at December 31, consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 234,628	\$ 234,628
Land improvements	734,821	734,821
Buildings and buildings improvements	44,584,484	44,248,798
Equipment, vehicles and furniture	<u>29,754,871</u>	<u>29,304,943</u>
Total	75,308,804	74,523,190
Less: accumulated depreciation and amortization	<u>51,036,836</u>	<u>48,540,410</u>
	24,271,968	25,982,780
Construction in progress	<u>51,033</u>	<u>247,164</u>
Property and equipment	<u>\$24,323,001</u>	<u>\$26,229,944</u>

Note 7 - Patient service revenue, net

The Hospital has agreements with third-party payors that provides for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Inpatient care, outpatient care, home health care and skilled nursing 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 Hospital is reimbursed for bad debts and disproportionate share patients at tentative rates determined by the Medicare Program with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The cost reimbursement report for the year ended December 31, 2012 is under preparation and will be submitted to the Medicare fiscal intermediary no later than May 31, 2013. The cost reimbursement report for the year ended December 31, 2011 is being subject to the examination by the fiscal intermediary.
- Humana Health Plan, SSS, and others: Inpatient services rendered to subscribers of these plans are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per diem rates are not subject to retroactive adjustment.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 7 - Patient service revenue, net - (continued)

- Ryder Health Plan: The Plan compensates the Hospital based on a capitation rate of \$45 per month as per a Provider Services Agreement.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and government agencies. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined per-diem rates.

A summary of patient service revenue, net of contractual allowances and discounts for the years ended December 31, 2012 and 2011 follow:

	<u>2012</u>	<u>2011</u>
Third-party payors	\$57,578,244	\$55,634,964
Self-pay patients	<u>1,945,706</u>	<u>2,017,849</u>
Net patient service revenue	<u>\$59,523,950</u>	<u>\$57,652,813</u>

Net patient service revenue from third-party payors is estimated fully collectible and it is recorded when the health care services are provided. Also, health care services provided to uninsured patients is recorded when the services are provided. The Hospital records provision for bad debts, as an operating expense in the accompanying statement of operations based on different % of accounts aging for the last 4 years in accordance with the Hospital policy, particularly amounts receivable from third-party payors, as follow:

<u>Group</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Privates	50%	80%	100%	100%
Insurance Plans	5%	40%	100%	100%
Home Care	5%	40%	100%	100%
Hospice	5%	40%	100%	100%
Rent and Sale of Equipment	15%	100%	100%	100%
Skill Nurse Facilities	15%	40%	90%	100%
Hogar Ryder	50%	50%	100%	100%

Provision for bad debts related to receivables from uninsured patients and for patients for which it was assessed the patient does not has the ability to pay is recorded as a deduction of net patient service revenue in the accompanying statement of operations.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 7 - Patient service revenue, net - (continued)

At December 31, 2012 and 2011, 63% and 65%, respectively, of the amounts reserved as uncollectible are related to third-party payors, and 37% and 35%, respectively, are related to self-pay patients, which includes deductibles and co-insurance which the Hospital accounts for as patient balance. Also, during the years 2012 and 2011, the Hospital accounted for \$478,118 and \$1,839,791, respectively, for accounts written-off, of which \$301,214 and \$1,512,792 respectively correspond to third-party payors, and \$176,904 and \$326,999 correspond to self-pay patients.

Note 8 - Bank line of credit

The Hospital has an available line of credit with Banco Popular de Puerto Rico, in the maximum amount of \$1,750,000, requires monthly interest payments at 1.75% over CD collateral rate (approximately 2.85% as of December 31, 2012). The line of credit is due on May 13, 2013.

Note 9 - Long-term debts

Long-term debts at December 31, consist of the following:

	<u>2012</u>	<u>2011</u>
Bank credit facility in the amount of \$ 3,700,000 dated October 7, 2002 at an interest rate of 5.52%. The proceeds were used for the development and construction improvements to existing Hospital facility. The aggregate principal amount of all outstanding advances is payable in 240 consecutive monthly installments until October 6, 2023, at an annual rate of interest equal to the Federal Home Loan Bank of New York plus 1.50%. The mortgage note is secured by a mortgage creating a first priority lien covering realty.	\$ 2,698,487	\$ 2,841,581
Hospital Revenue Bonds, at an average coupon rate of 6.63%, first maturity due in May 1, 1996, last maturity due in May 1, 2024, collateralized by a pledge of the Hospital's gross receipts (a)	<u>9,475,000</u>	<u>9,985,000</u>
Total long-term debts	12,173,487	12,826,581
Current installments of long-term debts	<u>693,437</u>	<u>653,093</u>
Long-term debts, net of current installments	<u>\$11,480,050</u>	<u>\$12,173,488</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 9 - Long-term debts - (continued)

Scheduled principal repayments on long-term debts for the next five years and thereafter are as follow:

2013	\$ 693,437
2014	739,529
2015	790,446
2016	843,130
2017	901,730
Thereafter	<u>8,205,215</u>
	<u>\$12,173,487</u>

(a) On June 7, 1994, the Puerto Rico Industrial, Medical, Higher Education and Environmental Pollution Control Facilities Financing Authority (AFICA), issued, on behalf of Ryder Memorial Hospital, Inc. 1994 Series A, Revenue Bonds for \$15,000,000.

Under the terms of the Revenue Bond Indenture, the Hospital is required to maintain certain deposits with a trustee. The composition of these assets with balance of \$3,653,135 at December 31, 2012 (\$3,634,409 in 2011) consists of cash, cash equivalents and government obligations. Such deposits are included with assets whose use is limited in the financial statements. The Revenue Bond Indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfies certain measures of financial performance as long as the bonds are outstanding.

Bonds outstanding and maturing after May 1, 2004 Series are subject to redemption, at the option of Ryder Memorial Hospital, Inc., in whole or in part, at the redemption prices set forth in the table below, plus accrued interest at the redemption date:

<u>Redemption Period</u> (Both Dates Inclusive)	<u>Redemption Price</u>
May 1, 2004 through April 30, 2005	102%
May 1, 2005 through April 30, 2006	101%
May 1, 2006 and thereafter	100%

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 9 - Long-term debts - (continued)

Payments to the Debt Service Reserve Fund payable consist of monthly installments of the amount of  $\frac{1}{12}$  of next principal payment plus  $\frac{1}{6}$  of next interest payment. Schedule of cash requirements for the next five years are as follows:

2013	\$1,096,370
2014	1,098,420
2015	1,097,215
2016	1,098,330
2017	<u>1,096,430</u>
	<u>\$5,486,765</u>

At December 31, 2012 and 2011 the fair values of long-term debts approximate their carrying amounts.

Note 10 - Capital lease obligations

The Hospital is the lessee of various equipment and vehicles with an amortized cost at December 31, 2012 and 2011 of \$1,043,561 and \$1,653,088, respectively under capital leases at rates of imputed interest not exceeding 8.60% expiring in various years. Balance of such capital lease obligation at December 31, follows:

	<u>2012</u>	<u>2011</u>
Capital lease obligations	\$2,262,514	\$3,244,248
Less: current portion	<u>1,012,265</u>	<u>979,323</u>
Capital lease obligations, net current portion	<u>\$1,250,249</u>	<u>\$2,264,925</u>

Future minimum payments on capital lease obligations for the next five (5) years are as follows:

2013	\$1,133,167
2014	967,769
2015	198,542
2016	105,080
2017	<u>96,323</u>
	2,500,881
Less: amount representing interest	<u>238,367</u>
	<u>\$2,262,514</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 11 - Related party transactions

Because of the existence of common trustees and other factors, the Hospital and Ryder Health Plan, Inc., Ryder Home for the Elderly, Inc., Égida Ryder, Inc., Fundación Dr. John A. & Virginia Smith, Inc., Ryder Village, Inc., Ryder Assisted Care, Inc., Ryder Assisted Care II, Inc., Ryder Village II, Inc., and Ryder Assisted Care III, Inc., are related organizations.

At December 31, related party transactions are reported in the Hospital's financial statements as follows:

	<u>2012</u>	<u>2011</u>
Due from related organizations:		
Ryder Health Plan, Inc	\$ 386,954	\$177,441
Ryder Home for the Elderly, Inc.	45,156	27,409
Égida Ryder, Inc.	2,209	2,209
Ryder Village Inc.	-	188
Ryder Village II, Inc.	4,757	119,661
Ryder Assisted Care, Inc.	8,619	4,311
Ryder Assisted Care II, Inc.	-	17,871
Ryder Assisted Care III, Inc.	<u>3,070</u>	<u>22,379</u>
	<u>\$ 450,765</u>	<u>\$371,469</u>
Due to related organizations:		
Organización de Servicios de Salud Ryder	\$ 138,755	\$149,369
Ryder Village Inc.	1,386	-
Ryder Assisted Care II, Inc.	<u>3,594</u>	<u>-</u>
	<u>\$ 143,735</u>	<u>\$149,369</u>

Balances due from (to) among related organizations consist of services rendered by the Hospital to Plan and HUD programs beneficiaries, payments on behalf and cash advances, among other. Balances are unsecured, non-interest bearing and are reported as current assets and liabilities.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 12 - Commitments and contingencies

Commitments

Operating leases

Leases that do not meet the criteria for a capitalization are classified as operating leases with related rentals charged to operations as incurred.

Total rental expense for the Hospital in the year 2012 on operating leases having non-cancellable lease terms in excess of one year was \$639,848 (\$585,834 in 2011). Properties in these leases included facilities and various equipments. The minimum future rental payments for the next five years are as follows:

2013	\$ 683,876
2014	658,008
2015	637,926
2016	637,926
2017	<u>637,926</u>
	<u>\$3,255,662</u>

Defined contribution plan

Effective July 2010, the Hospital has a defined contribution plan, under the provisions of Section 1165(e) of the Puerto Rico Tax Code, for full time employees who meet the plan's eligibility requirements. The Hospital has agreed to contribute an amount equal from 2% to 7% of the salary that the participant contributes. During 2012 and 2011, the Hospital's contributions related to the plan were \$75,539 and \$52,499, respectively.

Contingencies

Malpractice cases

The Hospital is involved in litigation arising in the ordinary course of business. Several claims alleging malpractice have been asserted against the Hospital's insurance company, the Hospital and others, and are currently in various stages of litigation. These claims are being handled by the insurance company and the attorneys of the Hospital. Although the ultimate disposition of these proceedings is not presently determinable, it is the opinion of management and legal counsel that

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 12 - Commitments and contingencies – (continued)

Contingencies - (continued)

Malpractice cases - (continued)

financial liability with respect to such litigation will not exceed the limits of the Hospital's self-insurance fund of \$1,000,000 and insurance coverage of \$1,000,000 to \$3,000,000 for asserted claims prior to January 2002 with a retroactive date of August 1986 and \$2,000,000 with a retroactive date of September 1986, and its outcome will not have a material adverse effect on the Hospital's financial position. At December 31, 2012 and 2011, the Hospital has recorded a reserve for claims losses in the amount of \$2,826,921 and \$2,112,921, respectively, and is reported as part of accounts payable and accrued liabilities.

Off balance sheet risk

Under the terms of the contract between the Hospital and Ryder Health Plan, Inc. the Hospital has agreed to satisfy all debts of Ryder Health Plan, Inc. in case of economic insolvency of that organization.

Federal financial awards

The Hospital participates in various federally funded programs by the U.S. Department of Health and Human Services (DHHS) (by direct awards and through the Municipality of San Juan) and the U.S. Department of Education. These programs are routinely subject to financial and compliance audits in accordance with provisions of the Office of Management and Budget Circular A-133 or to compliance audits by the above mentioned federal agencies and the pass-through entity. The reports on the audits of these programs, which are conducted pursuant to such federal regulations, are required to be submitted by the Hospital to such federal agencies.

Such federal agencies have the authority to determine liabilities, as well as to limit, suspend, or terminate the federal financial assistance programs. If any un-allowed cost is detected as a result of such compliance audits, the Hospital may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

The Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions of the Act. Hospital's management believes to be in compliance.

Also, in order to be in compliance with HIPPA provisions, the Hospital must adopt the 10th revision of the International Statistical Classification of Diseases and Related Health Problems (ICD-10), on or before October 1, 2014. ICD-10 consists of a medical classification list revised by the World Health Organization (WHO) used in diagnosis coding and procedure coding system for inpatient hospital procedure coding that will enable a significant extension of the codes allowing an improved tracking of many new diagnoses. The Hospital is currently under the implementation of ICD-10 and expects to complete such before the due date.

Implementation requirements of an Electronic Health Record System

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivize the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care. Meaningful use compliance is required before the Federal Fiscal Year 2016 or otherwise the hospital will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments.

The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of December 31, 2012, the Hospital is under the implementation of its EHR system. The Hospital is in the process to obtain the qualification to participate of the incentive program under the Medicaid provisions. The incentive program terminates on the fiscal year 2016.

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 12 - Commitments and contingencies – (continued)

Contingencies – (continued)

Other matters

The healthcare industry is subject to numerous laws and regulations that include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services.

While Hospital's management considers that its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Hospital will not be subjected to governmental inquires or actions.

Note 13 - Other revenues

Other revenues for the years ended December 31, consist of the following:

	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 863,734	\$ 891,453
Parking	596,702	590,885
Gift Shop	236,092	263,290
Rent	251,229	233,940
Discount	153,433	118,439
Ryder Uniform Center	95,204	100,939
Nurse School Tuition Fees	137,952	96,041
Donations	18,117	62,172
TV Services	31,964	31,771
Other	<u>347,631</u>	<u>353,240</u>
	<u>\$2,732,058</u>	<u>\$2,742,170</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 14 - Concentration of credit risk

Cash and cash equivalents, certificates of deposit, investments and assets limited as to use

The Hospital places its cash and cash equivalents and certificates of deposit with financial institutions located in Puerto Rico. At December 31, 2012 and 2011 accounts were insured by the Federal Deposit Insurance Corporation up \$250,000 respectively, by client, per bank institution. The Company has not experienced any losses on such accounts. At December 31, 2012 and 2011, the Hospital had cash in excess of Federal Deposit Insurance Corporation coverage limits by approximately \$6,200,000 and \$4,500,000, respectively.

These financial institutions have a strong credit rating and management believes that credit risk related to these deposits is minimal. The Hospital has investments, reported as assets limited as to use in the accompanying financial statements (see note 3), which by policy, limits the amount of credit exposure with any one commercial issuer. In addition, the Hospital has not experienced material credit losses on its investments in marketable securities.

Accounts receivable

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The mix of receivables from patients and third-party payors at December 31, follows:

	<u>2012</u>	<u>2011</u>
Humana Health Plus	15%	22%
Medical Card System	4%	10%
Medicare	8%	7%
Humana Gold Plus	10%	6%
SSS Optimo Advantage	4%	3%
International Medical Card	6%	6%
SSS	8%	7%
MMM	18%	15%
Self Pay	8%	9%
Other	<u>19%</u>	<u>15%</u>
	<u>100%</u>	<u>100%</u>

Ryder Memorial Hospital, Inc.

Notes to Financial Statements (Continued)

December 31, 2012 and 2011

Note 15 - Functional expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services at December 31, are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$56,161,711	\$56,094,711
General and administrative	<u>5,789,970</u>	<u>5,118,297</u>
Total	<u>\$61,951,681</u>	<u>\$61,213,008</u>

Note 16 - Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform them to the 2012 presentation.

Note 17 - Subsequent events

The Hospital evaluated subsequent events through April 10, 2012, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and to the date the financial statements were available to be issued, that would require additional adjustment to, or disclosure in, the financial statements.

Ryder Memorial Hospital, Inc.

Schedules of Expenditures of Federal Financial Assistance Awards

Years ended December 31, 2012 and 2011

<u>Federal Grantor/Pass-Through Grantor and Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	
		<u>2012</u>	<u>2011</u>
U.S. Department of Health and Human Services:			
Direct Award:			
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	\$ 676,704	\$ 660,533
Pass-through Award:			
Pass-through program from the Municipality of San Juan:			
HIV Emergency Relief Project Grant	93.914	<u>2,228,214</u>	<u>1,191,673</u>
Total U.S. Department of Health and Human Services		<u>2,904,918</u>	<u>1,852,206</u>
U.S. Department of Education:			
Direct Awards:			
Federal Pell Grant Program	84.063	110,088	66,137
Federal Supplemental Educational Opportunity Grant Program	84.007	8,235	8,741
Federal Work-Study Grant Program	84.033	<u>8,874</u>	<u>8,896</u>
Total U.S. Department of Education		<u>127,197</u>	<u>83,774</u>
Total Expenditures of Federal Awards		<u>\$3,032,115</u>	<u>\$1,935,980</u>

See notes to Schedules of Expenditures of Federal Financial Assistance Awards.

Ryder Memorial Hospital, Inc.

Notes to the Schedules of Expenditures of Federal Financial Assistance Awards

Years ended December 31, 2012 and 2011

Note 1- General

The accompanying Schedules of Expenditures of Federal Financial Assistance Awards present the funds expended by the Hospital from all federal programs. The Hospital's reporting entity is defined in Note 1 to the financial statements.

Note 2 - Basis of presentation

The accompanying Schedules of Expenditures of Federal Financial Assistance Awards are presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and were prepared following the accrual basis of accounting.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Ryder Memorial Hospital, Inc.

We have audited, in accordance with the 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 Ryder Memorial Hospital, Inc. - a nonprofit organization - which comprise the balance sheet as of December 31, 2012, and the related statement of operations and changes in unrestricted net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ryder Memorial Hospital Inc.'s internal control over financial reporting (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 Ryder Memorial Hospital Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ryder Memorial Hospital Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

To the Board of Directors  
Ryder Memorial Hospital, Inc.  
Page 2

with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



A handwritten signature in blue ink that reads "FPV Galindez".

San Juan, Puerto Rico  
August 1, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Ryder Memorial Hospital, Inc.

Compliance

We have audited Ryder Memorial Hospital's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ryder Memorial Hospital's major federal programs for the year ended December 31, 2012. Ryder Memorial Hospital, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Ryder Memorial Hospital, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ryder Memorial Hospital, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ryder Memorial Hospital, Inc.'s compliance.

To the Board of Directors  
 Ryder Memorial Hospital, Inc.  
 Page 2

Opinion on Each Major Federal Program

In our opinion, Ryder Memorial Hospital, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of Ryder Memorial Hospital, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ryder Memorial Hospital, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ryder Memorial Hospital, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors  
Ryder Memorial Hospital, Inc.  
Page 3

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



*FPV Galindez*

San Juan, Puerto Rico  
August 1, 2013

Ryder Memorial Hospital, Inc.

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Section I – Summary of Auditors’ Report

1. The auditors’ report expresses an unmodified opinion on the financial statements of the Ryder Memorial Hospital, Inc.
2. No significant deficiencies and no material weaknesses on internal control over financial reporting were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Ryder Memorial Hospital, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies on internal control over major federal award programs were disclosed during the audit. No material weaknesses are reported.
5. The auditors’ report on compliance with requirements that could have a direct and material effect on each major program for the major federal award programs for the Ryder Memorial Hospital, Inc., expresses an unmodified opinion.
6. No findings required to be reported by OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs are the following:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
93.914	HIV Emergency Relief Project Grant
93.918	Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Ryder Memorial Hospital, Inc. did not qualify to be a low risk auditee.

Ryder Memorial Hospital, Inc.

Schedule of Findings and Questioned Costs (Continued)

Year ended December 31, 2012

Section II – Financial Statements Findings

None

Section III – Federal Award Findings - Questioned Costs

None

Ryder Memorial Hospital, Inc.

Summary Schedule of Prior Year Findings

Year ended December 31, 2012

None.