***Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico***
***(A Component Unit of the Commonwealth of Puerto Rico)***

*Financial Statements as of and for the Year Ended June 30, 2004, and Independent Auditors' Report*

**PARISSI** P.S.C.
Certified Public Accountants, Tax & Business Advisors

**Independent Auditors' Report**

The Board of Directors of
Corporation of Industries for the Blind and
Mentally Retarded and Incapacitated Persons of Puerto Rico

We were engaged to audit the accompanying statement of balance sheet of the Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico (the Corporation) as of June 30, 2004, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management.

We did not observe the physical inventory (stated at $149,567) taken as of June 30, 2004, since that date was prior to our initial engagement as auditors. The Corporation's records do not permit the application of other auditing procedures for adequate retroactive tests of the inventory quantities.

Since we were unable to apply other auditing procedures to satisfy ourselves about inventory quantities, as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The management's discussion and analysis on pages 2 through 3 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Parissi, P.S.C.

San Juan, Puerto Rico
December 19, 2008

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License Exp. December 1, 2011.

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PARISSI P.S.C.
Certified Public Accountants, Tax & Business Advisors

**Independent Auditors' Report**

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Corporation of Industries for the Blind and
Mentally Retarded and Incapacitated Persons of Puerto Rico

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CERTIFIED PUBLIC ACCOUNTANTS

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This section of the Corporation of Industries for the Blind and Mentally Retarded and Incapacitated (the Corporation) financial report presents management's discussion and analysis of the Corporation performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with Corporation basic financial statements, which follow this section.

**Financial Highlights**

*June 30, 2004:*

- Assets decreased approximately $369,000.
- Cost of sales totaled approximately $544,000 and represent 90% of net sales.
- General and administrative expenses totaled approximately $370,000.
- The transfers from the Commonwealth through the Office of Management and Budget totaled $141,000.

(1) **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the Corporation basic financial statements. The Corporation basic financial statements comprise two components: a) the balance sheet, the statements of revenue, expenses and changes in net assets and the statement of cash flows, and b) notes to the financial statements.

The financial statements report information about the Corporation using accounting methods similar to those used by private sector companies. The balance sheet includes all the Corporation's assets and liabilities. All of current year's revenue and expenses are accounted for in the statement of revenue, expense and changes in net assets regardless of when cash is received or paid.

The notes to the financial statements provide additional information that is essential for its complete understanding.

(2) **Financial Analysis**

Condensed information about statement of balance sheet:

| | | | Change | |
|---|---|---|---|---|
| | 2004 | 2003 | In dollars | Percentage |
| Current assets | $ 1,245,752 | 1,600,877 | (355,125) | (22.18)% |
| Total assets | 1,277,781 | 1,646,736 | (368,955) | (22.41)% |
| Current liabilities and total liabilities | 324,771 | 528,914 | (204,143) | (38.60)% |
| Net assets | $ 953,010 | 1,117,822 | (164,812) | (14.74)% |

***Analysis of June 30, 2004 and 2003***

The primarily asset of the Corporation is cash at the Treasury Department amounting to approximately $778,000.

Current liabilities decrease approximately $204,000 and mainly represent accounts payable trade and accrued expenses related to payroll.

The net assets decrease approximately $165,000 as result of the excess of expenditures over revenue.

Condensed information about statements of revenue, expenses and changes in net assets:

| | | | | Change | |
|---|---|---|---|---|---|
| | | **2004** | **2003** | **In dollars** | **Percentage** |
| Net sales and total operating revenues | $ | 608,239 | 1,042,479 | (434,240) | (41.65)% |
| Non operating revenue: | | | | | |
| Interest earned | | 300 | 41 | 259 | 631.71% |
| Total revenue | | 608,539 | 1,042,520 | (433,981) | (41.63)% |
| Operating Expenses: | | | | | |
| Cost of sales | | 544,359 | 1,021,146 | (476,787) | (46.69)% |
| General and administrative expense | | 369,992 | 191,337 | 178,655 | 93.37% |
| Total operating expenses | | 914,351 | 1,212,483 | (298,132) | (24.59)% |
| Net loss | | (305,812) | (169,963) | 135,849 | (79.93)% |
| Transfer: | | | | | |
| Transfer from Commonwealth of Puerto Rico | | 141,000 | 141,000 | — | — |
| Decrease in net assets | | (164,812) | (28,963) | 135,849 | (469.04)% |
| Net assets, beginning of year | | 1,117,822 | 1,146,785 | (28,963) | (2.53)% |
| Net assets, end of year | $ | 953,010 | 1,117,822 | (164,812) | (14.74)% |

***Analysis of June 30, 2004 and 2003***

Intergovernmental revenue remain on line totaled $141,000 on both years.

Revenue decrease approximately $435,000 or 42% with a corresponding decrease in cost of sales of approximately $477,000 or 47%.

## *Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico*

***(A Component Unit of the Commonwealth of Puerto Rico)***

*Balance Sheet*

*June 30, 2004*

Assets

| | | |
|---|---|---|
| Current Assets: | | |
| Cash | $ | 54,721 |
| Cash in Treasury Department | | 777,637 |
| Accounts receivable, net of allowance for doubtful accounts of $67,411 | | 263,827 |
| Inventories | | 149,567 |
| Total current assets | | 1,245,752 |
| Property and equipment - Net | | 32,029 |
| Total assets | $ | 1,277,781 |

Liabilities and Net Assets

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ | 215,172 |
| Accrued expenses | | 109,599 |
| Total current liabilities | | 324,771 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | | 32,029 |
| Unrestricted net assets | | 920,981 |
| Total net assets | | 953,010 |
| Total liabilities and net assets | $ | 1,277,781 |

See notes to financial statements.

## *Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico*

***(A Component Unit of the Commonwealth of Puerto Rico)***

*Statement of Revenue, Expenses and Changes In Net Assets*

*Year Ended June 30, 2004*

| | |
|---|---|
| Operating revenue: | |
| Net sales and total operating revenue | $ 608,239 |
| Operating expenses: | |
| Cost of sales | 544,359 |
| General and administrative expense | 369,992 |
| Total operating expenses | 914,351 |
| Operating loss | (306,112) |
| Nonoperating revenue: | |
| Other income | 300 |
| Net loss | (305,812) |
| Transfer: | |
| Transfer from the Commonwealth of Puerto Rico | 141,000 |
| Decrease in net assets | (164,812) |
| Net assets - beginning of year | 1,117,822 |
| Net assets - end of year | $ 953,010 |

See notes to financial statements.

***Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico***
***(A Component Unit of the Commonwealth of Puerto Rico)***
*Statement of Cash Flows*
*Year Ended June 30, 2004*

| | |
|---|---|
| Cash flows from operating activities: | |
| Receipt from customers | $ 700,911 |
| Payments to suppliers | (797,482) |
| Payments to employees | (219,026) |
| Net cash used in operating activities | (315,597) |
| Cash flows from noncapital financing activities: | |
| Receipts from the Commonwealth of Puerto Rico | 141,000 |
| Cash flows used in capital and related financing activities: | |
| Capital expenditures | (4,871) |
| Cash flows from investing activities: | |
| Other receipts | 300 |
| Net decrease in cash | (179,168) |
| Cash - beginning of year | 1,011,526 |
| Cash - end of year | $ 832,358 |
| Reconciliation of operating activities to net cash used in operating activities: | |
| Cash flows from operating activities: | |
| Net operating loss | $ (306,112) |
| Adjustments to reconcile decrease in net assets to net cash used in operating activities: | |
| Depreciation and amortization | 18,846 |
| Bad debt expense | 67,411 |
| Decrease in operating assets: | |
| Accounts receivable | 92,672 |
| Inventories | 15,729 |
| Decrease in operating liabilities: | |
| Accounts payable | (203,680) |
| Accrued expenses | (463) |
| Net cash used in operating activities | $ (315,597) |

See notes to financial statements

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Organization*** – Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico (the Corporation) was created by Law No. 207 of May 14, 1948, as amended. The purpose of the Corporation is to establish and organize workshops in San Juan and other towns of Puerto Rico, which will provide training, employment and any other service that is deemed appropriate or necessary for the rehabilitation of blind people, mentally or other delayed physical or mental disability which constitute obstacles to the ability of occupational individual, who is a resident of Puerto Rico.

The Corporation is an instrumentality of the Government of Puerto Rico Department of the Family. The Secretary of the Family will be the President of the Corporation and shall have the power to designate an officer or employee of that Department as Executive Director of the Corporation without additional compensation.

A summary of significant accounting policies follows:

***Cash in Treasury Department*** – Cash received from operations is deposited in a fund account in the Treasury Department. When needed, the Corporation request funds for the payment of operational and administrative expenses. Once the funds are received by the Corporation, the cash is deposited with a commercial bank until the payments are made.

***Fair Value of Financial Instruments*** – The Corporation financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. These accounts are carried at amounts that approximate their fair value due to the short term nature.

***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 disclosures 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.

***Allowance for Doubtful Accounts*** – The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of their collectibility and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the receivables outstanding and the related allowance may change in the near term.

***Inventories*** – Inventories are stated at the lower of cost (first-in, first-out method) or market.

***Property and Equipment*** – Equipment and leasehold improvements are stated at cost. Depreciation and amortization are provided using the straight-line method based on the estimated useful lives of the depreciable assets (which range from three to ten years) or, in the case of leasehold improvements, over the term of the lease, if shorter. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized.

***Revenue Recognition*** – Revenue is recognized when products are delivered to a customer, which occurs when title is transferred to the customers.

***Basis of Accounting*** – The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

***Basis of Presentation*** – The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 ("GASB 34") "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." GASB 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted, described as follows:

- ***Invested in capital assets, net of related debt*** – Consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- ***Restricted*** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

- ***Unrestricted*** – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## 2. CASH IN TREASURY DEPARTMENT

The Corporation maintains deposits at Governmental Development Bank (GDB). These are unsecured and uncollateralized since by law the governmental banks of the Commonwealth of Puerto Rico are exempt of the requirement of insuring the deposits of funds of the entities of the Commonwealth of Puerto Rico.

## 3. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2004 consist of:

| | | |
|---|---|---|
| Equipment | $ | 70,017 |
| Furniture and fixtures | | 54,237 |
| Leasehold improvements | | 6,790 |
| Vehicles | | 38,800 |
| Total | | 169,844 |
| Less accumulated depreciation and amortization | | 137,815 |
| Property and equipment–net | $ | 32,029 |

## 4. GOVERNMENT CONTRIBUTION

During the fiscal year ended June 30, 2004, the Corporation received $141,000 from the Commonwealth to be used to carry out the general operating purposes of the Corporation.

## 5. RELATED PARTY TRANSACTIONS

The Corporation shares some general, administrative and training related expenses with the Department of the Family for mutual benefits. There are no established repayment terms on these amounts. In addition, the Corporation retains in its current cash account balance funds which belong to the "Centro de Adiestramiento y Transición en el Trabajo" (the Center). At June 30, 2004, the Center has approximately $40,040 and $62,309 deposited in the cash account and in cash in the Treasury Department, respectively.

## 6. SUBSEQUENT EVENT

On November 24, 1991, the Corporation received $1.3 million from the Department of Economic Development and Commerce of Puerto Rico to be used for the payment of payroll expenses, purchases of raw material, property acquisition and others. On February 27, 2007, the Puerto Rico Industrial Development Company (PRIDCO) made legal claim requesting the devolution of the $1.3 million previously granted to the Corporation. After several negotiations between the parties on September 9, 2008, PRIDCO and the Corporation reach a settlement agreement in which the Corporation is required to follow certain reporting requirements and disbursed the unused funds on operational activities on/or before December 31, 2008. The Corporation's financial statements as of June 30, 2004 do not include any provisions of potential liability with regard to this litigation.

At June 30, 2004 the unused balance of these funds amounted to approximately $715,328 and is presented as cash in the Treasury Department in the accompanying balance sheet.

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