

Blind Industries & Services of Maryland

**Governor's Annual Report
2011**

**Blind Industries & Services of Maryland
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Joint Message from BISM Chairman of the Board Donald J. Morris and President Frederick J. Puente

Blind Industries and Services of Maryland (BISM) is honored to present our Annual Report for the Fiscal Year that concluded on June 30, 2011. The report includes information on BISM operations, facilities, employment, and rehabilitation programs. This report is submitted pursuant to Human Services Article 7-703 (h)(6) (MSAR #6071) and is prepared in accordance with Section 2-1246 of the State Government Article. BISM's 2011 Annual Report is presented to The Honorable Governor Martin O'Malley, the General Assembly, and the Honorable James C. Rosapepe and Guy J. Guzzone, Co-Chairs of the Joint Audit Committee.

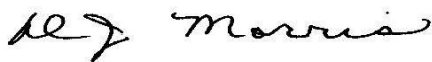
BISM's Fiscal Year 2011 was affected by the continued economic downturn, which impacted our business at all levels. Our fabric cutting and sewing divisions were impacted the most, as military spending tightened and we lacked a production surge that made FY 2010 such a success. However, despite a reduction in spending at the state and federal level, BISM managed to develop new business opportunities. In February 2011, BISM took over management responsibilities of Raleigh (NC) Lions Clinic for the Blind (RLCB), and turned around the once-struggling organization.

FY11 also featured the debut of BISM's Leadership and Management Skills certification program, a six-month training class for BISM associates interested in advancing to higher level positions within the company.

The Rehabilitation and Training division continued its resurgence, as growth was realized in the youth, adult, and senior programs. The youth programs expanded to include one-day workshops that teach parents how to better advance, and advocate for, their blind children.

On behalf of BISM's Board of Trustees, management team and associates, we extend our genuine appreciation to Governor O'Malley and the Maryland General Assembly for your continued support.

Sincerely,



Donald J. Morris
Chairman, Board of Trustees



Frederick J. Puente
President

BISM Board of Trustees and Management

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Rob Harris – Director of Human Resources

Introduction to Blind Industries and Services of Maryland

Blind Industries and Services of Maryland (BISM) was established in 1908 by the Maryland General Assembly and has evolved into a multifaceted company that offers diverse employment and comprehensive rehabilitation programs and services for blind and visually impaired Marylanders of all ages.

BISM currently employs over 450 associates, the majority of whom are blind or visually impaired, and offers competitive wages, health and retirement benefits and job security. The entire organization is built on the belief that every one of our associates plays an integral part in the overall success of BISM. With the funds generated by our hard working manufacturing associates, we are able to offer the highest level of training programs and services free of charge to blind Maryland residents.

BISM operates eleven locations in five states, including our main manufacturing facilities in Baltimore, Cumberland, Salisbury, and Raleigh (NC); six Office Eagle Base Supply Centers; and BISM Beverage, a full service water and custom labeling division. BISM manufactures the following at very competitive prices: a full range of office paper products; janitorial/sanitation supplies, from chemicals to application; cut and sewn textile products, including uniforms for all branches of the military; assembly and packaging services, better known as “kitting”; and bottled water products.

Our company has an uncompromising belief in the capabilities of people who are blind and every day we see that belief borne out in the accomplishments of our associates. By purchasing through BISM, state and federal agencies do much more than comply with the law: They make it possible for blind Marylanders to live complete and independent lives.

BISM’s Rehabilitation Department offers programs and services that provide in-depth blindness training for adults, seniors, and youth. Our dedicated Rehabilitation staff, most of whom are blind, teach Braille, computer technology, independent living and cane travel in a classroom setting, and coordinate adjustment to blindness seminars, confidence-building activities and workshops.

Students are immersed in a learning environment that encourages them to become self-sufficient, productive members of society. Successful students leave BISM with the skills and confidence to pursue a career, enter the workforce, attend college, manage an active family and contribute to the community. BISM works closely with state agencies and elected representatives to ensure that the Rehabilitation Department continues to receive aid that partially funds the programs and services.

The Current State of BISM – Fiscal Year 2011

(July 1, 2010 – June 30, 2011)

Manufacturing and Production

BISM continues to build on our reputation as the perfect business partner for state, federal, and private customers by delivering competitively priced, high quality products and services.

BISM's blind and visually impaired manufacturing associates consistently exhibit the dedication and craftsmanship that helps us meet the needs of an ever-changing marketplace, without sacrificing the quality of our products.

Fiscal Year 2011 was a very difficult year for our manufacturing and production divisions. A lack of government orders had a negative impact on our sewing divisions in Cumberland and Salisbury. Productivity and sales orders were greatly reduced from the year before on the Army IPFU uniform jacket, and delays in finalizing new fabric further hindered our sewing operations. The cutting division was healthier than sewing, though we did not meet our original budget projections.

The result of the reduction in cutting and sewing contracts led to layoffs of some sighted associates in Cumberland, and led to a reduced four-day work week in Salisbury.

The upside to FY11 was the management partnership agreement with the Raleigh Lions Clinic for the Blind (RLCB), which took effect on February 21, 2011. BISM's primary motivation for partnering with the struggling RLCB was the need for more production space, specifically in the cutting and sewing divisions. The new management agreement with BISM led to an immediate reversal of fortune for RLCB and the relationship continues to expand in FY12. There are currently 60-65 blind associates at RLCB with plans to add an additional 15-20 blind associates. BISM now manages the entire cutting and sewing operation in Raleigh.

During FY11, BISM negotiated a contract to sew the Air Force PTU Cold Weather Jacket, but full production and financial benefit will not be realized until FY12. It is a large contract with orders that carry through June 2012. In addition to the Cold Weather Jacket, there are a variety of projects that should result in a very successful second half of FY12.

Office Eagle Base Supply Centers

BISM owns and operates six Office Eagle Base Supply Centers (BSCs) on federal military installations in Maryland, Delaware, District of Columbia and Kentucky. More than two-thirds of our retail Office Eagle associates are blind or visually impaired and blind associates play a pivotal role in all aspects of the operations.

Office Eagle is a true “one-stop” shopping solution for our base customers by offering office supplies, cleaning products, tools and military uniforms. In an effort to satisfy customer demands, our e-commerce site, www.SuperEagleSupply.com, offers over 60,000 office and janitorial supplies, next day delivery on most items and free shipping on orders over \$50. The Dover Office Eagle also operates the HazMart Pharmacy, where all items deemed as hazardous are managed by BISM associates.

BISM opened its first Office Eagle BSC on Dover Air Force Base in December 1997. The BSC program was created in 1995 by National Industries for the Blind (NIB) and the President’s Committee for Purchase from People Who are Blind or Severely Disabled (now known as the U.S. AbilityOne Commission) and distributes blind and disabled made products under the auspices of the AbilityOne Program. Office Eagle is an innovator in providing assistive technology tools for our blind and visually impaired associates, including a computer magnification program known as ZoomText, CCTVs, wireless handheld talking scanners and talking cash registers.

This was an exciting and rewarding year for the Office Eagle division. The Office Eagle BSCs generated \$22,486,543 in sales during FY11.

During this past year, numerous Office Eagle associates were honored by organizations and government agencies. Ft Knox associate Mary Henwood was BISM’s nominee for the Peter J. Salmon Service Employee of the Year at National Industries for the Blind’s annual conference in New Orleans, Louisiana.

All of the Office Eagle BSC locations held National Disability Employment Awareness Month (NDEAM) events during October. NDEAM events highlight the capabilities of people who are blind and educate the public about disability employment.

The future of the Office Eagle BSC division continues to look very bright in FY12 as we open a new store on Joint Base Andrews in April 2012. We continue to pursue the opportunity to open a new BSC on Fort Meade, and Office Eagle will experience a name change during the spring of 2012. In an effort to better brand the BSC program across the country, Office Eagle will officially become “AbilityOne Base Supply Center operated by Blind Industries and Services of Maryland.”

Sales and Marketing

The Sales and Marketing team dedicates itself to offering high quality products and top-notch customer service to State of Maryland agencies.

When state customers purchase from BISM, they are providing employment opportunities for blind and visually impaired Marylanders. Just a few of the products we sell are paper pads, hand soap, cleaners, medical exam gloves, trashcan liners, toilet paper and paper towels.

BISM's Sales and Marketing Department felt the pinch during the economic slump of FY11, which was intensified by the tightening of state budgets and spending. Making the process more challenging was the fact that we made little headway with state agencies that are not fully compliant with procurement purchasing requirements.

BISM's paper products line, which includes everything from paper pads to easel pads, was severely impacted, as changes in customers marketing philosophies resulted in the purchase of less paper.

Despite substantial purchasing cutbacks by the state, our medical exam gloves and sanitizer lines were strong performers in FY11.

Our commitment to providing and promoting Green products to state customers resulted in BISM becoming a member of the Maryland Green Purchasing Committee. BISM's Jan-San product line features several Green products, including toilet paper, paper towels and trashcan liners, which are either Green Seal certified, ecologically certified, GSA compliant or biodegradable.

The Sales group worked hard to secure new contracts for warewashing and chlorine bleach and now sell both products statewide. Without new contracts, the sales department would not have been able to meet budget expectations in FY11, due to the across-the-board reduction in purchases by state customers.

BISM realizes that we cannot afford to lose sales to non-compliant state agencies, especially when the majority of our customers are cutting back on purchases. The BISM sales goal for FY12 is to meet with more non-compliant state customers and make them aware of state purchasing requirements.

BISM Beverage

The BISM Beverage division remains a work in progress as we transitioned in FY11 from our previous location in Berkeley Springs, WV to our new water processing plant at BISM's Baltimore Headquarters.

BISM Beverage's Sales and Customer Service team continues to educate private, state and federal customers on our bottled water and custom label products. There is confidence that the five gallon product line has tremendous growth potential and that we have yet to scratch the surface with our BISM Beverage division.

While bottled water has become an environmental issue over the past few years, there is real hope that we can turn around the BISM Beverage division in FY12.

Human Resources

The Human Resources Department of Blind Industries and Services of Maryland remains totally committed to the employment of blind and visually impaired people, and we spent FY11 building upon successes from FY10. The entire HR staff participated in continuing education and enrolled as members of the Society for Human Resources Management (SHRM), the premier human resources organization serving HR professionals and advancing the profession. The staff also attended seminars, workshops and conferences to increase their skills and knowledge of HR core competencies.

The department worked with the management team and the Board of Trustees to develop total compensation and profit sharing plans. These plans were designed with the intent of fully engaging our associates in the outcomes of the business enterprise, and giving them a stake in the risk and rewards of our success. BISM President Frederick J. Puente, with the support of the HR department, ensured that all associates in every location received a briefing about these plans and their impact upon both the individual and the company.

The HR staff continued to track hidden costs due to associate turnover and, by educating leaders and placing additional controls, maintained the turnover rate from the previous year. We are still addressing turnover in an effort to reduce the rate further.

The HR department oversaw the second year of leadership training. This training has produced nearly 60 trained leaders within the organization as part of BISM's succession planning initiative. We also started a supervised on-the-job-training program specifically targeting blind associates wishing to work in professional or managerial positions. This training is augmented with formal classes from various institutions and agencies.

Plans for the upcoming year include rolling out an annual total compensation statement that is individualized; supporting our role as host of the National Industries for the Blind Conference in October; and growing the blind workforce to meet increased production requirements.

Development and Fundraising

Recognizing the growing needs of the individuals served by our programs, BISM created a Development Department in Fiscal Year 2011.

The main goal of the development effort is to establish a group of supporters that will aide in the funding of BISM's growing initiatives. While BISM has received small gifts from generous individuals and local organizations in the past, we had never reached out in a concerted way to ask for financial contributions.

In March 2011, we contracted with Echo Communicate, Inc. to create a direct mail fundraising program that would be responsible for helping us enlist the support of individual donors in Maryland. In response to the direct mail campaign, we have heard

from hundreds of Marylanders who have signed up for our *Founding Friends* circle of donors.

In addition to individual-focused fundraising, we have stepped up our efforts in reaching out to local businesses, foundations and larger corporate supporters. We work closely with BISM's Communications Department to create and publicize our message and values. In FY12, the Development team looks forward to broadening our audience of supporters and raising awareness about BISM's life changing programs and services.

Rehabilitation Department

The mission of BISM's Rehabilitation Department is to provide blind and visually impaired people of all ages with life skills training that will lead to self-reliance and independence. Maryland residents continue to receive all BISM programs and services free of charge and out-of-state participants are often subsidized by their state. BISM's training facilities are among the best in the nation and the programs are successful because our dedicated team of blind instructors serves as teachers, mentors, role models and friends to the students.

Fiscal Year 2011 was a good year for BISM's Rehabilitation Department, as we continued to reach more blind Marylanders through our innovative Youth, Adult and Senior programs. As the only agency in the State of Maryland using the structured discovery method of rehabilitation teaching philosophy, BISM provides students with the knowledge and skills that they need to live independent lives.

A total of 39,938 training hours were provided through adult and senior center-based programs (at locations in Baltimore, Cumberland and Salisbury), home visitations, support groups, community workshops and a residential senior retreat. There were 280 referrals to our adult and senior blindness skills training programs and 42 people completed BISM programs. The youth division served over 40 blind middle and high school aged students through weekend and overnight training programs.

BISM's Rehabilitation programs and services are offered at no cost to Maryland residents. A percentage of the adult CORE and Senior Services programs are funded by a State Appropriation authorized by the Governor and overseen by the Department of Rehabilitative Services (DORS). Another portion of our programs are funded by private foundations, grants and fundraising. BISM funds the remainder of the Rehabilitation Department programs through the manufacturing and sales efforts of our associates.

CORE Program

BISM's Comprehensive Orientation, Rehabilitation, and Empowerment (CORE) program teaches blind and visually impaired adults the skills of blindness so they can become employed, pursue post-secondary education and regain control of their lives. Confidence building is an essential element of the program and is reinforced with each accomplishment. CORE students are taught by blind instructors and learn non-visual methods in a classroom setting. The curriculum

includes Braille, long white cane travel, independent living, assistive computer technology, adjustment to blindness seminars, physical fitness and off-site training. The CORE program generally requires six to nine months to complete.

CORE is a residential program and we consider residential living an essential component, designed to integrate skills developed throughout training. Students live in a BISM-owned apartment building and are responsible for shopping, meal preparation, cleaning and money management. Students also organize and participate in community outreach, BISM fundraisers and group activities.

In FY11, there were five students who successfully graduated or completed the CORE program. Fifteen additional students took part in CORE training in FY11 and either withdrew from the program, left due to illness, or are scheduled to graduate in FY12. Of the 20 total CORE students, 16 were residents of Maryland.

Senior Services

BISM's Senior Services offers life skills training, support groups, resource materials, teaching aids and community outings for blind and visually impaired seniors. We provide senior services programs at our Baltimore, Cumberland and Salisbury locations, as well as in Hagerstown, plus one-day workshops throughout the state and an annual four-day residential retreat. The goal of all BISM Senior Services programs is to empower blind and visually impaired senior citizens with the skills and confidence necessary to live an independent, fulfilling life.

The Seniors Achieving Independent Living (SAIL) program's curriculum includes classes in Braille, cane travel, independent home living, assistive computer technology, adjustment to blindness seminars, arts & crafts and leisure activities. Classes are taught by blind instructors who encourage seniors to reach for higher levels of independence. BISM's training classes are critically important for blind seniors, many of whom live alone and without the support of family. With the skills acquired at BISM, senior participants become better equipped to manage their daily needs, remain in their own homes, resume social activities, increase their quality of life and avoid unnecessary placement in costly assisted living facilities.

During FY11, the following training programs and services were offered to blind and visually impaired seniors:

- a. Center-based Seniors Achieving Independent Living (SAIL) training in Baltimore, Cumberland, and Salisbury
- b. Community-based Seniors Achieving Independent Living (SAIL) training in Hagerstown
- c. Monthly support group meetings
- d. Home teaching instruction
- e. Residential four-day training retreat - Baltimore
- f. One-day community workshops:

- Basic Blindness Skills (Life Enhancement)
- Financial Independence (Dollars and Sense)
- Diabetes Management and Self-Care (Healthy Lifestyles)

BISM Senior Services provided the following in FY11:

- A total of 286 blind and visually impaired senior citizens received blindness skills training; 209 of which received center-based training or home visits, while 77 seniors attended workshops or retreats.
- 14,512 hours of skills training through weekly center-based training programs, support group meetings and special classes (76 seniors per quarter average).
- 197 home teaching visits and 349 hours of home teaching instruction (22 seniors per quarter average).
- 858 hours of skills training for 77 seniors at seven special events: a four-day residential training retreat in Baltimore and six - one-day community workshops in the following counties: Baltimore, Calvert, Carroll, Prince George's and Baltimore City.
- 169 hours of public outreach for over 2,500 recipients at 73 locations, including government agencies, private organizations, senior centers, hospitals, retirement communities, schools, senior fairs, conferences and conventions.
- Monthly Senior Services newsletter with a circulation over 200.
- Two training DVD's, *Life Enhancement Through Non-visual Skills* and *Tools and Techniques for Managing Diabetes Non-Visually*, at no charge to blind and visually impaired senior citizens and family members, medical professionals and senior service providers, agencies, non-profits, and other organizations working with the older blind population. Funding for the DVD's was made possible by a stimulus grant which was awarded in 2010 and resulted in 2,500 copies of each DVD being produced and distributed.

Youth Services

BISM's Youth Services division was very pleased to offer its Independence 2011 program for blind and visually impaired high school students. The eight-week summer residential training program provided 12 blind and visually impaired teens with the non-visual skills and confidence to successfully transition from high school to college and/or employment.

Over the course of the eight weeks, students learned to travel independently using a long white cane, experienced real-world career opportunities in a two-week paid work position, learned to read and write using Braille and developed computer skills through assistive technology. Students resided in campus apartments with blind instructors/mentors and expanded their cooking, cleaning and shopping skills while developing a positive attitude about blindness. Independence 2011 students also had several rewarding travel experiences to places like the 2011 NFB national convention and Walt Disney World in Orlando, Baltimore and Washington D.C. Students also attended Youth Slam (a two-week STEM

Leadership Academy) and participated in numerous recreational and athletic activities.

Youth Services also offered several weekend and one-day programs throughout FY11, including the “Be Ok with Blindness” Workshop for blind children and teenagers, parents, care givers and teachers. All of these programs focused on independence and advocacy for blind children and teenagers.

In FY12, BISM looks to expand their youth programs to include a yearlong mentoring program that pairs successful blind adults with blind youth; exploring career paths; and a three week Independence 101 residential program for blind and visually impaired middle school aged children.

Blind Industries And Services Of Maryland

Financial Report
June 30, 2011

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Independent Auditor's Report

To the Board of Directors
Blind Industries and Services of Maryland
Baltimore, Maryland

We have audited the accompanying statements of financial position of Blind Industries and Services of Maryland (BISM) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of BISM's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blind Industries and Services of Maryland as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Baltimore, Maryland
November 22, 2011

Blind Industries And Services Of Maryland

Statements Of Financial Position

June 30, 2011 And 2010

Assets	2011	2010
Current Assets		
Cash	\$ 6,390	\$ 15,940
Trade and other accounts receivable, less allowance for doubtful accounts (2011 – \$72,921; 2010 – \$87,975)	6,086,971	5,793,622
Inventories (Note 2)	7,055,799	5,872,975
Prepaid expenses and other assets	276,403	170,233
Total current assets	13,425,563	11,852,770
Investments (Notes 3, 4, And 10)	9,209,769	8,238,923
Property, Plant And Equipment (Notes 1 And 5)		
Land	2,377,590	2,377,590
Buildings and improvements	15,401,608	15,368,282
Machinery and equipment	6,176,557	6,417,137
Motor vehicles	821,842	617,802
Equipment under capital leases	952,109	943,762
Furniture and fixtures	563,553	563,553
	26,293,259	26,288,126
Less accumulated depreciation, including accumulated depreciation (2011 – \$174,693; 2010 – \$243,696) relating to equipment under capital leases	11,630,405	10,830,809
	14,662,854	15,457,317
Total assets	\$ 37,298,186	\$ 35,549,010

See Notes To Financial Statements.

Liabilities And Net Assets	2011	2010
Current Liabilities		
Current maturities of long-term debt (Note 4)	\$ 3,308,183	\$ 788,607
Liability under capital lease obligations (Note 5)	227,269	215,919
Accounts payable	5,341,077	6,484,677
Accrued expenses and other liabilities	2,006,131	1,428,812
Total current liabilities	10,882,660	8,918,015
Long-Term Debt (Note 4)	9,038,966	9,629,803
Interest Rate Swap (Note 4)	393,436	430,030
Liability Under Capital Lease Obligations, Noncurrent Portion (Note 5)	466,106	693,374
Commitments (Notes 5, 6 And 7)		
Net Assets		
Unrestricted	16,490,018	15,850,788
Permanently restricted	27,000	27,000
Total net assets	16,517,018	15,877,788
Total liabilities and net assets	\$ 37,298,186	\$ 35,549,010

Blind Industries And Services Of Maryland

Statements Of Activities

Years Ended June 30, 2011 And 2010

	2011		
	Unrestricted	Permanently Restricted	Total
Revenue:			
Sales	\$ 79,594,413	\$ -	\$ 79,594,413
State of Maryland appropriations	571,282	-	571,282
Contributions and donations	136,503	-	136,503
Miscellaneous	59,509	-	59,509
	<u>80,361,707</u>	-	<u>80,361,707</u>
Expenses (Notes 5 and 6):			
Cost of sales, including commissions to National Industries for the Blind (2011 – \$782,716; 2010 – \$557,499)	68,141,100	-	68,141,100
Industries division	2,563,882	-	2,563,882
Rehabilitation and training	1,155,753	-	1,155,753
Fundraising	42,164	-	42,164
General and administrative	8,579,151	-	8,579,151
	<u>80,482,050</u>	-	<u>80,482,050</u>
Excess of operating revenue over expenses	(120,343)	-	(120,343)
Other revenue and expenses:			
Investment income (Note 3)	1,035,459	-	1,035,459
Income (loss) on interest rate swap contract	36,594	-	36,594
Interest expense (Notes 4 and 5)	(312,480)	-	(312,480)
	<u>639,230</u>	-	<u>639,230</u>
Change in net assets	639,230	-	639,230
Net assets:			
Beginning of year	<u>15,850,788</u>	<u>27,000</u>	<u>15,877,788</u>
End of year	<u>\$ 16,490,018</u>	<u>\$ 27,000</u>	<u>\$ 16,517,018</u>

See Notes To Financial Statements.

2010

Unrestricted	Permanently Restricted	Total
\$ 93,909,926	\$ -	\$ 93,909,926
571,282	-	571,282
331,083	-	331,083
208,936	-	208,936
<u>95,021,227</u>	<u>-</u>	<u>95,021,227</u>
77,664,558	-	77,664,558
1,922,861	-	1,922,861
1,136,476	-	1,136,476
42,164	-	42,164
10,149,530	-	10,149,530
<u>90,915,589</u>	<u>-</u>	<u>90,915,589</u>
4,105,638	-	4,105,638
234,449	-	234,449
(159,870)	-	(159,870)
(301,096)	-	(301,096)
<u>3,879,121</u>	<u>-</u>	<u>3,879,121</u>
<u>11,971,667</u>	<u>27,000</u>	<u>11,998,667</u>
<u>\$ 15,850,788</u>	<u>\$ 27,000</u>	<u>\$ 15,877,788</u>

Blind Industries And Services Of Maryland

Statements Of Cash Flows Years Ended June 30, 2011 And 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 639,230	\$ 3,879,121
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	970,574	972,930
Decrease in allowance for doubtful accounts	(15,054)	-
Unrealized appreciation of investments	(713,017)	(1,123)
Realized gains on sales of investments	(221,681)	(130,490)
Loss on disposal of property, plant and equipment	141,764	3,758
(Gain) loss on interest rate swap contract	(36,594)	159,870
Changes in assets and liabilities:		
(Increase) decrease in:		
Trade and other accounts receivable	(278,295)	866,483
Inventories	(1,182,824)	1,590,513
Prepaid expenses and other assets	(106,170)	1,303,360
Increase (decrease) in:		
Accounts payable	(1,143,600)	(1,231,428)
Accrued expenses and other liabilities	577,319	(328,898)
Net cash (used in) provided by operating activities	(1,368,348)	7,084,096
Cash Flows From Investing Activities		
Proceeds from sales of investments	1,251,266	1,184,214
Proceeds from sale of property, plant and equipment	49,587	16,363
Purchases of investments	(1,287,414)	(1,229,822)
Purchases of property, plant and equipment	(367,463)	(3,083,455)
Net cash used in investing activities	(354,024)	(3,112,700)
Cash Flows From Financing Activities		
Proceeds from long-term debt	27,516	1,535,177
Net borrowings (repayments) on line of credit, net	2,573,005	(4,921,187)
Principal payments on long-term debt	(671,781)	(476,047)
Principal payments on capital lease obligations	(215,918)	(98,069)
Net cash provided by (used in) financing activities	1,712,822	(3,960,126)
Net (decrease) increase in cash	(9,550)	11,270
Cash:		
Beginning of year	15,940	4,670
End of year	\$ 6,390	\$ 15,940

See Notes To Financial Statements.

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Blind Industries and Services of Maryland (BISM) is a public corporation created by Article 30 of the Annotated Code of Maryland for the purpose of training, rehabilitating, employing and furnishing services to the adult blind of the state of Maryland. BISM operates manufacturing facilities in Baltimore, Cumberland and Salisbury, Maryland. The facilities produce and package military uniforms, paper supplies, chemicals, and various other equipment. BISM also operates retail stores located primarily on military bases. A substantial portion of BISM sales, directly or indirectly, is dependent on U.S. Federal and State government spending.

A summary of BISM's significant accounting policies is as follows:

Basis of accounting: BISM is on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under ASC 958-205, BISM is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of BISM pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Any temporarily restricted resource that is received and used during the same year is considered an unrestricted resource and is reported in the unrestricted net assets. There were no temporarily restricted net assets at June 30, 2011 and 2010.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by BISM's actions.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. BISM uses the allowance method to determine uncollectible trade receivables. The allowance is based on prior years' experience and management's analysis of specific receivables. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 31 days. Interest is not charged on past due trade receivables.

Inventories: Inventories are stated at the lower of cost or market. The moving weighted average cost method is used for retail stores' (Office Eagle) merchandise. Costs for all other inventories are determined by use of the first-in, first-out (FIFO) method. BISM, based upon management's experience and knowledge, provides an estimated reserve for inventory that becomes obsolete due to age or design changes. The actual write-off or write-down of inventory could differ in the future from the amount reserved due to the use of estimates by BISM.

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Investments: BISM is required to report investments in equity securities that have readily determinable fair values and all debt securities at fair value. Gains, losses and income are reported in the period earned and are shown as increases or decreases in unrestricted net assets, unless its use is temporarily or permanently restricted by explicit donor stipulation or law.

Investment risk and uncertainties: BISM invests in a professionally managed portfolio that contains common shares, bonds and convertible securities of publicly traded companies, U.S. Government obligations, and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Financial risk: BISM has funds on deposit with a financial institution in excess of federally insured amounts. BISM has not experienced any losses on cash accounts and believes it is not exposed to significant credit risk on cash.

Property, plant and equipment: Property, plant and equipment are recorded at cost or fair value if donated. Depreciation and amortization are provided over the estimated useful lives or lease terms, whichever is shorter, of the respective assets using the straight-line method. Amortization of equipment under capital leases is included in depreciation expense. Useful lives of property and equipment range as follows:

Building and improvements	20 – 40 years
Machinery and equipment	5 – 10 years
Motor vehicles	3 years
Furniture and fixtures	5 – 10 years

Valuation of long-lived assets: BISM accounts for the valuation of long-lived assets under ASC 360-10, *Impairment or Disposal of Long-Lived Assets*. ASC 360-10 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Revenue recognition: BISM recognizes sales upon shipment of goods to customers for manufactured items. The retail operations of BISM recognize sales upon receipt of goods by the customer. Appropriations from governing bodies are recognized for the year in which they are appropriated.

Donated assets: Donated assets are recorded at their fair value on the date of donation.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Income tax status: BISM is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not considered to be a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. BISM did not have any net unrelated business income for the years ended June 30, 2011 and 2010.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying statements of financial position, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

As of June 30, 2011 and 2010, there were no material unrecognized/derecognized benefits or tax penalties or interest. Generally, BISM is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years ending before June 30, 2008.

Interest rate swap agreement: BISM accounts for interest rate swap contracts in accordance with ASC 815, *Derivatives and Hedging*. BISM uses interest rate swap contracts principally to manage the risk that changes in interest rates have on its floating rate long-term debt. The following is a summary of BISM's risk management strategy and the effect of this strategy on the financial statements.

Interest rate swap contracts are used to adjust a portion of total debt that is subject to variable interest rates. Under the interest rate swap contract, BISM agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract.

BISM's interest rate swap contract is considered to be a hedge against changes in the amount of future cash flows associated with BISM's interest payments under variable rate debt obligations. Accordingly, the interest rate swap contract is reflected at fair value in BISM's statements of financial position, and the related gain or loss on these contracts is recognized in the statements of activities. The effect of this accounting on BISM's operating results is that interest expense on the portion of variable rate debt being hedged is generally recorded based on fixed interest rates.

The fair value of interest rate swaps is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, trade and other accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value, because the interest rates on these instruments fluctuate with market interest rates offered to BISM for debt with similar terms and maturities.

Reclassifications: Certain 2010 balances have been reclassified to conform to 2011 reporting. These reclassifications have no effect on the change in net assets previously reported.

Subsequent events: BISM evaluated subsequent events for potential required disclosures through November 22, 2011, which is the date the financial statements were available to be issued.

Note 2. Inventories

Components of inventories at June 30, 2011 and 2010, are as follows:

	2011	2010
Raw materials	\$ 2,889,783	\$ 2,274,372
Work-in-process	266,815	143,466
Finished goods	1,690,512	1,344,081
Office Eagle store merchandise	2,408,689	2,311,056
Reserves for obsolescence	(200,000)	(200,000)
	<u>\$ 7,055,799</u>	<u>\$ 5,872,975</u>

Note 3. Investments

Investments are carried at fair value. A summary of investments at June 30, 2011 and 2010, is as follows:

	2011		2010	
	Cost Or Donated Value	Fair Value	Cost Or Donated Value	Fair Value
Short-term investments and money market accounts	\$ 4,348,580	\$ 4,348,580	\$ 4,492,743	\$ 4,492,743
U.S. Government and agency obligations	415,093	437,518	204,198	209,782
Stocks and mutual funds				
Energy	26,845	121,058	27,003	92,058
Exchange traded funds	298,484	288,368	307,274	274,954
Finance	26,841	454,775	28,903	579,278
Healthcare	288,824	324,530	93,638	97,175
Natural resources	231,998	1,260,943	558,365	1,166,209
Retail	189,711	735,187	112,834	568,356
Technology	824,413	1,169,758	653,916	690,957
Miscellaneous	136,694	69,052	50,780	67,411
	<u>\$ 6,787,483</u>	<u>\$ 9,209,769</u>	<u>\$ 6,529,654</u>	<u>\$ 8,238,923</u>

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 3. Investments (Continued)

Gross unrealized appreciation (depreciation) of investments at June 30, 2011 and 2010, is as follows:

	2011	2010
Gross unrealized appreciation	\$ 2,735,814	\$ 2,021,287
Gross unrealized depreciation	(313,528)	(312,018)
	<u>\$ 2,422,286</u>	<u>\$ 1,709,269</u>

Investment gains for the years ended June 30, 2011 and 2010, include the following:

	2011	2010
Interest and dividends	\$ 100,761	\$ 102,836
Net realized gains on sales of investments	221,681	130,490
Net unrealized appreciation of investments	713,017	1,123
	<u>\$ 1,035,459</u>	<u>\$ 234,449</u>

Note 4. Long-Term Debt And Interest Rate Swap Agreement

Long-term debt and related current maturities at June 30, 2011 and 2010, consist of the following:

	2011	2010
Revolving line of credit	\$ 2,770,274	\$ 197,270
Promissory note	2,158,523	2,343,596
Note payable – vendor	12,589	49,080
Bond payable	7,400,000	7,800,000
Term loans collateralized by motor vehicles and equipment with interest rates ranging from .0% to 7.5%; monthly payments ranging from \$339 to \$4,000; and maturity at various dates through 2013.	5,763	28,464
	<u>12,347,149</u>	<u>10,418,410</u>
Less current maturities	<u>3,308,183</u>	<u>788,607</u>
	<u>\$ 9,038,966</u>	<u>\$ 9,629,803</u>

Under the terms of a line of credit agreement with a bank, BISM is able to borrow up to a maximum of \$7,000,000, effective through November 27, 2011. Interest is payable monthly based on the London Interbank Offered Rate (LIBOR) plus 1.75 percent. Borrowings under this line of credit are collateralized by investments and are subject to certain financial covenants.

Under the terms of a promissory note with a bank, BISM was able to borrow up to a maximum of \$2,400,000 for the construction of a building located on the Fort Knox Military Reservation. The promissory note requires monthly principal payments of \$10,000 plus accrued interest. The promissory note bears interest at LIBOR plus 2.5 percent, with all unpaid principal and accrued interest due on October 31, 2016. The interest rate was 2.69 percent and 2.85 percent at June 30, 2011 and 2010, respectively. The note is collateralized by the parcels of land located in Baltimore County, together with any and all improvements thereon.

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 4. Long-Term Debt And Interest Rate Swap Agreement (Continued)

In connection with this construction, BISM executed a 25-year lease with the Department of the Army for the land on which the building stands, which began on September 1, 2008. The lease is revocable at will by the Secretary of the Army. In such event, the lease provides for an equitable adjustment to be made in the investment in construction on the premises paid or to be paid by BISM under the terms of the lease.

Note payable, vendor includes borrowings of \$210,000, which is payable over 60 months in equal monthly installments of \$3,879, including interest at a rate of 4.125 percent, commencing in October 2006. In the event of default of payment, interest is due at the rate of 10 percent. During fiscal year 2009, BISM borrowed an additional \$184,000, which is payable over six months in equal monthly installments of \$3,407, which is interest free, commencing in February 2010. Commencing August 2010, the remainder of the note is payable over 54 months in equal monthly installments of \$3,522, including interest at a rate of 1.65 percent. The borrowings under the note are collateralized by equipment.

In November 2004, BISM issued \$10,000,000 of Maryland Economic Development Corporation (MEDCO), Series 2003 variable rate bonds. The Series 2003 bonds were issued to finance the acquisition and renovation of BISM's facilities. The Series 2003 bonds were issued as fully registered bonds without coupons and bear interest at the current Variable Weekly Rate as determined by the Remarketing Agent and as defined in the Indenture of Trust. The interest rate was .16 percent and .40 percent at June 30, 2011 and 2010, respectively. Principal installments on the bonds are due semi-annually beginning on May 1, 2005, and continuing through November 1, 2028. The bonds may be tendered by the bondholder upon seven days' written notice and are subject to a remarketing agreement backed by an irrevocable letter of credit. In addition, the Series 2003 bonds are subject to certain financial covenants.

Under the terms of the related Deed of Trust and Credit Agreement, BISM has granted to MEDCO and its trustee a security interest in parcels of land located in Baltimore County, together with any and all improvements thereon.

As security for repayment of principal and interest on the bonds, a bank, as trustee for MEDCO, issued an irrevocable letter of credit at a stated amount equal to the aggregate outstanding principal amount of the Series 2003 bonds at any time plus 35 days' interest calculated at 12 percent per annum. The letter of credit was issued for \$10,115,069 and expires on November 1, 2017. The balance on the letter of credit was \$7,400,000 and \$7,800,000 at June 30, 2011 and 2010, respectively.

Annual maturities of long-term debt at June 30, 2011, are due in future years as follows:

Years Ending June 30,	
2012	\$ 3,308,183
2013	520,443
2014	520,000
2015	520,000
2016	520,000
Thereafter	6,958,523
	<u>\$ 12,347,149</u>

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 4. Long-Term Debt And Interest Rate Swap Agreement (Continued)

On May 1, 2005, BISM entered into an interest rate swap agreement with a commercial bank related to its issuance of the Series 2003 variable rate bond with a notional amount of \$3,700,000 at June 30, 2011. This cash flow hedge changes the variable interest rate on a portion of the balance of BISM's bond payable to fixed-rate interest. Under the terms of the swap, which expires in November 2028, BISM pays monthly a fixed annual interest rate of 3.97 percent. BISM receives monthly the variable interest rate of the USD-BMA Municipal Swap Index, based on a monthly average, on the interest rate swap. During fiscal years 2011 and 2010, BISM recognized a net gain of \$36,594 and a net loss of \$159,870, respectively, relating to this hedging instrument.

Note 5. Capital Lease Obligations

BISM leases equipment for which the minimum lease rentals have been capitalized using the rates implicit in the leases. The leases expire at various dates through 2015. Future minimum lease payments under the capital leases as of June 30, 2011, are as follows:

Years Ending June 30,

2012	\$	231,814
2013		224,675
2014		204,311
2015		46,442
Total minimum lease payments		<u>707,242</u>
Less the amount representing interest		13,867
Present value of minimum lease payments	\$	<u>693,375</u>
Current portion	\$	227,269
Noncurrent portion		466,106
	\$	<u>693,375</u>

Interest expense attributable to capital leases was \$40,735 and \$31,636 for the years ended June 30, 2011 and 2010, respectively.

Rent expense for the years ended June 30, 2011 and 2010, was \$251,420 and \$32,692, respectively.

Note 6. Pension Plans

BISM has established a Section 403(b) defined contribution annuity plan (the Plan), under which employees are eligible to participate in a salary deferral program. To receive employer contributions, an employee must complete six months of service. BISM's matching contributions to the Plan are discretionary and limited up to 15 percent of each employee's compensation. Employees hired before December 31, 1995, are immediately vested in the Plan. Employees hired after December 31, 1995, become 25 percent vested after two years of service and an additional 25 percent for each subsequent year of service, until fully vested after five years of service. BISM has the right to terminate the Plan at any time. Employer cash contributions to the Plan were \$540,743 and \$521,984 for the years ended June 30, 2011 and 2010, respectively. Expenses under the Plan were \$658,699 and \$485,367 for the years ended June 30, 2011 and 2010, respectively.

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 7. Commitments And Related Party Transactions

BISM has an agreement with the National Industries for the Blind (NIB), under which NIB acts as a prime contractor and central nonprofit agency for BISM to obtain government contracts under the AbilityOne, formerly Javits-Wagner-O'Day (JWOD) Program. BISM pays commissions of approximately 4 percent to NIB on AbilityOne sales. AbilityOne sales totaled \$13,491,240 and \$18,340,552 for the years ended June 30, 2011 and 2010, respectively.

In April 2011, BISM entered into an agreement with third party RLCB, Inc. (RLCB), under which BISM assumed the day-to-day management of RLCB's leased manufacturing facility. As part of the agreement, BISM will utilize the RLCB leased facilities with no co-mingling of funds, joint venture or partnership attributes. Monthly rental payments due by RLCB to the lessor are \$50,000. The term of the lease is February 1, 2011, through February 28, 2014, with one-year automatic renewals thereafter. Under the agreement, BISM will reimburse RLCB for 80 percent of the rent due by RLCB, pay/reimburse and manage all RLCB employees, provide management to the facility, reimburse RLCB for 80 percent of warehouse and facility expenses and remit 40 percent of net income from manufacturing operations to RLCB within 45 days of quarter end. BISM records all sales and expenses on a gross basis. On a quarterly basis, a net income calculation is performed to determine the amount due to RLCB, which is recorded as profit sharing amounts due to RLCB.

Subsequent to this agreement entered into with RLCB, BISM has become the guarantor of the lease described above through June 30, 2014, for a maximum liability of \$1,836,240.

Note 8. Major Customers

Approximately 37 percent of revenue was derived from sales to an unrelated organization for the year ended June 30, 2011. Approximately 35 percent of revenue was derived from sales to two unrelated organizations for the year ended June 30, 2010. Accounts receivable due from these organizations totaled \$2,608,617 and \$2,207,894 at June 30, 2011 and 2010, respectively.

Note 9. Major Vendors

Transactions with a single vendor accounted for approximately 11 percent and 8 percent of purchases in 2011 and 2010, respectively. Accounts payable to this vendor was \$156,944 and \$310,638 as of June 30, 2011 and 2010, respectively.

Note 10. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. ASC 820 applies to all assets and liabilities that are being measured and reported on a fair value basis. ASC 820 requires new disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. ASC 820 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at their fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs that are not corroborated by market data

Blind Industries And Services Of Maryland

Notes To Financial Statements

Note 10. Fair Value Measurements (Continued)

In determining the appropriate levels, BISM performs a detailed analysis of the assets and liabilities that are subject to ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by BISM at June 30, 2011.

The following tables set forth by level within the fair value hierarchy assets measured and reported at fair value on a recurring basis in the statements of financial position at June 30, 2011 and 2010.

	2011			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 437,518	\$ -	\$ 437,518	\$ -
Common stocks	4,422,615	4,422,615	-	-
Mutual funds	1,056	1,056	-	-
Interest rate swap contract	(393,436)	-	(393,436)	-
	<u>\$ 4,467,753</u>	<u>\$ 4,423,671</u>	<u>\$ 44,082</u>	<u>\$ -</u>

	2010			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 209,782	\$ -	\$ 209,782	\$ -
Common stocks	3,535,384	3,535,384	-	-
Mutual funds	1,014	1,014	-	-
Interest rate swap contract	(430,030)	-	(430,030)	-
	<u>\$ 3,316,150</u>	<u>\$ 3,536,398</u>	<u>\$ (220,248)</u>	<u>\$ -</u>

ASC 820 excludes cash and cash equivalents from the fair value hierarchy, as cash is generally measured at cost. As such, \$4,348,580 and \$4,492,743 of money market funds held in BISM's investment portfolio at June 30, 2011 and 2010, respectively, has been excluded from this table.

BISM's interest rate swap is observable at commonly quoted intervals for the full term of the swap and, therefore, is considered a Level 2 item. For the interest rate swaps in an asset position, the credit standing of the counter party is analyzed and factored into the fair value measurement of the asset. ASC 820 states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of BISM's credit worthiness has also been factored into the fair value measurement for the interest rate swap in a liability position.

Note 11. Supplemental Cash Flow Information

Supplemental Disclosure Of Cash Flow Information	2011	2010
Cash payments for interest	<u>\$ 315,761</u>	<u>\$ 282,548</u>
Noncash financing and investing activities		
Equipment purchased under capital lease arrangements	<u>\$ -</u>	<u>\$ 398,188</u>