



# ANNUAL REPORT

FY 2012

*3345 Washington Blvd \* Baltimore, MD 21227 \* 410-737-2600  
www.bism.org*

## **Joint Message from BISM Chairman of the Board Donald J. Morris and President Frederick J. Puente**

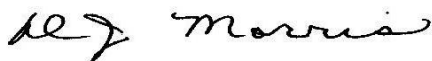
Blind Industries and Services of Maryland (BISM) is honored to present our Annual Report for the Fiscal Year that concluded on June 30, 2012. The report includes information on BISM operations, facilities, employment, and rehabilitation programs. This report is submitted pursuant to Human Services Article 7-703 (h)(6) (MSAR #6071) and is prepared in accordance with Section 2-1246 of the State Government Article. BISM's 2012 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 overall Fiscal Year 2012 was steady, despite the continued economic downturn across the country. BISM managed to develop some new business opportunities and partially offset the impact of the reduction in federal and military contracts. BISM was proud to maintain its workforce throughout the fiscal year with little turnover.

The Rehabilitation and Training division continued to grow and expand in all areas, specifically with new youth programs added and increased attendance in our adult CORE training program. Our senior training programs continue to thrive across the state, with programs and services offered in Baltimore, Cumberland, Salisbury and Hagerstown.

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**

## **Board of Trustees**

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Holly Stanley – Chief Accounting Officer  
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Christina Davis – Senior Director  
Ken Barnett – Director of Base Service Stores  
Gregg Kalifut – Director of Sales and Marketing

## **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 and low vision Maryland residents.

BISM operates 13 locations in five states, including our main manufacturing facilities in Baltimore, Cumberland, Salisbury, and Raleigh (NC); eight AbilityOne 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 experience fulfilling and independent lives.

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

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 our programs and services.

# **The Current State of BISM – Fiscal Year 2012**

## **(July 1, 2011 – June 30, 2012)**

### **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.*

Despite difficult financial times, BISM's Cutting and Sewing operations managed to hold their own in Fiscal Year 2012. While a small drop-off occurred, especially towards the end of the fiscal year, there were not huge implications on BISM. There were a couple of new additions to the cutting product line in late FY12 that should carry into FY13.

The Army Combat Army (ACU) was in heavy demand in FY12. Cutting orders for the trousers were increased from 50,000 to 75,000 for a six month period, with the bulk of the work done in our Baltimore headquarters and the remainder of the cutting work done in our Raleigh facility. The Improved Physical Fitness Uniform (IPFU), which is cut in Baltimore and sewn in Cumberland, remained consistent with 9,200 per month produced in FY12.

Our Raleigh location was busy in FY12 and was responsible for cutting and sewing a wide variety of products, including the Ripstop Airman Battle Uniform (RABU) for the Air Force, Joint Service biochemical bag, record maintenance holder pouch, mock turtleneck bulletproof shirt, and much more.

Our Salisbury sewing location began production of the Level 4 cold weather windbreaker for the Army in FY12, and averaged 10,000 sewn per month. The Salisbury cutting facility worked on various products for UNICOR, including the Improved Outer Tactical Vest (IOTV) and the ACU.

The slowdown in government spending (especially on the military) caused orders to drop off towards the end of FY12 and other orders being spread out over a longer time. For example, the ABU order for Raleigh dropped from over 18,000 per month to its current level of 8,800 per month. Even with the slowdown, BISM maintained many current contracts and added new contracts, due in large part to our outstanding products and on-time delivery.

During FY12, BISM did not have to reduce our workforce and there was minimal turnover in our manufacturing and production division. While FY 2013 has started off slow, we expect business to pick up and result in a positive FY13.

## **AbilityOne Base Supply Centers**

*BISM owns and operates eight AbilityOne Base Supply Centers (BSCs) on federal military installations in Maryland, Delaware, District of Columbia, Virginia and Kentucky. More than one-third of our Base Supply Center retail associates are blind or visually impaired and blind associates play a pivotal role in all aspects of the operations.*

*The AbilityOne Base Supply Center 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](http://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 AbilityOne Base Supply Center also operates the HazMart Pharmacy, where all items deemed as hazardous are managed by BISM associates.*

*BISM opened its first AbilityOne Base Supply Center 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. Our Base Supply Center 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 Base Supply Center division. The Base Supply Centers generated \$22,137,679 in sales during FY12.

All of the AbilityOne Base Supply Centers 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 AbilityOne Base Supply Center division continues to look very bright in FY13 as we continue to pursue the opportunity to open a new BSC on Fort Meade.

## **Sales and Marketing**

*BISM’s 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. BISM’s product offerings include: paper pads, hand soaps, sanitizers, a full line of janitorial chemicals, floor care products, medical exam gloves, can liners, toilet paper, paper towels, warewashing chemicals, bleach, personal care products, and many others.*

BISM's Sales and Marketing Department continued to feel the effects of the difficult economic times in FY12 and the resultant tightening of state budgets and spending. Making the process more challenging was the fact that there was no enforcement of procurement regulations 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 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 FY12.

Our commitment to providing and promoting Green products to state customers resulted in BISM becoming a member of the Maryland Green Purchasing Committee and BISM associates undergoing training in Green Seal-42 (Green cleaning) procedures. BISM's Jan-San product line now features many Green products, including toilet paper, paper towels trashcan liners, soaps, sanitizers, and cleaning chemicals. About 60% of our sales to State of Maryland agencies were green products, which are either Green Seal certified, ecologically certified, GSA compliant or biodegradable.

The Sales department added GOJO and Purell products to our product offerings in FY12 and the new products helped BISM meet sales expectations of janitorial products. Otherwise, the sales department would not have been able to meet budget expectations in FY12, 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 FY13 is to meet with more non-compliant state customers and make them aware of state purchasing requirements.

## **BISM Beverage**

In FY12, the BISM Beverage division became more streamlined and better situated than ever to deliver custom label, private label, and five gallon purified bottled water to our diversified customer base.

Our five gallon bottling facility is a state of the art water processing plant now located in our Baltimore Headquarters building. We employ blind labor in all aspects of our water division and predict continued growth moving forward.

## **Human Resources**

The Human Resources Department of Blind Industries and Services of Maryland continues to be totally committed to the employment of blind and visually impaired

people, and we spent FY12 building upon prior years successes. The entire HR staff participated in continuing education and all are 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 continued to refine BISM's 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. The HR department continued to ensure that all associates in every location received a briefing about these plans and their impact upon both the individual and the company.

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.

## **Development and Fundraising**

The Development Department continued to work on its goal of establishing a group of supporters to aide in the funding of BISM's Rehabilitation and training programs. Working with Echo Communicate, Inc., we created several more direct mail pieces. Our direct mail campaign has yielded a good supporter base.

Our new grants program launched in October 2011 with the goal to help cover our growing costs. We received a number of corporate and foundation grants for our Rehabilitation programs and a grant for a new powder filler machine from National Industries of the Blind. A couple of our blind associates were invited to a training session to learn how to use the new equipment.

We hosted numerous fundraisers to help support our Rehabilitation and Training programs including the BISM Pro-Invitational Golf Classic in September 2011; TEAM BISM at the Baltimore Running Festival in October 2011; the inaugural Mardi Gras Celebration, in conjunction with The Polakoff Foundation, in February 2012; BISM's Big Bash in March 2012; and the Shrimp, Oyster & Bull Roast in April 2012.

## **Rehabilitation and Training**

*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 adult and senior 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 2012 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 49,984 total training hours were provided through adult (28,455 hours), senior (16,889 hours), and youth (4,640 hours) programs. These programs occurred at our center-based locations in Baltimore, Cumberland, Salisbury, Hagerstown, and Towson, and also included home visitations, support groups, community workshops and a residential senior retreat.

There were 337 referrals to our adult and senior blindness skills training programs and 35 people completed BISM training programs. An additional 18 students completed a two day tour at BISM's Baltimore facility and apartment building. The youth division served 47 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 adults and seniors who are 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 training programs and services 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, and 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 FY12, there were six students who successfully graduated or completed the CORE program. Twenty-three additional students took part in CORE training in FY12, many of whom are scheduled to graduate in FY13. Of the 29 total CORE students, 26 were residents of Maryland.

### **Senior Services**

BISM's Senior Services offers life skills center-based training, monthly support groups, workshops, home instruction, resource materials, adapted device demonstrations and community outings for blind and low vision 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 low vision senior citizens with the skills and confidence necessary to live independent, fulfilling lives.

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, gardening and leisure activities. 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.

A total of 357 blind and low vision senior citizens received blindness skills training in FY12; 274 of which received center-based training or home visits, while 83 seniors attended workshops or retreats.

### **Youth Services**

In the summer of 2011, BISM offered the Independence 2011 residential program for 10 blind high school students. During the eight-week program, participants received instruction from blind staff in assistive technology, Braille, cane travel, and independent living, and also took part in daily seminars regarding blindness. The instruction and seminars occurred while living in an apartment on the campus of Towson University with blind adult role models/instructors. Students also travelled to the National Federation of the Blind (NFB) convention in Orlando, FL., participated in numerous extra-curricular activities and used public transportation to visit Washington D.C. Finally, the students gained valuable paid employment experience working 20 hours a week for the last two weeks of the program at local businesses and organizations.

In February 2012, BISM kicked off the Mentoring Program, placing 17 blind high school and college age students with successful blind adult mentors. Activities for the program included visiting Washington D.C. and going on a hiking day trip.

BISM partnered with the Maryland Parents of Blind Children for the 3<sup>rd</sup> annual Be OK with Blindness workshop in April 2012. There were approximately 20

blind students, their families and professionals in the field of blindness who benefited from this joint program. Student activities included going on a white cane walk and using Apple I-Devices to complete a scavenger hunt. Parents learned about assistive technology for the blind and how to effectively advocate for their child's needs in school.

# **Blind Industries And Services Of Maryland**

Financial Statements  
June 30, 2012

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**Independent Auditor's Report**

To the Board of Trustees  
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, 2012 and 2011, 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, 2012 and 2011, 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 LLP*

Baltimore, Maryland  
October 12, 2012

**Blind Industries And Services Of Maryland**

**Statements Of Financial Position  
June 30, 2012 And 2011**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Current Assets		
Cash	\$ 7,100	\$ 6,390
Trade and other accounts receivable, less allowance for doubtful accounts (2012 – \$58,910; 2011 – \$72,921)	7,073,388	6,086,971
Inventories (Note 2)	7,305,140	7,055,799
Prepaid expenses and other assets	355,094	276,403
<b>Total current assets</b>	<b>14,740,722</b>	<b>13,425,563</b>
Investments (Notes 3 and 10)	<b>9,202,617</b>	9,209,769
Property, Plant And Equipment (Note 5)		
Land	2,377,590	2,377,590
Buildings and improvements	15,960,964	15,401,608
Machinery and equipment	6,539,102	6,176,557
Motor vehicles	791,135	821,842
Equipment under capital leases	952,109	952,109
Furniture and fixtures	587,625	563,553
	<b>27,208,525</b>	26,293,259
Less accumulated depreciation, including accumulated depreciation (2012 – \$375,799; 2011 – \$246,845) relating to equipment under capital leases	12,414,355	11,630,405
	<b>14,794,170</b>	<b>14,662,854</b>
<b>Total assets</b>	<b>\$ 38,737,509</b>	<b>\$ 37,298,186</b>

See Notes To Financial Statements.

<b>Liabilities And Net Assets</b>	<b>2012</b>	<b>2011</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt (Note 4)	\$ 3,493,345	\$ 3,308,183
Liability under capital lease obligations (Note 5)	245,838	227,269
Accounts payable	6,159,062	5,341,077
Accrued expenses and other liabilities	3,034,578	2,006,131
<b>Total current liabilities</b>	<b>12,932,823</b>	<b>10,882,660</b>
Long-Term Debt (Note 4)	8,518,523	9,038,966
Interest Rate Swap (Note 4)	682,277	393,436
Liability Under Capital Lease Obligations, Noncurrent Portion (Note 5)	220,269	466,106
Commitments (Notes 5, 6, and 7)		
<b>Net Assets</b>		
Unrestricted	16,356,617	16,490,018
Permanently restricted	27,000	27,000
<b>Total net assets</b>	<b>16,383,617</b>	<b>16,517,018</b>
<b>Total liabilities and net assets</b>	<b>\$ 38,737,509</b>	<b>\$ 37,298,186</b>



Blind Industries And Services Of Maryland

Statements Of Activities

Years Ended June 30, 2012 And 2011

	2012		
	Unrestricted	Permanently Restricted	Total
<b>Revenue:</b>			
Sales	\$ 82,279,878	\$ -	\$ 82,279,878
State of Maryland appropriations	531,292	-	531,292
Contributions and grants	210,266	-	210,266
Miscellaneous	234,119	-	234,119
	<u>83,255,555</u>	<u>-</u>	<u>83,255,555</u>
<b>Expenses:</b>			
Cost of sales, including commissions to National Industries for the Blind (2012 – \$1,618,834; 2011 – \$782,716)	73,216,478	-	73,216,478
Rehabilitation and training	1,397,391	-	1,397,391
Fundraising and development	208,132	-	208,132
General and administrative	8,028,872	-	8,028,872
	<u>82,850,873</u>	<u>-</u>	<u>82,850,873</u>
<b>Excess (deficiency) of operating revenue over expenses</b>	<b>404,682</b>	<b>-</b>	<b>404,682</b>
<b>Other revenue and expenses:</b>			
Investment income (Note 3)	71,459	-	71,459
Income (loss) on interest rate swap contract	(288,841)	-	(288,841)
Interest expense (Notes 4 and 5)	(320,701)	-	(320,701)
	<u>(538,083)</u>	<u>-</u>	<u>(538,083)</u>
<b>Change in net assets</b>	<b>(133,401)</b>	<b>-</b>	<b>(133,401)</b>
<b>Net assets:</b>			
Beginning of year	16,490,018	27,000	16,517,018
	<u>16,490,018</u>	<u>27,000</u>	<u>16,517,018</u>
End of year	\$ 16,356,617	\$ 27,000	\$ 16,383,617
	<u>\$ 16,356,617</u>	<u>\$ 27,000</u>	<u>\$ 16,383,617</u>

See Notes To Financial Statements.

2011		
Unrestricted	Permanently Restricted	Total
\$ 76,701,605	\$ -	\$ 76,701,605
571,282	-	571,282
174,612	-	174,612
56,943	-	56,943
<u>77,504,442</u>	<u>-</u>	<u>77,504,442</u>
68,709,002	-	68,709,002
1,474,891	-	1,474,891
48,280	-	48,280
7,392,612	-	7,392,612
<u>77,624,785</u>	<u>-</u>	<u>77,624,785</u>
(120,343)	-	(120,343)
1,035,459	-	1,035,459
36,594	-	36,594
<u>(312,480)</u>	<u>-</u>	<u>(312,480)</u>
639,230	-	639,230
<u>15,850,788</u>	<u>27,000</u>	<u>15,877,788</u>
<u>\$ 16,490,018</u>	<u>\$ 27,000</u>	<u>\$ 16,517,018</u>

**Blind Industries And Services Of Maryland**

**Statements Of Cash Flows**

**Years Ended June 30, 2012 And 2011**

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ (133,401)	\$ 639,230
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	919,904	970,574
Decrease in allowance for doubtful accounts	(14,011)	(15,054)
Unrealized depreciation (appreciation) of investments	65,984	(713,017)
Realized gains on sales of investments	(12,067)	(221,681)
Loss on disposal of property, plant, and equipment	64,510	141,764
Loss (gain) on interest rate swap contract	288,841	(36,594)
Changes in assets and liabilities:		
Increase in:		
Trade and other accounts receivable	(1,000,428)	(278,295)
Inventories	(249,341)	(1,182,824)
Prepaid expenses and other assets	(78,691)	(106,170)
Increase (decrease) in:		
Accounts payable	817,985	(1,143,600)
Accrued expenses and other liabilities	1,028,447	577,319
<b>Net cash provided by (used in) operating activities</b>	<b>1,697,732</b>	<b>(1,368,348)</b>
Cash Flows From Investing Activities		
Proceeds from sales of investments	956,755	1,251,266
Proceeds from sale of property, plant and equipment	23,000	49,587
Purchases of investments	(975,498)	(1,287,414)
Purchases of property, plant and equipment	(1,138,730)	(367,463)
<b>Net cash used in investing activities</b>	<b>(1,134,473)</b>	<b>(354,024)</b>
Cash Flows From Financing Activities		
Proceeds from long-term debt	-	27,516
Net borrowings on line of credit, net	193,071	2,573,005
Principal payments on long-term debt	(528,352)	(671,781)
Principal payments on capital lease obligations	(227,268)	(215,918)
<b>Net cash (used in) provided by financing activities</b>	<b>(562,549)</b>	<b>1,712,822</b>
<b>Net increase (decrease) in cash</b>	<b>710</b>	<b>(9,550)</b>
Cash:		
Beginning of year	6,390	15,940
End of year	<b>\$ 7,100</b>	<b>\$ 6,390</b>
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	<b>\$ 328,928</b>	<b>\$ 315,761</b>

See Notes To Financial Statements.



## Blind Industries And Services Of Maryland

### Notes To Financial Statements

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#### 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, Salisbury, Maryland and Raleigh, North Carolina. 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:** The accompanying financial statements are presented in accordance with 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, 2012 and 2011.

*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 store (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

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#### 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:

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Building and improvements	20 – 40 years
Equipment under capital leases	5 – 10 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

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#### 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, 2012 and 2011.

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% 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, 2012 and 2011, 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, 2009.

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 2011 balances have been reclassified to conform to 2012 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 October 12, 2012, which is the date the financial statements were available to be issued.

#### Note 2. Inventories

Components of inventories at June 30, 2012 and 2011, are as follows:

	2012	2011
Raw materials	\$ 3,421,756	\$ 2,889,783
Work-in-process	274,403	266,815
Finished goods	1,672,601	1,690,512
Office Eagle store merchandise	2,136,380	2,408,689
Reserves for obsolescence	(200,000)	(200,000)
	<u>\$ 7,305,140</u>	<u>\$ 7,055,799</u>

#### Note 3. Investments

Investments are carried at fair value. A summary of investments at June 30, 2012 and 2011, is as follows:

	2012		2011	
	Cost Or Donated Value	Fair Value	Cost Or Donated Value	Fair Value
Short-term investments and money market accounts	\$ 3,729,871	\$ 3,729,871	\$ 4,348,580	\$ 4,348,580
U.S. Government and agency obligations	414,951	442,908	415,093	437,518
Stocks and mutual funds				
Energy	240,122	780,013	26,845	121,058
Exchange traded funds	125,915	135,314	298,484	288,368
Finance	26,841	429,584	26,841	454,775
Healthcare	381,965	467,003	288,824	324,530
Natural resources	226,543	542,385	231,998	1,260,943
Retail	621,231	1,309,124	189,711	735,187
Technology	930,941	1,204,862	824,413	1,169,758
Miscellaneous	81,951	161,553	136,694	69,052
	<u>\$ 6,780,331</u>	<u>\$ 9,202,617</u>	<u>\$ 6,787,483</u>	<u>\$ 9,209,769</u>



## Blind Industries And Services Of Maryland

### Notes To Financial Statements

#### Note 3. Investments (Continued)

Gross unrealized appreciation (depreciation) of investments at June 30, 2012 and 2011, is as follows:

	2012	2011
Gross unrealized appreciation	\$ 2,294,428	\$ 2,735,814
Gross unrealized depreciation	(114,869)	(313,528)
	<u>\$ 2,179,559</u>	<u>\$ 2,422,286</u>

Investment gains for the years ended June 30, 2012 and 2011, include the following:

	2012	2011
Interest and dividends	\$ 125,376	\$ 100,761
Net realized gains on sales of investments	12,067	221,681
Net unrealized (depreciation) appreciation of investments	(65,984)	713,017
	<u>\$ 71,459</u>	<u>\$ 1,035,459</u>

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

Long-term debt and related current maturities at June 30, 2012 and 2011, consist of the following:

	2012	2011
Revolving line of credit	\$ 2,963,345	\$ 2,770,274
Promissory note	2,048,523	2,158,523
Note payable – vendor	-	12,589
Bond payable	7,000,000	7,400,000
Term loans collateralized by motor vehicles and equipment	-	5,763
	<u>12,011,868</u>	<u>12,347,149</u>
Less current maturities	<u>3,493,345</u>	<u>3,308,183</u>
	<u>\$ 8,518,523</u>	<u>\$ 9,038,966</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, 2012, subject to annual renewal. Interest is payable monthly based on the London Interbank Offered Rate (LIBOR) plus 1.75%. Borrowings under this line of credit are collateralized by investments and are subject to certain financial covenants. The interest on the line was 1.99% and 1.94% on June 30, 2012 and June 30, 2011, respectively.

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%, with all unpaid principal and accrued interest due on October 31, 2016. The interest rate was 2.74% and 2.69% at June 30, 2012 and 2011, 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

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#### 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 \$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 1.625%. 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 .55% and .16% at June 30, 2012 and 2011, 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% 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 \$7,080,548 at June 30, 2012.

Annual maturities of long-term debt at June 30, 2012, are due in future years as follows:

Years Ending June 30,	
2013	\$ 3,493,345
2014	520,000
2015	520,000
2016	520,000
2017	1,958,523
Thereafter	5,000,000
	<u>\$ 12,011,868</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 \$3,500,000 at June 30, 2012. This cash flow hedge changes the variable interest rate on a portion of the balance of BISM's bond payable to a 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%. 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 2012 and 2011, BISM recognized a net loss of \$288,841 and a net gain of \$36,594, respectively, relating to this hedging instrument.

Total interest expense was \$320,701 and \$312,480 for the years ended June 30, 2012 and June 30, 2011, respectively.

#### 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, 2012, are as follows:

Years Ending June 30,

2013	\$	224,675
2014		204,311
2015		46,442
<b>Total minimum lease payments</b>		<b>475,428</b>
Less the amount representing interest		9,321
<b>Present value of minimum lease payments</b>	<b>\$</b>	<b>466,107</b>
Current portion	\$	245,838
Noncurrent portion		220,269
	<b>\$</b>	<b>466,107</b>

Interest expense attributable to capital leases was \$29,499 and \$40,735 for the years ended June 30, 2012 and 2011, 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% 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% vested after two years of service and an additional 25% 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 \$556,578 and \$540,743 for the years ended June 30, 2012 and 2011, respectively. Expenses under the Plan were \$591,531 and \$658,699 for the years ended June 30, 2012 and 2011, respectively.



## **Blind Industries And Services Of Maryland**

### **Notes To Financial Statements**

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#### **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% to NIB on AbilityOne sales. AbilityOne sales totaled \$38,574,350 and \$13,491,240 for the years ended June 30, 2012 and 2011, 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, 2016, with one-year automatic renewals thereafter. BISM has become the guarantor of the lease described above through June 30, 2014, for a maximum liability of \$1,236,240.

Under the agreement, BISM will reimburse RLCB for 80% of the rent due by RLCB, pay/reimburse and manage all non-management RLCB employees, provide management of manufacturing operations, reimburse RLCB for 80% of warehouse and facility expenses and remit 40% 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 funds due to or from RLCB.

Rent expense for the years ended June 30, 2012 and 2011, was \$510,997 and \$251,420, respectively.

In September of 2011, the BISM Board of Directors established a profit sharing plan for a two year trial period, in which BISM would contribute a portion of profits to employees. Profit sharing expenses totaled \$154,989 and \$250,000 for the years ended June 30, 2012 and June 30, 2011, respectively.

#### **Note 8. Major Customers**

Approximately 46% of revenue was derived from sales to two unrelated organizations for the year ended June 30, 2012. Approximately 37% of revenue was derived from sales to an unrelated organization for the year ended June 30, 2011. Accounts receivable due from these organizations totaled \$5,154,473 and \$2,207,894 at June 30, 2012 and 2011, respectively.

#### **Note 9. Major Vendors**

Transactions with a single vendor accounted for approximately 10% and 11% of purchases in 2012 and 2011, respectively. Accounts payable to this vendor was \$1,780,649 and \$156,944 as of June 30, 2012 and 2011, respectively.

## Blind Industries And Services Of Maryland

### Notes To Financial Statements

#### 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.

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, 2012.

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, 2012 and 2011.

	2012			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 442,908	\$ -	\$ 442,908	\$ -
Common stocks	5,028,716	5,028,716	-	-
Mutual funds	1,122	1,122	-	-
Interest rate swap contract	(682,277)	-	(682,277)	-
	<u>\$ 4,790,469</u>	<u>\$ 5,029,838</u>	<u>\$ (239,369)</u>	<u>\$ -</u>

	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>

**Blind Industries And Services Of Maryland**

**Notes To Financial Statements**

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**Note 10. Fair Value Measurements (Continued)**

ASC 820 excludes cash and cash equivalents from the fair value hierarchy, as cash is generally measured at cost. As such, \$3,729,871 and \$4,348,580 of money market funds held in BISM's investment portfolio at June 30, 2012 and 2011, 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.