

Support for the Fiscal Year that concluded on June 30, 2017. The report  
information on BISM operations, facilities, employment, and rehab  
this report is submitted pursuant to Human Services Article 7-703 (f)  
of the State Govern  
SM. The Honorable Govern  
Blind Industries & Services of Maryland  
Governor's Annual Report  
2017

**Positively Changing People's  
Attitudes about Blindness.**



**Blind Industries &  
Services of Maryland  
Governor's Annual Report  
2017**

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## **Joint Message from BISM Chairman of the Board Michael L. Gosse 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, 2017. 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 2017 Annual Report is presented to The Honorable Governor Lawrence J. Hogan, Jr., the General Assembly, and the Honorable C. William Frick and Craig J. Zucker, Co-Chairs of the Joint Audit Committee.

BISM's overall Fiscal Year 2017 was a difficult year. At the core of the difficulty was the passing of the Maryland Legislature House Bill 1446, which threatened the jobs of 60-90 BISM Associates, many of whom are blind or low vision. As a result of HB 1446, BISM purchased a new manufacturing facility in Hagerstown, allowing us to fully comply with the manufacturing requirements detailed in the bill.

The minimum wage increase also had a direct impact on BISM but, because of our contract requirements, we have not passed on those increases to customers or laid off any of our Associates.

Finally, our federal fabric cutting and sewing business was also down for FY17, as the federal government continues to operate without long-term funding, thus delaying orders.

These three areas have placed a significant financial burden on our not-for-profit organization, but we remain steadfast in our mission and the Associates that we employ.

The Rehabilitation and Training division continues to deliver high quality programs and services for blind and low vision people, while doing more with less. The quality of our training programs, offered free of charge to Maryland residents, are by far the best in the region and the nation, and we continue to receive international recognition.

In the first half of FY18, our financial difficulties continue, as we have added more Associates to staff the Hagerstown location and we wait for federal orders to come through. We remain optimistic that FY18 will only get better moving forward.

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

Sincerely,



Michael L. Gosse  
Chairman, Board of Trustees



Frederick J. Puente  
President

## **BISM Board of Trustees and Management**

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## **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 opportunities and comprehensive rehabilitation programs and services for blind and visually impaired Marylanders of all ages.

BISM currently employs over 600 Associates, many of whom are blind or visually impaired, at 16 locations in five states. BISM's manufacturing facilities are located in Baltimore, Cumberland, Federalsburg, Hagerstown, Salisbury (2), and Raleigh (NC). BISM also owns and operates eight AbilityOne Base Supply Centers on federal and military installations.

BISM manufactures the following at very competitive prices for the State of Maryland: office paper pads; paper products; janitorial/sanitation supplies, from chemicals to application; assembly services, better known as "kitting"; and custom label bottled water. BISM also produces cut and sewn textile products for the federal government, including uniforms for all branches of the military.

BISM offers competitive wages, health and retirement benefits, and growth potential for our blind and sighted Associates. 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 manufacturing operations, we are able to offer the highest level of Rehabilitation training programs and services free of charge to blind and low vision Maryland residents.

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, Maryland 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, job readiness, and woodshop in a classroom setting and offer adjustment to blindness seminars, confidence-building group activities, home teaching and workshops. Successful students leave BISM with the skills to enter the workforce and pursue a career, attend college, manage an active family and contribute to the community. BISM works closely with Maryland state agencies and elected representatives to ensure that the Rehabilitation Department continues to receive aid that partially funds our training programs and services.

# **The Current State of BISM – Fiscal Year 2017**

## **(July 1, 2016 – June 30, 2017)**

### **State Sales, Manufacturing and Production**

*BISM's Sales and Marketing team dedicates itself to offering high quality products at the lowest, most competitive price possible and top-notch customer service to State of Maryland agencies, State supported or controlled entities, and commercial contractors.*

*When State customers purchase from BISM, they are providing employment opportunities for blind and visually impaired Marylanders. BISM's product offerings include paper pads, 50% recycled content copy paper, 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, locksets and door hardware, batteries, and much more.*

Fiscal Year 2017 was on par with FY16, which fell short of our sales goals. There were no notable areas of growth nor decreases as sales remained flat. On a positive note, BISM was able to convert several jobs from sighted to blind in FY17, which increased blind employment despite flat sales.

The Maryland State Legislature continues to hinder the ability of BISM to succeed by putting forth legislation that threatens our state business and the employment of blind and low vision Marylanders. BISM fully complied with the legislation passed in FY17 despite the difficult challenges it created. In order to meet the requirements set by HB1446/SBSB1144, and grow our employment and sales, we acquired the assets of a Hagerstown paper conversion manufacturing plant in FY18.

During FY17, our warewashing product line (kitchen and laundry chemicals and supplies) contract was renewed and we added a few new products to meet the needs of our State of Maryland customers. Personal welfare kits were reintroduced to our state contract.

While the outlook for FY18 is not good for our State Sales division, we are encouraged that many of our Jan-San products received Green Seal Certification and we expect more products to be Green Seal certified throughout FY18.

### **BISM Beverage**

*BISM Beverage provides clear purified water to our State and Commercial customers in both five gallon and single serve BISM Now brand sizes.*

In FY17, BISM Beverage continued to grow as a full-service, self-sustaining custom label water bottling facility. Our manufacturing plants in Baltimore and Federalsburg

handle all elements of the custom design, printing, labeling, bottling, and shipping of purified water.

BISM's custom label business is located on the Eastern Shore in Federalsburg and is primarily commercial customer driven. Presently we market 8 oz., 10 oz., 16.9 oz. and 20 oz. products to our customer base throughout the Mid-Atlantic area. Our largest single customer continues to be Maryland Live! Casino and we are actively seeking to broaden our customer base and grow our sales through direct delivery or drop ship delivery from Virginia to New York.

Our five-gallon bottling facility is a state-of-the-art water processing plant located in our Baltimore Headquarters. All of our five-gallon bottles are made of PET plastic, which is recycled material and better for the environment, and we provide energy efficient coolers wherever and whenever possible. BISM Beverage's largest five-gallon customer remains the State of Maryland.

Our blind Associates are crucial in all aspects of our beverage division and we expect to increase blind employment as the business grows.

In FY18, BISM Beverage is focusing on building and expanding the relationship with state agencies, food service partners, the gaming industry, and the private sector for continued growth in custom label and five-gallon bottled water.

## **Federal Manufacturing and Production**

*BISM's blind and low vision 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 cut and sewn products. We cut and sew uniforms for all branches of the U.S. military.*

Fiscal Year 2017 was not a strong and consistent year for BISM's cutting and sewing divisions, due to the decrease in the cutting demands from a major federal customer. These decreased demands were offset by supplementing cutting with commercial companies. Improvements in supplier deliveries of fabric continued during FY17, which allowed BISM to manufacture in accordance to the customer delivery schedules with minimum overtime, thus improving the bottom line in the sewing operation. The volume of orders across the board reached 90% of capacity for sewing during the year but the cutting operations reached only about 50%, which had a negative impact on the bottom line for FY17.

BISM continued to benefit from an additional textile sewing operation, opened in 2015 under the PIE Program with Federal Prison Industries at FCI Butner, NC. FCI Butner positively affected performance and allowed BISM more flexibility to compete with the commercial marketplace for cutting services.

Demand for the APFU Jacket, IPTU Jacket and EXCW Jacket for the Federal Government remained consistent in FY17. BISM was able to meet all customer needs without the use of overtime and no orders were delinquent. The sewing operations at Salisbury and Cumberland were on track and met all performance expectations for FY17.

Our cutting and sewing division at Raleigh (NC) performance was weaker in FY17 due to a decrease in demands for several items. The Raleigh location cuts and sews a variety of textile products including the APFU Jacket and the J-List Bag for the U.S. Army, the Ripstop Airmen Battle Uniform (RABU) for the Air Force, the MOLLE backpack strap, and pillows.

## **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. 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 ShopBISM.com offers over 80,000 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.*

FY17 was a rewarding year for the Base Supply Center division. More than one-third of our BSC retail Associates are blind or visually impaired and blind Associates play a pivotal role in all aspects of the operations. BISM's Base Supply Centers are 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.

The total sales numbers in FY17 for our eight BSCs was \$20,412,036.

During FY17, the AbilityOne Base Supply Center Champion Program launched, with six BSC Associates chosen to help educate customers on all that our BSCs have to offer. All of the AbilityOne BSC locations held Military Appreciation Days in May and National Disability Employment Awareness Month (NDEAM) events in October. NDEAM events highlight the capabilities of people who are blind and educate the public about disability employment.

## **Human Resources**

BISM's Human Resources department is committed to the continued employment and growth of blind and visually impaired Associates in our administrative, manufacturing and retail facilities. In calendar 2017, we added 24 blind and visually impaired Associates to our workforce, in a number of positions ranging from instructor to production associate. Every BISM facility employs people who are blind and visually impaired.

BISM remains dedicated to the upward mobility, mentoring, and recruitment of blind individuals into leadership roles. We are actively looking within our organization as well as nationwide to identify blind people who hold the potential skill sets to lead BISM into the future.

The changes to the Rehabilitation Act of 1973, as amended by the Workforce Innovation and Opportunity Act (WIOA), have had a chilling impact on our ability to find and train potential Associates in our manufacturing operations. Most of the job readiness and skills training for new Associates falls directly on BISM's shoulders. The cost of doing this training decreases our ability to compete in the marketplace, but are a necessity to realize our mission.

We attempt to motivate and assist all BISM Associates by improving their employment experience. Our attendance bonus encourages our manufacturing Associates to maintain perfect attendance. HR has worked with our facilities manager to bring in the MTA to discuss bus schedule changes, and brought in Mobility representatives to discuss Associates concerns and suggestions. In 2017, the Human Resources department initiated free tax preparation for our Associates.

Human Resources has instituted an updated sexual harassment prevention training for our Associates. Our updated protocols have outlined appropriate work conduct and have streamlined harassment reporting procedures for all of our Associates. We also have established Bystander training to maintain the enriching associate culture at BISM.

In FY18, we are creating a better onboarding experience for our new hires through an improved orientation model. HR is working hard on creating a mentoring program that will be rolled out in Baltimore, and the goal of this mentoring will be to increase productivity and provide support for our new Associates.

## **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. BISM's training facilities are among the best in the nation and the programs are successful because our dedicated team of blind instructors serve as teachers, mentors, role models and friends to the students.*

Fiscal Year 2017 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.

Of the 26 Marylanders who staff BISM's Rehabilitation Department, 20 are blind (including five managers). BISM Rehabilitation staff provided 73,752 training hours to 841 blind individuals in FY17. Instruction and training hours were provided to adults (42,786 hours), seniors (12,422 hours), youth (17,680 hours), and in-home (864 hours). Training occurred across the State of Maryland at our center-based locations in Baltimore, Cumberland, Salisbury, Hagerstown, University of Maryland Baltimore County (UMBC), as well as at students' homes. Programs also include support groups, community workshops and a residential senior retreat.

There were 234 referrals in FY17 to our adult and senior blindness skills training programs and 57 people completed BISM training programs. The youth division served 239 blind middle and high school students through weekend and overnight training programs and workshops.

BISM's Rehabilitation training 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 DORS. BISM funds the majority of the Rehabilitation Department training programs and services through the manufacturing and sales efforts of our Associates.

### **Comprehensive Orientation, Rehabilitation, and Empowerment (CORE)**

#### **Adult Program**

In FY17, 10 students successfully graduated or completed the CORE program to go along with 17 students who completed our Work Adjustment Training (WAT) program and are now employed.

The 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 both inside and outside of a classroom setting. The curriculum includes braille, long white cane travel, independent living, assistive computer technology, job readiness, woodshop, physical fitness, adjustment to blindness seminars, and off-site training. The CORE program generally requires eight to eleven 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 an apartment building at 300 West Lombard Street in downtown Baltimore. They have easy access to every mode of public transportation offered

by Baltimore and are two blocks from Camden Yards/Inner Harbor. This enhances the student's ability to master public transportation, builds their confidence, and further develops their travel skills during practical applications. With two certified Orientation & Mobility instructors, the BISM CORE program is now a premier destination for those seeking cane travel instruction. Another benefit to apartment living is that the students are responsible for shopping, meal preparation, cleaning, and money management. All are essential skills of independence and career/personal development.

Students also organize and participate in community outreach, BISM fundraisers and group activities. This past year, CORE students participated in trips to New York City and Philadelphia to practice different public transportation systems. They also visited Ocean City, MD and had numerous excursions to restaurants in downtown Baltimore to apply skills acquired at BISM in real world settings. In addition to training in Baltimore, students spent two nights in a city they have not been to before to put the final polish on their travel skills. This past year, students visited Las Vegas, Miami, Minneapolis, Philadelphia, Ft. Myers, Savannah, and Richmond.

### **Senior Services**

BISM Senior Services staff is devoted to helping Maryland seniors who are coping with vision loss. We provide training, services and resources at BISM training centers in Baltimore, Cumberland, Salisbury, and a community site in Hagerstown. Programs for low vision and blind senior citizens are presented at no charge, which is a critically important factor for those seniors living on low or fixed incomes. 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 independently. Senior program participants become better equipped to manage their daily needs, remain in their own homes, return to work or volunteering, resume social activities, and enjoy life.

BISM Senior Programs include:

1. Seniors Achieving Independent Living (SAIL), weekly training classes: SAIL curriculum includes classes in braille, cane travel, independent home living (with heavy emphasis on safe, nutritious cooking), computer and assistive technology, adjustment to vision loss, gardening and leisure activities, plus peer support, confidence-building outings and community integration. Students work towards personal goals for independence with training tailored to each person's real-life situation.
2. Senior Support Groups, monthly at four locations: Our support groups were very active in FY17. They organized social events by working together on cooking and entertaining skills and traveled to local shopping venues, historical sites and performing arts programs.

3. Home Instruction, statewide: Life skills instruction for blind seniors in the comfort of their own home. Staff members share resources, mark appliances, provide materials and help families.

4. Community Workshops, statewide: One-day workshops, on topics such as Independent Living, Adapted Technology, and Life Enhancement, are presented by senior staff throughout Maryland. These hands-on workshops encourage attendees to travel from station to station and use non-visual techniques (most for the first time) for cooking, labeling, and technology (phones, recorders, digital players, and talking devices). Seniors also learn about available resources and work in small groups.

5. SILVER Retreat, annually: The four-day residential SILVER Retreat is based in Baltimore and open to qualified senior citizens statewide. This year we had 14 seniors (representing eight different counties) participate in the confidence building retreat. We toured the Maryland Historical Society Museum in downtown Baltimore and shopped at the Towson Farmers Market. Seniors traveled to local restaurants for dining experiences and built positive relationships with peers and staff. Seniors were engaged in blindness skills classes and adjustment to blindness seminars, and they completed goals and set new goals for individual growth.

In FY17, 12,422 hours of training were provided to seniors throughout the State of Maryland, and 342 blind and low vision senior citizens received blindness skills training at our four center-based training locations. We provided 100 facility tours for senior citizens interested in attending BISM training plus many additional tours for families, supporters, counselors, professionals, and large groups.

Outreach, events and presentations by senior staff reached over 2,000 seniors in FY17. Thousands more received information about BISM Senior Services through targeted media efforts, advertising, publications, company newsletters, special events, and the BISM website.

Thirty-four presentations took place at senior centers, assistive living and retirement communities, and community low vision support groups. These presentations engaged blind seniors in conversations about alternative techniques and practical solutions for improved daily living, and BISM staff listened to the concerns and fears of the seniors and offered positive feedback.

### **Youth Services**

This past summer, BISM offered the 2017 Work To Independence program to 18 high school students, who spent seven weeks developing confidence and increasing independence. The residential program took place on the UMBC campus and featured staff comprised of qualified blind adults, who provided

students with mentoring and individualized non-visual life skills instruction in braille, technology, independent living, and travel.

Students participated in several confidence-building activities, including out-of-town trips to Washington DC, Ocean City, and New York City. Students and staff also travelled to Orlando for the National Federation of the Blind annual convention, where they spent one week meeting successful blind adults and learning about new issues in the blind community. Students and staff also took trips to downtown Baltimore, Terrapin Adventures, a yoga studio, an indoor trampoline park, and the mall and movies.

For two weeks during the program, Work To Independence students were employed at a local business or organization for 16-24 hours a week. Participating businesses included St. Joseph's Hospital, 105.7 FM The Fan, Maryland Workforce Technology Center, the Library for the Blind and Physically Handicapped, and an AbilityOne Base Supply Center. Students were responsible for traveling to and from work and fulfilling the job duties required of them.

BISM Youth Services also offered Independence 101 in FY17, which included four blind middle school students spending two weeks developing confidence and increasing independence. This summer program took place at UMBC in conjunction with Work To Independence and featured similar classes and activities. Several activities were organized to enable 101 students to trust and believe in themselves and their abilities.

BISM also offered a full year of workshops under the Gaining Leadership, Independence, Direction and Experience (GLIDE) program, geared to assist blind and low vision high school students with life and job skills. The monthly program had nine participants and took place at BISM Baltimore from September 2016 to May 2017. The GLIDE program featured workshops on independent living skills, work readiness, advocacy, career exploration, communication, and more.

## **Summary**

Blind Industries and Services of Maryland continues to be the number one employer of blind and low vision adults in the State of Maryland, and our internationally recognized Rehabilitation programs and services develop the life skills that help blind people of all ages be more independent and successful in all elements of their lives.

We appreciate the support from the Governor's Office, the Maryland Legislature, and State agencies, and we look forward to creating more opportunities for blind Marylanders in the future.

# **Blind Industries and Services of Maryland**

Financial Report  
June 30, 2017

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RSM US LLP

## Independent Auditor's Report

To the Board of Trustees  
Blind Industries and Services of Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of Blind Industries and Services of Maryland, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Baltimore, Maryland  
October 25, 2017

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**Blind Industries and Services of Maryland**

**Statements of Financial Position  
June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 85,795	\$ 136,134
Trade and other accounts receivable, less allowance for doubtful accounts (2017 and 2016 – \$82,160)	9,159,027	11,450,228
Inventories (Note 3)	9,046,735	11,194,716
Prepaid expenses and other assets	506,603	432,501
<b>Total current assets</b>	<b>18,798,160</b>	<b>23,213,579</b>
Investments (Notes 4, 5 and 10)	11,386,290	10,277,903
Property, plant and equipment (Notes 2, 5 and 6):		
Land	3,354,978	3,354,978
Buildings and improvements	23,835,620	22,853,989
Machinery and equipment	9,358,021	8,777,186
Motor vehicles	937,703	920,176
Equipment under capital leases	537,713	311,992
Furniture and fixtures	610,332	610,332
	38,634,367	36,828,653
Less accumulated depreciation, including accumulated depreciation (2017 – \$99,377; 2016 – \$49,602) relating to equipment under capital leases	16,260,238	15,092,909
	<b>22,374,129</b>	<b>21,735,744</b>
<b>Total assets</b>	<b>\$ 52,558,579</b>	<b>\$ 55,227,226</b>

See notes to financial statements.

	2017	2016
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 8,637,039	\$ 7,356,878
Liability under capital lease obligations (Note 6)	88,971	44,822
Accounts payable	5,372,376	8,769,222
Accrued expenses and other liabilities	4,391,758	4,370,854
<b>Total current liabilities</b>	<b>18,490,144</b>	<b>20,541,776</b>
Long-term debt (Note 5)	12,946,558	13,928,715
Interest rate swap (Notes 5 and 10)	329,842	513,084
Liability under capital lease obligations, noncurrent portion (Note 6)	350,093	227,540
Commitments (Notes 6, 7 and 8)		
Net assets:		
Unrestricted	20,414,942	19,989,111
Permanently restricted	27,000	27,000
<b>Total net assets</b>	<b>20,441,942</b>	<b>20,016,111</b>
<b>Total liabilities and net assets</b>	<b>\$ 52,558,579</b>	<b>\$ 55,227,226</b>

**Blind Industries and Services of Maryland**

**Statements of Activities**

**Years Ended June 30, 2017 and 2016**

	2017		
	Unrestricted	Permanently Restricted	Total
<b>Revenue:</b>			
Sales	\$ 103,403,941	\$ -	\$ 103,403,941
State of Maryland appropriations	531,114	-	531,114
Contributions and grants (Note 2)	301,270	-	301,270
Miscellaneous	671,218	-	671,218
	<u>104,907,543</u>	-	<u>104,907,543</u>
<b>Expenses (Notes 6, 7 and 8):</b>			
Cost of sales, including commissions to National Industries for the Blind (2017 – \$1,479,871; 2016 – \$2,305,621)	94,465,904	-	94,465,904
Blind rehabilitation and training	1,767,637	-	1,767,637
Fundraising and development	76,238	-	76,238
General and administrative	8,851,488	-	8,851,488
	<u>105,161,267</u>	-	<u>105,161,267</u>
<b>Excess (deficiency) of operating revenue over expenses</b>	<b>(253,724)</b>	<b>-</b>	<b>(253,724)</b>
<b>Other revenue and expenses:</b>			
Investment income (Note 4)	1,202,139	-	1,202,139
Gain (loss) on interest rate swap contract (Note 5)	183,242	-	183,242
Interest expense (Notes 5 and 6)	(621,031)	-	(621,031)
Letter of credit fees (Note 5)	(84,795)	-	(84,795)
	<u>425,831</u>	-	<u>425,831</u>
<b>Change in net assets</b>	<b>425,831</b>	<b>-</b>	<b>425,831</b>
<b>Net assets:</b>			
Beginning of year	<u>19,989,111</u>	<u>27,000</u>	<u>20,016,111</u>
End of year	<u>\$ 20,414,942</u>	<u>\$ 27,000</u>	<u>\$ 20,441,942</u>

See notes to financial statements.

2016

Unrestricted	Permanently Restricted	Total
\$ 102,269,415	\$ -	\$ 102,269,415
531,115	-	531,115
746,194	-	746,194
586,243	-	586,243
<u>104,132,967</u>	<u>-</u>	<u>104,132,967</u>
91,773,031	-	91,773,031
1,757,114	-	1,757,114
128,699	-	128,699
8,212,132	-	8,212,132
<u>101,870,976</u>	<u>-</u>	<u>101,870,976</u>
2,261,991	-	2,261,991
264,460	-	264,460
(64,444)	-	(64,444)
(533,250)	-	(533,250)
(92,310)	-	(92,310)
1,836,447	-	1,836,447
<u>18,152,664</u>	<u>27,000</u>	<u>18,179,664</u>
<u>\$ 19,989,111</u>	<u>\$ 27,000</u>	<u>\$ 20,016,111</u>

## Blind Industries and Services of Maryland

### Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 425,831	\$ 1,836,447
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,299,071	1,162,909
Amortization of deferred financing costs	5,208	-
(Decrease) increase in inventory reserve	(100,400)	279,782
Net unrealized (appreciation) depreciation of investments	(861,150)	3,221,525
Net realized gain on sales of investments	(106,373)	(3,303,285)
Gain on disposal of property, plant and equipment	(3,967)	(25,793)
(Gain) loss on interest rate swap contract	(183,242)	64,444
Changes in assets and liabilities:		
(Increase) decrease in:		
Trade and other accounts receivable	2,291,201	(2,801,648)
Inventories	2,248,381	(4,128,597)
Prepaid expenses and other assets	(74,102)	77,208
Increase (decrease) in:		
Accounts payable	(3,396,846)	1,551,713
Accrued expenses and other liabilities	20,904	1,183,606
<b>Net cash provided by (used in) operating activities</b>	<b>1,564,516</b>	<b>(881,689)</b>
Cash flows from investing activities:		
Proceeds from sales of investments	2,813,075	8,381,115
Purchases of investments	(2,953,939)	(7,911,628)
Acquisition of Shoregood assets for cash	-	(900,000)
Purchases of property, plant and equipment	(1,707,767)	(1,314,303)
<b>Net cash used in investing activities</b>	<b>(1,848,631)</b>	<b>(1,744,816)</b>
Cash flows from financing activities:		
Proceeds from long-term debt	1,414,776	3,321,477
Net borrowings on line of credit	-	303,221
Principal payments on long-term debt	(1,121,980)	(881,282)
Financing costs	-	(35,591)
Principal payments on capital lease obligations	(59,020)	(25,462)
<b>Net cash provided by financing activities</b>	<b>233,776</b>	<b>2,682,363</b>
<b>Net (decrease) increase in cash</b>	<b>(50,339)</b>	<b>55,858</b>
Cash:		
Beginning of year	136,134	80,276
End of year	\$ 85,795	\$ 136,134
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 619,145	\$ 532,522
Supplemental schedules of noncash investing and financing activities:		
Acquisition of Shoregood assets through issuance of promissory note	\$ -	\$ 250,000
Equipment acquired under capital lease	\$ 225,722	\$ 143,991

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 blind of the state of Maryland. BISM operates manufacturing facilities in Baltimore, Cumberland, Federalsburg and Salisbury, Maryland and Raleigh, North Carolina. The facilities produce and package military uniforms, paper supplies, janitorial supplies 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 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:** Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Temporarily restricted net assets:** Net assets that result from contributions whose use is limited by donor-imposed stipulations that either expire by the 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 unrestricted net assets. There were no temporarily restricted net assets at June 30, 2017 and 2016.

**Permanently restricted net assets:** Net assets that 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 (Base Supply Center Division) 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 management.

## 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:** Investments in equity securities that have readily determinable fair values and all debt securities are reported 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 of publicly traded companies, U.S. government obligations, mutual funds 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.

**Concentrations of risk:** BISM maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. BISM has not experienced any losses on cash accounts and believes it is not exposed to significant credit risk on cash.

BISM had three customers that accounted for approximately 60% of total trade receivables at June 30, 2017 and two customers that accounted for approximately 42% of total trade receivables at June 30, 2016.

**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:

	<u>Years</u>
Buildings and improvements	20-40
Equipment under capital leases	5-10
Machinery and equipment	5-10
Motor vehicles	5
Furniture and fixtures	5-10

**Valuation of long-lived assets:** BISM reviews long-lived assets and certain identifiable intangible assets 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.

**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)

**Interest rate swap contract:** BISM accounts for interest rate swap contracts in accordance with ASC 815, Derivatives and Hedging. BISM uses an interest rate swap 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 has 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 the statements of financial position, and the related gain or loss on this contract 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 the interest rate swap is the estimated amount that the bank or financial institution would receive or pay to terminate the swap contract at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

**Fair value of financial instruments:** The carrying amounts of cash, 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 rates.

**Advertising:** BISM expenses advertising costs as incurred. Advertising expense was \$264,501 and \$213,420 for the years ended June 30, 2017 and 2016, respectively.

**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, 2017 and 2016.

BISM has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, BISM may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position.

Management has evaluated BISM's tax positions and has concluded that BISM has taken no uncertain tax positions that require adjustment to or disclosure in the financial statements. 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, 2014.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Accounting pronouncements adopted in 2017:** In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted, and retrospective application is required. The adoption of this standard did not have a material impact on the financial statements.

**Recently issued accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 31, 2018. The impact of adopting ASU 2014-09 on BISM's financial statements for subsequent periods has not yet been determined.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for financial statements issued for fiscal years beginning after December 15, 2016 on a prospective basis. Early adoption of ASU 2015-11 is permitted. BISM does not expect the adoption of ASU 2015-11 to have a material effect on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. BISM is currently evaluating the impact of the new standard on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. BISM is currently evaluating the impact of the new standard on the financial statements.

**Reclassification:** Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation. These reclassifications had no effect on previously reported change in net assets.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Subsequent events:** BISM evaluated subsequent events through October 25, 2017, which is the date the financial statements were available to be issued.

#### Note 2. Acquisition

In April 2016, BISM acquired the assets, including real estate and machinery and equipment, of SGWC Shoregood Water Company, Inc. (Shoregood) for \$1,150,000, consideration for which was in the form of cash of \$900,000 and a \$250,000 promissory note (see Note 5). BISM acquired these assets to vertically integrate the manufacturing process of certain existing products. Management evaluated this acquisition and determined it met the definition of a business combination in accordance with FASB ASC 958-805-30 Initial Measurement-Acquisition by a Not-for-Profit Entity. This acquisition furthers BISM's exempt purpose of training, rehabilitating, employing and furnishing services to the blind. BISM recognized the excess of the fair value of the assets acquired over the consideration paid as a contribution in the statement of activities.

The following table summarizes the fair value of identifiable assets acquired and consideration paid at the date of acquisition:

Assets acquired:		
Real estate	\$	740,000
Machinery and equipment		845,700
		<u>1,585,700</u>
Consideration:		
Cash consideration		900,000
Promissory note (Note 5)		250,000
		<u>1,150,000</u>
Contribution recognized	\$	<u>435,700</u>

The sales comparison approach was used to determine the fair value of the acquired real estate and machinery and equipment.

#### Note 3. Inventories

Components of inventories, at June 30, 2017 and 2016, are as follows:

	2017	2016
Raw materials	\$ 3,182,052	\$ 3,848,096
Work-in-process	3,414,304	3,561,319
Finished goods	1,320,660	2,488,252
Base supply center division merchandise	1,563,751	1,831,481
Reserves for obsolescence	(434,032)	(534,432)
	<u>\$ 9,046,735</u>	<u>\$ 11,194,716</u>

**Blind Industries and Services of Maryland**

**Notes to Financial Statements**

**Note 4. Investments**

A summary of investments, at June 30, 2017 and 2016, is as follows:

	2017		2016	
	Cost or Donated Value	Fair Value	Cost or Donated Value	Fair Value
Short-term investments and money market accounts	\$ 1,024,743	\$ 1,024,743	\$ 809,318	\$ 809,784
U.S. Government and agency obligations	754,477	747,608	675,122	688,463
Corporate bonds and other fixed income	546,031	548,372	678,905	690,764
Equity securities:				
Energy	256,461	250,545	279,715	273,477
Exchange traded funds	3,647	4,461	3,647	3,811
Finance	751,035	929,651	694,274	666,703
Healthcare	681,266	866,697	616,773	675,528
Natural resources	183,830	214,045	198,668	195,014
Retail	967,743	1,036,832	1,037,335	1,025,845
Technology	1,394,764	1,704,975	1,339,729	1,372,661
Industrial	432,283	517,159	495,383	496,048
Real Estate	3,610	3,848	-	-
Other	96,083	109,996	68,369	78,084
Mutual funds:				
Fixed income	2,812,875	2,850,082	2,723,728	2,746,137
Other	553,148	577,276	553,148	555,584
	<u>\$ 10,461,996</u>	<u>\$ 11,386,290</u>	<u>\$ 10,174,114</u>	<u>\$ 10,277,903</u>

Gross unrealized appreciation and depreciation of investments, at June 30, 2017 and 2016, is as follows:

	2017	2016
Gross unrealized appreciation	\$ 1,103,177	\$ 326,502
Gross unrealized depreciation	(178,883)	(222,713)
	<u>\$ 924,294</u>	<u>\$ 103,789</u>

Investment income (loss) for the years ended June 30, 2017 and 2016, include the following:

	2017	2016
Interest and dividends	\$ 234,616	\$ 182,700
Net realized gain on sales of investments	106,373	3,303,285
Net unrealized appreciation (depreciation) of investments	861,150	(3,221,525)
	<u>\$ 1,202,139</u>	<u>\$ 264,460</u>

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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#### Note 5. Long-Term Debt and Interest Rate Swap Agreement

Long-term debt and related current maturities, at June 30, 2017 and 2016, consist of the following:

	2017	2016
Revolving line of credit	\$ 7,649,661	\$ 6,234,885
Promissory note	4,674,670	4,935,390
Bond payable	5,000,000	5,400,000
Term loan	4,093,815	4,348,175
Equipment note	-	156,899
Shoregood promissory note	195,833	245,833
	<u>21,613,979</u>	<u>21,321,182</u>
Less deferred financing costs	(30,382)	(35,589)
Total long-term debt, including current maturities	<u>21,583,597</u>	<u>21,285,593</u>
Less current maturities	8,637,039	7,356,878
Total long-term debt	<u>\$ 12,946,558</u>	<u>\$ 13,928,715</u>

**Revolving line of credit:** Under the terms of a line of credit agreement with a bank, BISM is able to borrow up to a maximum of \$11,000,000, through October 31, 2017 and a maximum of \$10,000,000 through March 31, 2018, subject to annual renewal. Interest is payable monthly based on the London Interbank Offered Rate (LIBOR) plus 1.5%. Borrowings under this line of credit are collateralized by trade receivables and investments, and are subject to certain financial covenants. The interest rate was 2.72% and 1.96% at June 30, 2017 and 2016, respectively.

**Promissory note:** 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 required monthly principal payments of \$10,000 plus accrued interest. The promissory note accrued interest at LIBOR plus 2.5%, with all unpaid principal and accrued interest due on October 31, 2016. In April 2016, BISM amended the promissory note to increase the borrowing base to \$5,000,000, change the interest rate to LIBOR plus 1.75% and to extend the maturity date until April 30, 2023. The interest rate was 2.97% and 2.21% at June 30, 2017 and 2016, respectively. The promissory note requires monthly principal and interest payments, and is subject to certain financial covenants. This promissory note is collateralized by trade receivables, investments and the parcels of land located in Baltimore County, together with any and all improvements thereon.

In connection with the original construction promissory note, 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.

**Bond payable:** 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 1.1% and .55% at June 30, 2017 and 2016, 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 bonds are subject to certain financial covenants.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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#### Note 5. Long-Term Debt and Interest Rate Swap Agreement (Continued)

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, which expires on November 1, 2024. The outstanding balance on the letter of credit was \$5,057,534 and \$5,462,137 at June 30, 2017 and 2016, respectively.

**Term loan:** On January 29, 2014, BISM obtained a \$4,800,000 construction term loan with a bank. The loan requires monthly payments of \$38,900, including interest at an annual rate of 4.95%, through January 2029. The loan is collateralized by a deed of trust on real property and related fixtures, and is subject to certain financial and non-financial covenants.

**Equipment note:** On May 21, 2014, BISM entered into a \$513,489 equipment note with RLCB, Inc. to purchase certain assets used in BISM's operations. The equipment note was non-interest-bearing and required monthly principal payments of \$14,264 through May 2017.

**Shoregood promissory note:** In conjunction with the acquisition of the assets of Shoregood, BISM entered into a \$250,000 promissory note. The promissory note is non-interest-bearing and requires monthly principal payments of \$4,167 through April 2020.

Maturities of long-term debt, at June 30, 2017, are due in future years as follows:

Years ending June 30:	
2018	\$ 8,637,039
2019	1,010,657
2020	1,034,509
2021	1,054,885
2022	1,036,925
Thereafter	8,839,964
	<u>\$ 21,613,979</u>

**Interest rate swap:** On May 1, 2005, BISM entered into an interest rate swap contract with a bank related to its issuance of the Series 2003 variable rate bonds. The interest rate swap has a remaining notional amount of \$2,500,000 and \$2,700,000 at June 30, 2017 and 2016, respectively. This cash flow hedge changes the variable interest rate on a portion of the balance of BISM's bond payable to a fixed-rate of interest. Under the terms of the swap contract, which expires in November 2028, BISM pays monthly a fixed annual interest rate of 3.97%, and receives monthly the variable interest rate of the USD-BMA Municipal Swap Index, based on a monthly average. BISM recognized a net gain of \$183,242 for the year ended June 30, 2017 and a net loss of and \$64,444 for the year ended June 30, 2016, relating to this hedging instrument.

Total interest expense was \$621,031 and \$533,250 for the years ended June 30, 2017 and 2016, respectively.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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#### Note 6. 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 2022. Future minimum lease payments under the capital leases as of June 30, 2017, are as follows:

Years ending June 30:		
2018	\$	122,712
2019		122,712
2020		122,712
2021		111,856
2022		71,651
Thereafter		4,950
Total minimum lease payments		<u>556,593</u>
Less amount representing executory costs including profit thereon, included in total minimum lease payments		<u>57,781</u>
Net minimum lease payments		498,812
Less the amount representing interest		<u>59,748</u>
Present value of minimum lease payments		439,064
Less current portion of obligations under capital lease		<u>88,971</u>
Long-term portion of obligations under capital lease	\$	<u><u>350,093</u></u>

Interest expense attributable to capital leases was \$18,952 and \$13,849 for the years ended June 30, 2017 and 2016, respectively.

#### Note 7. 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 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 \$781,089 and \$698,271 during 2017 and 2016, respectively. Pension expense was \$826,777 and \$907,037 for the years ended June 30, 2017 and 2016, respectively.

#### Note 8. Commitments and Related Party Transaction

**Commissions:** 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 all AbilityOne sales for which either BISM or NIB act as the prime contractor. AbilityOne sales totaled \$34,254,071 and \$53,503,425 for the years ended June 30, 2017 and 2016, respectively.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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#### **Note 8. Commitments and Related Party Transaction (Continued)**

**Leases:** BISM leases apartments for independent living training programs and rents various facilities under short-term rental agreements for training programs. Total rent expense was \$252,610 and \$242,468 for the years ended June 30, 2017 and 2016, respectively. Rent expense was \$188,143 and \$191,654 for rehabilitation training facilities and \$64,467 and \$50,814 for operating facilities for the years ended June 30, 2017 and 2016, respectively.

**Profit sharing plan:** BISM has a discretionary profit sharing plan under which BISM may contribute a portion of profits to its employees. There was no profit sharing expense for the year ended June 30, 2017. Profit sharing expense was \$975,738 for the year ended June 30, 2016.

#### **Note 9. Major Customers**

Approximately 48% and 51% of revenue was derived from sales to three organizations for the years ended June 30, 2017 and 2016, respectively. Accounts receivable due from these organizations totaled \$4,255,350 and \$4,890,802 at June 30, 2017 and 2016, respectively.

#### **Note 10. Fair Value Measurements**

BISM defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and within a fair value hierarchy. The fair value hierarchy gives the highest rank to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest rank to unobservable inputs (Level 3). Inputs are broadly defined as data that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives. A significant adjustment to Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

**Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs and the determination of fair value are based upon the best information in the circumstances and may require significant management judgement or estimation.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. BISM's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by BISM:

**Level 1:** Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices. These financial instruments are classified as Level 1 in the fair value hierarchy.

**Level 2:** Investments in government securities are valued at the last reported sales price on the day of valuation. These financial instruments are classified as Level 2 in the fair value hierarchy.

BISM's interest rate swap is pay-fixed, receive-variable interest rate swap based on the monthly average of the USD BMA Municipal Swap Index. The USD BMA Municipal Swap Index rate 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 swap in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. Fair value measurement of a liability must reflect the nonperformance risk of the entity; therefore, the impact of BISM's creditworthiness has also been factored into the fair value measurement of the interest rate swap in a liability position.

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, 2017 and 2016.

The following tables present BISM's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016:

	2017			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 747,608	\$ -	\$ 747,608	\$ -
Equity securities	5,638,209	5,638,209	-	-
Mutual funds	3,427,358	3,427,358	-	-
Corporate fixed income	548,372	-	548,372	-
Interest rate swap contract	(329,842)	-	(329,842)	-
	<u>\$ 10,031,705</u>	<u>\$ 9,065,567</u>	<u>\$ 966,138</u>	<u>\$ -</u>
	2016			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 688,463	\$ -	\$ 688,463	\$ -
Equity securities	4,787,171	4,787,171	-	-
Mutual funds	3,301,721	3,301,721	-	-
Corporate fixed income	690,764	-	690,764	-
Interest rate swap contract	(513,084)	-	(513,084)	-
	<u>\$ 8,955,035</u>	<u>\$ 8,088,892</u>	<u>\$ 866,143</u>	<u>\$ -</u>

**Blind Industries and Services of Maryland**

**Notes to Financial Statements**

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

BISM excludes cash and cash equivalents from the fair value hierarchy, as cash is generally measured at cost. As such, \$1,024,743 and \$809,784 of money market funds held in BISM's investment portfolio at June 30, 2017 and 2016, respectively, has been excluded from this table.

