

BLIND INDUSTRIES & SERVICES OF MARYLAND

GOVERNOR'S ANNUAL REPORT

FY 2021 (7/1/20- 6/30/21)



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Baltimore, MD 21227

410-737-2600

www.BISM.org

**Blind Industries &
Services of Maryland**
Governor's Annual Report
FY 2021 (7/1/20-6/30/21)

Blind Industries & Services of Maryland
3345 Washington Boulevard
Baltimore, MD 21227
(410) 737-2600
www.bism.org

Joint Message from BISM Chairman of the Board Walter A. Brown and President Frederick J. Puente

Blind Industries and Services of Maryland ("BISM") is honored to present its Annual Report for the Fiscal Year concluded as of June 30, 2021. This Report includes information on BISM's manufacturing operations, facilities, employment, and independence training 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 Fiscal Year 2021 Annual Report is presented to The Honorable Governor Lawrence J. Hogan, Jr., the General Assembly, and the Honorable Clarence K. Lam and Carol L. Krimm, Co-Chairs of the Joint Audit Committee.

The Covid-19 pandemic continued to negatively impact BISM for the second consecutive year. This past Fiscal Year has continued to challenge BISM and its Associates in ways of which we never imagined. The continuation, rise and fall of Covid-19 and its variants, kept BISM from operating its business and training programs in our ordinary (and desired) manner. While there were periods of what we thought was a return to normalcy, these periods did not last and the upheaval and changes in each "wave" were difficult. From both a business perspective and an emotional and physical perspective, BISM and its Associates have had to remain flexible and creative to overcome this adversity. Nonetheless, we are pleased to advise that BISM is still open, still working hard to make and sell quality products and still performing our mission in providing quality jobs and training to the Blind of Maryland and in the Mid-Atlantic area.

Our Independence Training and Rehabilitation Department was, within limits, able to provide in-person training and programming. Our CORE program and Seniors programs were able to move forward, albeit with lots of caution, masking and distance. To the extent possible, we moved to virtual training but, frankly, this training is extremely tactile and not suited for Zoom or telephone.

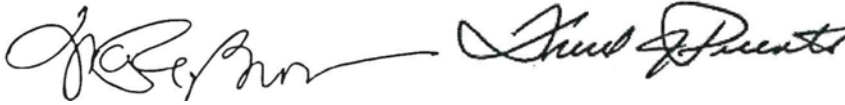
BISM's business dealing with the State were, also, difficult. The State's offices remained, for the most part, closed and consumption customers, such as BWI Airport and the Stadiums were hard hit by shutdowns and restrictions. As we've stated in the past, BISM's sales to its State of Maryland customers has been problematic. Despite the procurement preference afforded to BISM, compliance by State agencies and State related agencies is spotty and unenforced. This needs to be resolved and, with (we hope) the end of the pandemic, the State will devote some time and energy to resolving this issue. Despite of all this, the Associates of Blind Industries and Services of Maryland continue to be totally committed to meeting or exceeding the requirements of our customers, clients and communities.

Notwithstanding the business challenges which were a result of the Covid-19 pandemic, BISM is also aware that, as each year passes, it become more and more difficult for it to survive and thrive in its current business space. In theory, the net funds generated by BISM's manufacturing operations (and with limited financial assistance from the State),

are intended to fund BISM's free vocational and rehabilitation programs. Increasingly, this business model is not working properly and BISM is facing a challenging future. Manufacturing costs, general overhead, employee wages and benefits are all increasing while BISM's net margins continue to decrease. As an example, in a typical year, BISM will allocate approximately \$1.7M towards its ITR programs but only receives State assistance of \$531,000. This disparity cannot continue and BISM needs assistance from the State to devise new strategies to insure BISM can continue to meet its Mission goals year after year.

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 and look forward to working with you in the next year.

Sincerely,

The image shows two handwritten signatures in black ink. The signature on the left is for Walter A. Brown, and the signature on the right is for Frederick J. Puente. Both signatures are written in a cursive, flowing style.

Walter A Brown
Chairman, Board of Trustees

Frederick J. Puente
President

BISM Board of Trustees and Leadership Staff

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Introduction: 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 low vision Marylanders of all ages.

BISM currently employs over 450 Associates, many of whom are blind or low vision, at ten (10) locations in four (4) states and Washington, D.C. BISM's manufacturing facilities are located in Baltimore, Federalsburg, Salisbury (2), and Raleigh, North Carolina. BISM also owns and operates seven (7) AbilityOne Base Supply Centers on federal and military installations.

BISM makes, manufactures, remanufactures and assembles various products at competitive prices for sale to its State of Maryland customers. These products include: office paper pads; copy paper; paper towels; toilet tissue; hand sanitizers, janitorial/sanitation supplies, such as disinfecting chemicals; 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 many branches of the United States military.

With regard to its workforce, BISM offers competitive wages, health and retirement benefits, ESS and BISM's program of wage continuation. Our entire organization is built on the belief that every one of our Associates plays an integral part in our overall success. BISM has an uncompromising belief in the capabilities of people who are blind - every day we see that belief borne out in the accomplishments of our Associates.

BISM provides vocational training programs and its Independence Training and Rehabilitation ("ITR") Department. The ITR Department offers the highest level of training programs and services free of charge to blind and low vision Maryland residents and provides comprehensive blindness skills for adults, seniors, and youth. Our dedicated staff, most of whom are blind, teach Braille, Computer Technology, Independent Living, Orientation and Mobility, 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, specifically the Department of Rehabilitative Services (DORS), and elected representatives to ensure that our Independence Training and Rehabilitation Department continues to effectively provide crucial services to the blind and low vision community.

Detailed Status of BISM - Fiscal Year 2021

(July 1, 2020 - June 30, 2021)

Independence Training and Rehabilitation

The mission of BISM's Independence Training and Rehabilitation Department (ITR) is to provide blind and low vision 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.

FY 2021 was a year of learning for the ITR Department. The first and second Quarters had limited instruction as students and staff struggled with the Covid-19 pandemic. We developed methods and put in place protocols that emphasized cleanliness and social distancing. Examples are smaller class sizes, reduced enrollment, and adding a class to the curriculum that strictly focused on daily sanitizing of areas. We stopped using public transportation and started to mix in virtual instruction with in-person instruction to prepare both students and staff to be a flexible and proactive rather than reactive. We moved forward cautiously and with great success in spite of our instruction hours being well below previous years. We still produced solid hours of quality blindness training that will benefit the Blind population of Maryland and found results in other metrics (employment and number of people served).

During FY2021, we continued to reach Blind Marylanders through our innovative youth, adult and senior programs. We took our services to the consumer's home, workplace, school, and brought consumers to one of our two training centers across Maryland. 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.

In FY2021, BISM continued our revolutionary work training program, WRAP (Work Readiness Assessment Program). This program works one-on-one with Blind Maryland consumers who have been in the job market for an extended period of time. We work with these consumers for 80 hours, assessing all of their skillsets, conducting interviews, working on applications, resumes, and job search methods. At the conclusion of the 80 hours, BISM prepares a report with recommendations for areas of improvement to DORS. We also continue to follow up with consumers on a weekly then monthly basis to monitor their progress. This program directly found to 2 Blind Marylanders employment.

Of the 19 Marylanders who staffed BISM's ITR Department during FY2021, 14 are blind (including 3 Supervisor positions). BISM Rehabilitation staff provided 21,477

training hours to 473 blind individuals. Instruction and training hours were provided to adults (16,108 hours), seniors (2,988 hours), youth (560 hours), and customized programming (1661 hours). Programs also include support groups and community workshops.

Throughout the year, there were 74 referrals to our adult and senior blindness skills training programs and 13 people completed BISM training programs. The youth division served 7 blind Elementary, Middle, and High school students through both training programs and workshops.

These efforts resulted in 10 Blind Marylanders finding employment, 3 pursuing college, and one other entering the job market.

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 Grant authorized by the Governor and overseen by Department of Rehabilitative Services (DORS). BISM funds the majority of the Rehabilitation and Independence Training department programs and services through the manufacturing and sales efforts of our BISM Associates.

A. *Comprehensive Orientation, Rehabilitation, and Empowerment (CORE) Adult Program*

In FY 2021, 5 students successfully graduated or completed the CORE program to go along with another 5 students who completed our Work Adjustment Training/Job development programs and are now employed.

The CORE program teaches blind and low vision 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 in downtown Baltimore City. Students 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, build their confidence, and further develop their travel skills during practical applications. With two certified Orientation and 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 numerous restaurants in downtown Baltimore to apply skills acquired at BISM in real world settings. We found success during a very tough and trying time.

B. *Senior Services.*

For the entire FY2021 year, BISM Senior Services provided virtual instruction and limited in-home visits. There are, unfortunately, limits to Blindness instruction which can be done virtually and with Seniors being part of the vulnerable population during the Covid-19 pandemic are instruction hours are well below expectations.

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, the Baltimore VA Hospital 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 occurring in Cumberland, Hagerstown, Baltimore, and Salisbury. The 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 - occurring monthly in Cumberland, Hagerstown, Baltimore, Salisbury, and the Baltimore VA Medical Center. Our support groups were very active in FY21. They organized social events by working together on cooking and entertaining skills and traveled to local shopping venues, historical sites, and performing arts programs. Seniors made crafts and shared talents. At each location, thought-provoking discussions occurred with the goal of helping seniors adjust to vision loss and develop a positive outlook.

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. Our home instruction services helped BISM provide blindness skills training to every county in the State of Maryland .

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.

In FY 2021, BISM provided 2,988 hours of training to seniors throughout the State of Maryland, and 187 blind and low vision senior citizens received blindness skills training. We provided 3 facility tours for senior citizens interested in attending BISM training plus many additional tours for families, supporters, counselors, professionals, and large groups. BISM continues to expand our support group services across Maryland. Our support group focused on Blind Veteran's at VA Medical campus in Baltimore continues to thrive.

Outreach, events, and presentations were put on hold this past year, previously senior staff reached over 1,700 seniors in FY 21. Thousands more received information about BISM Senior Services through targeted media efforts, advertising, publications, company newsletters, special events, and the BISM website. Sixty-seven presentations took place at senior centers, assistive living and retirement communities, civic organizations, schools, helping agencies, 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.

State Sales, Manufacturing and Production

BISM 's Sales and Marketing team dedicates itself to offering high quality products at competitive prices and top-notch customer service to State of Maryland agencies, State-supported controlled entities, and commercial contractors. When State of Maryland customers purchase from BISM, they are helping to provide employment opportunities for blind and low vision Marylanders. BISM 'sproduct 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, tissues, paper towels, warewashing chemicals, bleach, and personal care products.

Fiscal Year 2021 was a year fraught with supply-side shortages and multiple price increases across the whole spectrum of BISM's Master List of products. BISM sales to our State of Maryland customers had been dropping during the beginning of the Covid-19 Pandemic and continued to decline throughout several months of FY2021. Despite the fact that demand for certain products (PPE's, masks, gloves, sanitizers, soaps and disinfectants) continued to remain very high, BISM maintained and even expanded our relationships and contracts with our vendors and partners. to continue to expand its

position as a co-manufacturer of GOJO/Purell products. Our Co-Manufacturing Agreement with GOJO/Purell now includes state-of-the-art communication technology (ONVATION) for soaps, sanitizers, bath tissue and paper towels. With this technology, State customers will be able to track the use of consumables, record and alert State customers of service issues, develop operational programs to better serve the end-user and save money in the process. A special thanks to BISM Associates who worked incredibly hard to meet customer demand in a very frustrating and uncertain time

As the "stay at home" order issued by the Governor continued, State business remained at a low ebb and it has remained that way through June 30, 2021. BISM continued to work to provide various, difficult to obtain products such as masks, gloves, and hand sanitizer for front line workers such as public transportation workers, correctional workers and the like, but the volume of these sales was significantly lower than BISM needed to sustain these businesses.

As we have previously reported, BISM has been afforded a procurement preference which requires the State or State aided or controlled entities to purchase products which are made or manufactured by BISM. Specifically:

1. State Finance and Procurement Article, Section 14-101, et seq. provides that, with regard to a State Agency, a "State Aided" or a "State Controlled" entity, BISM is a "Preferred Provider" for certain products.

2. Section 14-103(c): "To the extent practicable" a State or State aided or controlled entity shall include in a maintenance contract that has a component for housekeeping or janitorial services, a requirement that a prime contractor procure janitorial products from BISM when the products are "made, manufactured, remanufactured or assembled" by Blind Industries and Services of Maryland and are available".

3. Pricing of the products is established by the Maryland PriCing and Selection Committee for Blind Industries and Services of Maryland, as set forth on the Maryland Master Product List and approved by the Maryland Department of General Services.

Despite the clear language and intent of this procurement preference (and the promises by State officials to assist BISM in this endeavor), compliance by State Agencies and State related agencies is spotty and unenforced. Almost every day, BISM representatives need to directly work to: (1) resist competition from commercial companies vying for State business; and (2) educate and inform various procurement officers from State agencies and State related agencies about the procurement preference and the overall social bargain made between the State and BISM; and (3) to counteract the resistance of these same procurement officers and agencies who, despite their knowledge of the law, are determined to avoid compliance. Despite our requests and communications with State officials, there is currently no formal enforcement tasked with ensuring that State agencies and related entities comply with applicable State

procurement laws. We need the help of the Governor to remedy this problem and we need it now.

BISM Beverage

BISM Beverage provides clear purified water to our State and Commercial customers in a variety of single serve BISM Now and custom label brand sizes.

As with BISM's other departments, sales in Fiscal Year 2021 were altered by the Covid-19 pandemic. The commercial and State markets for BISM's single-serve bottled water was severely affected by the closures of entertainment venues throughout the State.

We have remained operational at our Federalsburg, Maryland location, where all of our bottled water is now produced. Our finished product is clear, purified water that is sold throughout the Mid-Atlantic region to mostly commercial customers. We produce our generic branded "BISM Now" water for our State of Maryland customers. All orders within Maryland are delivered with a sighted driver and a blind route assistant.

Maryland LIVE Casino continues to be our largest customer. BISM Beverage continues to work hard to add commercial customers from southern New York to the Carolinas to bolster our custom label water sales.

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 US. military.

Fiscal Year 2021 was a lower than expected sales year for BISM's fabric cutting and sewing divisions, due to the impact of Covid-19. Demand from DLA Troop Support was consistent from the previous year and BISM was able to procure a one-year contract for making cloth Face Masks for the Federal government. Demand from Federal Prison Industries was sustainably lower due to lockdowns that impacted this agency. These issues primarily impacted BISM's cutting department at Salisbury. Overall, orders were down 60% from the previous fiscal year.

BISM was not able to benefit from an additional textile sewing operation at Federal Correction Institution (FCI) in Butner, North Carolina. BISM opened its operations at FCI Butner in 2015 under a program with Federal Prison Industries. FCI Butner positively affected performance and allowed BISM more flexibility to compete in the commercial marketplace for fabric cutting services. Unfortunately, this operation was completely shut down for this fiscal year and did not open back up due to Covid-19 until mid-April 2021. This directly impacted performance at the Raleigh sewing division

Demand for the Army Physical Fitness Uniform Jacket (APFU), Improved Physical Training Uniform Jacket (IPTU) and Extended Cold Weather Clothing System Jacket (ECWCS) for the federal government remained consistent in FY 2021. The sewing operations at Salisbury and Cumberland were on track and met all performance expectations for FY 2021.

Our Raleigh cutting and sewing division's performance was weaker in FY 2021 due to the negative impact of the lockdowns at FCI Butner. The Raleigh location consolidation to a single product of production increased efficiencies at this location which offset some of the negative impact of FCI Butner. Raleigh also cuts a variety of textile products for other customers.

AbilityOne Base Supply Centers

BISM owns and operates seven (7) AbilityOne Base Supply Centers (BSC) on federal military installations in Maryland, Delaware, District of Columbia, and Kentucky. The AbilityOne BSC is a true one-stop shopping solution for our base customers by offering office supplies and furniture, cleaning products, tools, and military uniforms.

In an effort to satisfy customer demands, our e-commerce website, 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 Air Force Base AbilityOne BSC also operates

the HazMart Pharmacy, where all items deemed as hazardous are managed by BJSM Associates.

More than one-third of our BSC retail Associates are blind or low vision and these Associates play a pivotal role in all aspects of the operations. The BSCs are innovators in providing assistive technology tools for our blind and low vision Associates, including a computer magnification program known as ZoomText, CCTVs, wireless handheld talking scanners, and talking cash registers.

Due to the Covid-19 Pandemic, our sales at the BSC Division increased slightly as a result of increased demand for personal protective equipment (PPE). However, our traditional sales of office supplies had a dramatic decline as a result of many of our customers teleworking from home. We are hopeful that, by the Spring of 2022, we will be back to somewhat of a normal situation.

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.

Just when you thought there could not be a more challenging period than FY 2020, along came FY 2021. The Covid-19 pandemic cast a shadow on BISM and the HR Department almost every day. For a second year, BISM experienced unparalleled challenges. Where our industry saw mass layoffs and closings, BISM remained open to support our State and federal customers. BISM's manufacturing and industrial engineering department continued manufacture cloth masks and other products that were used in the fight against the pandemic.

BISM worked hand-in-hand with Maryland Transportation Authority to allow our blind Associates to continue to use Mobility services and the public bus systems. Without their cooperation and understanding, the impact would have been devastating. We also applaud the local County Health Departments, who worked with us to deliver vaccinations to our Associates in each of our facilities as well to ensure our facilities complied with State and local rules and regulations as well as CDC Guidelines. Each County Health Department offered ongoing education and information on best-practices, as well as emerging information on how to stop the spread of the virus from community-spread at our manufacturing locations.

BISM did see a reduction in our blind employment due to safety considerations and what seems to be a trend towards a more limited availability in the workforce. 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 skillsets to lead BISM into the future.

Summary

Blind Industries and Services of Maryland continues to be the largest employer of blind and low vision adults in the State of Maryland. Our internationally recognized Rehabilitation and Independence Training 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, 2021

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Independent Auditor's Report

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, 2021 and 2020, the related statements of activities, functional expenses 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, 2021 and 2020, 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.

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Change in Accounting Principle

As discussed in Note 1 to the financial statements, Blind Industries and SeNices of Maryland has changed its method of accounting for revenue recognition in the year ended June 30, 2021, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. Our opinion is not modified with respect to this matter.

RSM US LLP

Baltimore, Maryland
December 29, 2021

Blind Industries and Services of Maryland

Statements of Activities

Years Ended June 30, 2021 and 2020

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue:			
Sales (Notes 6 and 7)	\$ 82,692,214	\$	\$ 82,692,214
State of Maryland appropriations	531,115		531,115
Contributions and grants	51,924		51,924
Miscellaneous	190,432		190,432
	<u>83,465,685</u>		<u>83,465,685</u>
Expenses (Notes 3, 4, 5, 6 and 8):			
Program	79,445,743		79,445,743
General and administrative	4,575,499		4,575,499
Fundraising and development	108,716		108,716
	<u>84,129,958</u>		<u>84,129,958</u>
Loss on sale of property, plant and equipment (Note 11)	(641,007)		(641,007)
Operating loss	(1,305,280)		(1,305,280)
Other revenue and expenses:			
Investment income			
Gain (loss) on interest rate swap contract (Note 3)	88,946		88,946
Change in net assets	(1,216,334)		(1,216,334)
Net assets:			
Beginning of year	12,640,511		12,640,511
End of year	<u>\$ 11,424,177</u>	<u>\$</u>	<u>\$ 11,424,177</u>

See notes to financial statements.

2020

Without Donor Restrictions	With Donor Restrictions	Total
\$ 104,545,602	\$	\$ 104,545,602
531,115		531,115
138,954		138,954
297,039		297,039
<u>105,512,710</u>		<u>105,512,710</u>
102,407,655		102,407,655
4,055,016		4,055,016
267,054		267,054
<u>106,729,725</u>		<u>106,729,725</u>
<u>(5,979)</u>		<u>(5,979)</u>
(1,222,994)		(1,222,994)
2,894		2,894
(37,719)		(37,719)
<u>(1,257,819)</u>		<u>(1,257,819)</u>
<u>13,898,330</u>		<u>13,898,330</u>
<u>\$ 12,640,511</u>	<u>\$</u>	<u>\$ 12,640,511</u>

Blind Industries and Services of Maryland

Statements of Functional Expenses
Years Ended June 30, 2021 and 2020

	2021			Total
	Program	General and Administrative	Fundraising and Development	
Advertising and promotion	\$ 9,890	\$ 2,656	\$	\$ 12,546
Commissions	1,313,819			1,313,819
Contractual labor	443,219			443,219
Credit card fees	585,479			585,479
Depreciation and amortization	1,476,591	279,630		1,756,221
Financing fees (Note 3)	112,168	86,399		198,567
Freight out	895,842			895,842
Information technology	94,852	55,859	4,004	154,715
Insurance	622,319	88,551	1,721	712,591
Interest expense (Notes 3 and 4)	424,547	632,277		1,056,824
Lobbying fees		40,000		40,000
Materials and product costs	59,660,479			59,660,479
Office expenses	314,160	111,299	7,212	432,671
Other expenses	460,146			460,146
Payroll taxes and benefits (Note 5)	4,579,463	669,054	17,917	5,266,434
Professional fees		431,648		431,648
Rehabilitation costs (Note 6)	837,897			837,897
Rent and occupancy (Note 6)	1,095,569	56,044	12,186	1,163,799
Repairs and maintenance	953,243			953,243
Salaries	5,535,899	2,086,299	65,676	7,687,874
Travel	2,722	35,783		38,505
Vehicle repairs and fuel	27,439			27,439
Total expenses	<u>\$ 79,445,743</u>	<u>\$ 4,575,499</u>	<u>\$ 108,716</u>	<u>\$ 84,129,958</u>

See notes to financial statements.

2020

Program	General and Administrative	Fundraising and Development	Total
\$ 10,827	\$ 3,083	\$	\$ 13,910
1,798,845			1,798,845
348,069			348,069
575,407			575,407
1,736,929	538,073		2,275,002
67,290			67,290
899,028			899,028
205,735	3,227	1,019	209,981
624,135	86,373	4,539	715,047
608,675	299,784		908,459
	40,000		40,000
79,675,296			79,675,296
42,606	93,030	1,893	137,529
520,942			520,942
4,514,302	518,038	52,050	5,084,390
	268,626		268,626
1,161,628			1,161,628
1,893,493	45,752	14,612	1,953,857
1,403,741			1,403,741
6,246,096	2,113,339	192,941	8,552,376
13,264	41,771		55,035
61,347	3,920		65,267
<u>\$ 10214071655</u>	<u>\$ 4,0551016</u>	<u>\$ 2671054</u>	<u>\$ 1061729J25</u>

Blind Industries and Services of Maryland

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (1,216,334)	\$ (1,257,819)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,756,221	2,275,002
Increase (decrease) in allowance for doubtful accounts	94,220	(197,689)
Amortization of deferred financing costs	154,760	5,208
Increase (decrease) in inventory reserve	12,372	(32,068)
Loss on sale of property, plant and equipment	641,007	5,979
(Gain) loss on interest rate swap contract	(88,946)	37,719
Changes in assets and liabilities:		
Decrease (increase) in:		
Trade and other accounts receivable	1,187,958	3,043,506
Inventories	2,642,892	79,172
Prepaid expenses and other assets	(49,641)	329,034
Decrease in:		
Accounts payable	(5,518,651)	(3,343,166)
Accrued expenses and other liabilities	(539,463)	(44,762)
Net cash (used in) provided by operating activities	<u>(923,605)</u>	<u>900,116</u>
Cash flows from investing activities:		
Proceeds from sales of investments		6,521,366
Net proceeds from sale of property, plant and equipment	3,734,526	42,000
Purchases of property, plant and equipment	(252,195)	(277,280)
Net cash provided by investing activities	<u>3,482,331</u>	<u>6,286,086</u>
Cash flows from financing activities:		
Proceeds from long-term debt	2,915,000	3,535,025
Loan costs	(312,108)	
Net payments on line of credit		(8,500,000)
Principal payments on long-term debt	(5,574,299)	(2,019,246)
Principal payments on capital lease obligations		
Net cash used in financing activities		
Net (decrease) Increase in cash		
Cash:		
Beginning of year		
End of year		
Supplemental disclosure of cash flow information:		
Cash paid for interest		
Supplemental schedules of noncash investing and financing activities:		
Equipment acquired under capital lease		

<u>(157,568)</u>	<u>(130,438)</u>	
<u>(3,128,975)</u>	<u>(7,114,659)</u>	(570,249)

71,543

<u>1,382,878</u>	<u>1,311,335</u>	
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\$ 812,629	\$ 1,382,878	
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\$ 980,441	\$ 937,530	
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<u>\$</u>	<u>\$</u>	<u>127,317</u>
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Blind Industries and Services of Maryland

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Blind Industries and Services of Maryland (BISM) is a public corporation created by Article 30 of the Annotated Code of Maryland for the purpose of training, rehabilitating, employing and furnishing services to the blind of the state of Maryland. BISM operates manufacturing facilities in Baltimore, Cumberland, Federalsburg and Salisbury, Maryland, and in 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, Presentation of Financial Statements of Not-for-Profit Entities. Under ASC 958-205, BISM is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions 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. BISM had no donor restricted net assets at June 30, 2021 and 2020.

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 net realizable value. 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.

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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

Property, plant and equipment: Property, plant and equipment are recorded at cost or fair value if donated or acquired as part of a business combination. 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 and amortization expense. Useful lives of property and equipment range as follows:

	<u>Years</u>
Buildings and improvements	15-40
Machinery and equipment	5-10
Motor vehicles	5
Equipment under capital leases	5-10
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: On July 1, 2020, BISM adopted FASS ASC Topic 606, Revenue from Contracts with Customers. The five-step model defined by ASC Topic 606 requires BISM to: (1) identify contracts with customers, (2) identify performance obligations under those contracts, (3) determine the transaction prices of those contracts, (4) allocate the transaction prices to performance obligations in those contracts and (5) recognize revenue when each performance obligation under those contracts is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services.

BISM adopted ASC Topic 606 using the modified retrospective method on July 1, 2020, and based on its evaluation of its revenue streams, determined that there was no impact as of the date of adoption between the new revenue standard and how revenue was previously recognized. Consequently, the adoption did not have an impact on its financial statements.

For manufactured items, BISM recognizes sales at a point in time once the performance obligation has been satisfied, upon shipment of goods to customers or at time of delivery and customer acceptance, depending on the contract terms. BISM has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated goods and not as a separate performance obligation. The retail operations of BISM recognize sales at a point in time once the performance obligation has been satisfied, upon receipt of goods by the customer. Appropriations from governing bodies are recognized in the year for which they are appropriated.

Contracts with multiple performance obligations: When BISM's contracts with customers contain multiple performance obligations, the contract transaction price is allocated on a relative standalone selling price basis to each performance obligation. BISM typically determines standalone selling price based on observable selling prices of its goods.

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

Transaction price: The transaction price is the amount of consideration to which BISM expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on the transaction price. Revenue is reported net of sales and other applicable taxes collected from customers and remitted to government taxing authorities.

Incremental costs: BISM recognizes the incremental costs, if any, of obtaining contracts as an expense when incurred since the amortization period of the assets that BISM otherwise would have recognized is one year or less.

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.

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 variable 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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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, 2018.

Recently issued accounting pronouncements (not yet adopted): In February 2016, the FASB issued Accounting Standards Update (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. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASC 2016-02 one year, making it effective for annual reporting periods beginning after December 31, 2021. 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 effect of the new standard on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance is effective for annual reporting periods beginning after June 15, 2021. BISM is currently evaluating the effect of the new standard on the financial statements.

Subsequent events: Management has evaluated subsequent events through December 29, 2021, which is the date the financial statements were available to be issued.

Note 2. Inventories, Net

Components of inventories at June 30, 2021 and 2020, are as follows:

	2021	2020
Raw materials	\$ 6,336,538	\$ 6,760,751
Work-in-process	690,920	2,210,718
Finished goods	3,282,837	4,051,068
Base supply center division merchandise	1,990,393	1,921,043
Reserves for obsolescence	506,157	(493,785)
	<u>\$ 11,794,531</u>	<u>\$ 14,449,795</u>

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 3. Long-term Debt and Interest Rate Swap Agreement

Long-term debt and related current maturities at June 30, 2021 and 2020, consist of the following:

	2021	2020
Promissory note	\$ 3,536,274	\$ 3,835,875
Bond payable	3,375,000	4,000,000
Term loan	3,101,565	3,331,109
Shoregood promissory note		45,834
NGT equipment loan		4,143,750
Equipment loans	215,189	335,779
NIB equipment note	218,229	328,208
NCM A	1,815,000	
NCM B	1,100,000	
PPP loan	3,535,025	3,535,025
	<u>16,896,282</u>	<u>19,555,580</u>
Less deferred financing costs	(172,107)	(14,758)
Total long-term debt, including current maturities	16,724,175	19,540,822
Less current maturities	3,910,189	5,182,443
Total long-term debt	<u>\$ 12,813,986</u>	<u>\$ 14,358,379</u>

Promissory note: BISM has a \$5,000,000 promissory note with a bank related to a building located on the Fort Knox Military Reservation. The promissory note bears interest at the London Interbank Offered Rate (LIBOR), plus 3.75% and 1.75% at June 30, 2021 and 2020, respectively, and matures on April 30, 2023. The interest rate was 5% and 1.93% at June 30, 2021 and 2020, respectively. The promissory note requires monthly principal payments of approximately \$25,800, plus interest, and is subject to certain financial covenants. This promissory note is collateralized by trade receivables and the parcels of land located in Baltimore County, together with all improvements thereon.

In connection with the 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.

In September 2020, BISM and the bank entered into a forbearance and loan modification agreement. The bank agreed to refrain and forbear temporarily from exercising and enforcing any of its remedies under the amended agreement at any time through the forbearance expiration, which was the earlier of December 31, 2020, or the occurrence of a forbearance default. Upon execution of the amended agreement, BISM paid a \$15,000 forbearance extension fee plus \$3,399 for fees and expenses to the lender. The interest rate on the promissory note was adjusted to LIBOR (adjusted periodically) plus 2.25%. The agreement also notes various reporting covenants and acts of good faith.

Note 3. Long-term Debt and Interest Rate Swap Agreement (Continued)

In January 2021, effective December 31, 2020, the forbearance and loan modification agreement was amended. The forbearance expiration was extended from December 31, 2020 to December 31, 2021, or the occurrence of a forbearance default, whichever shall occur first. Upon execution of the amended agreement, BISM paid a \$15,000 forbearance extension fee plus \$3,000 for fees and expenses to the lender. In addition, BISM paid a \$50,000 fee on June 30, 2021, as all obligations were not paid in full on or before June 30, 2021. BISM shall pay a \$100,000 fee upon the forbearance expiration unless all obligations are paid in full on or before the forbearance expiration, upon which the lender will waive the \$100,000 fee. The interest rate on the promissory note was adjusted to LIBOR (adjusted periodically) plus 3.75% through June 30, 2021. Beginning on July 1, 2021, and continuing through the forbearance expiration, the interest rate was adjusted to LIBOR (adjusted periodically) plus 5.25%.

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 0.07% and 0.2% at June 30, 2021 and 2020, 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 non-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 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 \$3,536,274 and \$4,046,027 at June 30, 2021 and 2020, respectively.

Term loan: In January 2014, BISM obtained a \$4,800,000 construction term loan with a bank. The loan required monthly payments of \$38,900, including interest at an annual rate of 4.95%. On June 28, 2019, the loan was sold by the original lender to a new lender, at which time BISM entered into a forbearance agreement with the new lender. The forbearance agreement waived existing defaults under the original loan through May 28, 2020 (Forbearance Period), increased the annual interest rate to 7.25%, extended the due date to June 28, 2020, and required a one-time payment of \$71,654, which was paid during the year ended June 30, 2020.

BISM exercised an extension option to December 28, 2020, and was charged a one-time fee by the lender of \$17,913. On November 4, 2020, the forbearance agreement expiration date was extended to July 1, 2021. The interest rate was increased to the *Wall Street Journal* Prime Rate plus 4.0%, but in no event, less than 7.25%, and BISM paid an extension fee of \$32,381. On July 1, 2021, the forbearance agreement expiration date was extended to January 1, 2022, and the interest rate was increased to 9.5%. BISM paid an extension fee of \$31,016 as of July 1, 2021. The loan is collateralized by a deed of trust on real property and related fixtures.

Shoregood promissory note: In April 2016, in conjunction with the acquisition of the assets of SGWC Shoregood Water Company, Inc. (Shoregood), BISM entered into a \$250,000 promissory note. The promissory note is non-interest-bearing and required monthly principal payments of \$4,167 through June 2021. The balance was paid in full as of June 30, 2021.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 3. Long-term Debt and Interest Rate Swap Agreement (Continued)

NGT equipment loan: In December 2017, in conjunction with the acquisition of the assets of NGT, BISM entered into a \$6,500,000 equipment loan with a bank. The loan required monthly principal payments of \$81,250, which began in February 2018 through January 2023, and an interest rate of 1.94%. The loan was collateralized by a deed of trust on the equipment and was subject to certain financial and non-financial covenants. In December 2020, the loan was paid in full using proceeds from the sale of the NGT equipment. See Note 11.

Equipment loans: In September 2018, BISM entered into \$397,840 of equipment loans with a bank. The loans require monthly principal payments of \$6,631, which began November 2018, with an interest rate of 1.87% through October 2023. The loans are collateralized by a deed of trust on the equipment and are subject to certain financial and non-financial covenants.

NIB equipment note: In June 2018, BISM entered into a \$500,000 promissory note with National Industries for the Blind (NIB) for the purchase of equipment (see Note 6). The promissory note requires 54 successive monthly installments beginning in January 2019, the first six of which will consist of principal only payments of \$9,259, with the remaining payments consisting of principal and interest at a rate of 2.375% per annum, totaling \$9,715 through the June 2023 maturity. The promissory note is collateralized by the equipment.

NCM Loans A and B: In July 2020, BISM entered into two loan agreements with a lender for borrowings of \$1,815,000 and \$1,100,000, respectively, that mature in July 2022. The loans bear interest from inception through February 2021, at 11.99%. Effective March 1, 2021, the outstanding balances bear interest at a floating rate equal to the *Wall Street Journal* Prime Rate plus 8.74% per annum, with a minimum rate of 11.99% per annum. Monthly payments of accrued interest on the unpaid principal balances were made beginning September 1, 2020. The lender reserved approximately 11.15% of each loan, approximately \$202,000 and \$123,000, respectively, as an interest reserve which funds a portion of each monthly interest payment due. BISM shall be responsible for no less than \$18,739 and \$11,357, respectively, of each monthly interest payment. Once the interest reserve is depleted, BISM will be responsible for the full interest payments. The funds held in the interest reserve constitute collateral and may be applied at the lender's sole discretion. Prepayments are permitted without penalty or premium. Both loans are collateralized by real property.

PPP loan: On May 5, 2020, BISM applied for and received a loan in the amount of \$3,535,025 from Atlantic Union Bank, pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted on March 27, 2020. The interest rate is 1.0% per annum, payable monthly commencing on December 5, 2020. On October 1, 2020, the loan payment terms were extended to commence on August 20, 2021. The loan is guaranteed by the Small Business Administration and matures on May 5, 2022. There were no application or other fees associated with this loan. Proceeds may be used to pay qualifying compensation and benefit costs to retain workers and to make mortgage interest payments, lease payments and utility payments. Under the terms of the loan, some or all may be forgiven if the funds are used for qualifying expenses, as described in the CARES Act, and the loan may be repaid at any time without penalty. On July 30, 2021, BISM received full legal forgiveness of the loan from the Small Business Administration.

BISM's PPP loan is reported in accordance with ASC Topic 470, Debt. As a result, the loan is not derecognized until either paid off by BISM or BISM is legally released as the primary obligor.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 3. Long-term Debt and Interest Rate Swap Agreement (Continued)

Refinancing: Refer to Note 12 for discussion of the refinancing of debt subsequent to year end, and the related schedule of future maturities of long-term debt. BISM made principal payments on outstanding debt of \$560,301, during the period from July 1, 2021 up to the refinancing date. These payments are included in current maturities of long-term debt on the balance sheet at June 30, 2021 and in the schedule of future maturities of long-term debt presented in Note 12.

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 \$1,687,500 and \$1,900,000 at June 30, 2021 and 2020, respectively. 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 gain of \$88,946 and a loss of \$37,719 for the years ended June 30, 2021 and 2020, respectively, relating to this hedging instrument.

Total interest expense was \$1,056,824 and \$908,459 for the years ended June 30, 2021 and 2020, respectively.

Note 4. 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 2024. Future minimum lease payments under the capital leases as of June 30, 2021, are as follows:

Years ending June 30:	
2022	\$ 137,614
2023	51,803
2024	<u>7,481</u>
Total minimum lease payments	196,898
Less amount representing executory costs including profit thereon, included in total minimum lease payments	<u>12,165</u>
Net minimum lease payments	184,733
Less the amount representing interest	<u>7,089</u>
Present value of minimum lease payments	177,644
Less current portion of obligations under capital lease	<u>122,356</u>
Long-term portion of obligations under capital lease	<u>\$ 55,288</u>

Interest expense attributable to capital leases was \$12,733 and \$17,662 for the years ended June 30, 2021 and 2020, respectively.

Note 5. Pension Plan

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. BISM contributed \$110,074 to the Plan for the year ended June 30, 2021. There were no contributions to the Plan for the year ended June 30, 2020.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 6. Commitments and Related Party Transactions

Commissions: BISM has an agreement with 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 \$33,262,592 and \$40,527,233 for the years ended June 30, 2021 and 2020, respectively, which are included in sales on the statements of activities. Commissions paid to NIB totaled \$1,313,819 and \$1,798,845 for the years ended June 30, 2021 and 2020, respectively.

Trade accounts receivable include \$700,514 and \$1,528,584 due from NIB at June 30, 2021 and 2020, respectively. Accounts payable include \$289,917 and \$503,964 due to NIB at June 30, 2021 and 2020, respectively.

Equipment loan: BISM has a promissory note with NIB for the purchase of equipment (see Note 3).

Leases: BISM leases apartments for independent living training programs and rents various facilities under short-term rental agreements for training programs.

BISM had a lease agreement with the previous owners of NGT, requiring monthly base rent payments of \$60,000 through December 2022. The initial lease term was five years with three optional renewal periods each of five years. In December 2020, in connection with the sale of the Hagerstown assets (see Note 11), this lease was reassigned to the Hagerstown buyer. The Hagerstown buyer's obligations to the lessor, through the initial term of the lease which expires December 31, 2022, are guaranteed by the buyer's parent company, with a subordinated guaranty by BISM. As of the report date, total remaining future minimum lease payments subject to the guaranty are approximately \$720,000.

Rent expense was \$115,788 and \$160,892 for rehabilitation training facilities and \$359,347 and \$752,922 for operating facilities for the years ended June 30, 2021 and 2020, respectively. Total rent expense was \$475,135 and \$913,814 for the years ended June 30, 2021 and 2020, respectively.

Converting agreement: On May 3, 2020, BISM entered into an agreement with a third-party (buyer) in which BISM's Hagerstown location would dedicate 100% of its paper converting capacity to products ordered by the third-party, other than those products sold to government customers and napkins sold to one specific customer, not to exceed 5,800 cases per month. The third-party agreed to order goods having an aggregate price of not less than \$90,000 per month. BISM's obligation to fulfill any purchase order was conditioned upon the third-party supplying BISM with all raw materials at no cost required to manufacture the goods specified. BISM had the right to terminate the agreement for any reason after November 1, 2020 with notice of 90 days. The agreement was terminated in December 2020 in connection with the sale of the Hagerstown location (see Note 11) and BISM was required to pay a termination fee of \$175,000.

Note 7. Major Customers

Approximately 49% and 45% of revenue was derived from sales to three customers and two customers for the years ended June 30, 2021 and 2020, respectively. Accounts receivable due from these customers totaled \$2,833,023 and \$2,828,399 at June 30, 2021 and 2020, respectively.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 8. Major Vendor

Approximately 10% and 11% of purchases were derived from transactions with one vendor for the years ended June 30, 2021 and 2020, respectively. Accounts payable due to this vendor was \$983,253 and \$1,914,268 at June 30, 2021 and 2020, respectively.

Note 9. Fair Value Measurements

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, 2021 and 2020:

	2021			
	Total	Level 1	Level 2	Level 3
Interest rate swap contract	\$ (219,533)	\$	\$ (219,533)	\$

	2020			
	Total	Level 1	Level 2	Level 3
Interest rate swap contract	\$ (308,479)	\$	\$ (308,479)	\$

Note 10. Liquidity and Availability of Assets

BISM is primarily supported by its manufacturing operations. As part of BISM's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial assets available to meet cash needs for general expenditures within one year at June 30, 2021 and 2020, are as follows:

	2021	2020
Cash	\$ 812,629	\$ 1,382,878
Trade and other accounts receivable, less allowance for doubtful accounts	3,989,829	5,272,007
Financial assets available to meet general expenditures in the next 12 months	\$ 4,802,458	\$ 6,654,885

Note 11. Sale of Assets

On December 8, 2020, BISM entered into an Asset Purchase Agreement with a third party for the sale of the tissue converting plant located in Hagerstown, Maryland for the sales price of \$4,134,526. The proceeds from the sale, net of broker fees of \$400,000, were used to pay off the NGT equipment loan which had a principal balance as of the date of the Asset Purchase Agreement of \$3,656,250, plus accrued interest.

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Note 12. Subsequent Events

On December 29, 2021, BISM entered into a loan and security agreement and four promissory notes with a bank to refinance its long-term debt. The agreement provides for term loans of \$8,529,000 and \$3,200,000, maturing on January 1, 2047, a term loan of \$225,000, maturing on January 1, 2027, and a revolving line of credit with borrowing capacity of up to \$2,000,000. BISM also entered into a loan and financing agreement with the same bank, as the lender, and MEDCO as the issuer, for a MEDCO Series 2021 bond loan of \$3,295,000. The loans are collateralized and secured by deeds of trust on real property, assignment of leases and rents, and all other assets of BISM. These loans are subject to certain financial and nonfinancial covenants.

The term loans have an initial fixed interest rate of 4.27% through December 31, 2026. On January 1, 2027, the interest rate becomes variable and is calculated based upon the one-month Secured Overnight Financing Rate (SOFR) plus a margin of .90%. BISM has the option to request a fixed rate for the remaining unpaid principal amounts prior to Adjustment Dates on January 1, 2027, January 1, 2032, January 1, 2037 and January 1, 2042. Beginning on February 1, 2022, monthly payments of principal and interest are \$64,098 and \$4,173, for the loans maturing on January 1, 2047 and January 1, 2027, respectively, with the remaining unpaid principal balances and accrued interest due on the maturity dates. If the loans are prepaid while under a fixed interest rate, a 2% of outstanding principal penalty will be assessed.

The bank reserves the right (Call Option) to declare the entire amount of outstanding principal of the term loans, accrued interest and fees to be due and payable on each Adjustment Date disclosed above. The bank may exercise the Call Option, in its sole and absolute discretion, by giving written notice to the BISM at least 120 days before any applicable Adjustment Date.

The revolving line of credit has a variable interest rate, which is calculated based upon the one-month SOFR plus a margin of 3% and is payable monthly. The revolving line of credit has no stated maturity date and is due upon demand.

The MEDCO Series 2021 bond loan has an initial five-year fixed interest rate of 3.54%, which is subject to adjustment on each Adjustment Date disclosed above. Monthly principal payments of \$10,983 plus interest beQin on February 1, 2022, through the maturity date on January 1, 2047.

The proceeds from the term loans were used to repay the outstanding balances, on the date of refinancing, of the promissory note, term loan, and NCMA and B loans, as well as to finance the costs of terminating the interest rate swap agreement on the MEDCO Series 2003 bonds, and to provide working capital. The proceeds from the MEDCO Series 2021 bond loan were used to refund the outstanding balance of the MEDCO Series 2003 bonds. The refinancing resulted in additional borrowings of approximately \$2,881,000, which are included in the future maturities of long-term debt below.

Maturities of long-term debt are due in future years as follows, as a result of this refinancing:

Years ending June 30:	
2022	\$ 3,910,189
2023	682,210
2024	457,616
2025	473,316
2026	488,370
Thereafter	13,205,742
	<hr/>
	\$ 19,217,443