

**Blind Industries &  
Services of Maryland  
Governor's Annual Report  
2016**

**Blind Industries & Services of Maryland  
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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, 2016. 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 2016 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 2016 told two very different stories: while our Federal business saw an increase, State business was flat. We continue to have to deal with roadblocks set up by the Maryland Legislature and commercial companies, which threatens our State of Maryland business.

Despite the efforts of outside forces trying to eliminate our ability to provide State of Maryland customers with high quality products at competitive prices, BISM associates continue to deliver outstanding customer service and be effective in all aspects of our operation.

The Rehabilitation and Training division continues to reach new heights in delivery of programs and services for blind and low vision people. The quality of training programs offered free of charge to Maryland residents are far and away the best in the region.

In FY17, it appears that BISM's Federal business will increase, but we are struggling to hold our own in the State of Maryland.

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 15 locations in five states. BISM's manufacturing facilities are located in Baltimore, Cumberland, Salisbury (2), Federalsburg, and Raleigh (NC). BISM 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 products; janitorial/sanitation supplies, from chemicals to application; assembly services, better known as "kitting"; and custom labeled 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 hard working manufacturing associates, 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 also 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 2016**

## **(July 1, 2015 – June 30, 2016)**

### **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 2016 fell short of our sales goals. We attribute this to two factors: cutbacks in budgets for State customers and off-contract purchases by State agencies and contractors. Unfortunately, though our salesforce regularly educates our State customers on the purchasing preference rules, many State customers do not purchase from the BISM master list.

BISM continues to promote our Mission to provide training and employment opportunities for blind people of all ages, despite the ongoing efforts of commercial entities attempting to hinder our ability to be successful.

During FY16, BISM revamped and developed our entire warewashing product line (kitchen and laundry chemicals and supplies), which includes a variety of products at a reduced price.

BISM Green product selections to the State of Maryland continue to increase and now account for approximately 75% of products sold. New Green warewashing products were added in FY16 and there are now Green products in every product line where they are available. The BISM sales team offered training classes in Green Cleaning Guidelines to State of Maryland agencies and contractors free of charge.

The largest challenge for the BISM sales team continues to be having to defend itself against commercial companies, the majority of whom employ no blind or disabled people, that would prefer that BISM have no preference in the State of Maryland.

## **BISM Beverage**

*BISM Beverage provides clean and clear purified water to our State & commercial customers in both five gallon and single serve BISM Now sizes. We provide energy efficient coolers wherever and whenever possible.*

In FY16, the BISM Beverage division continued to build our custom label and five gallon purified bottled water business. We experienced small growth in both our custom label brand and five-gallon business.

Our five gallon bottling facility is a state-of-the-art water processing plant located in our Baltimore Headquarters, while our custom label bottling facility is located on the Eastern Shore in Federalsburg. All of our five gallon bottles are made of PET plastic, which is recycled material and better for the environment. We continued to make efforts to grow our five-gallon business in the private sector.

Our custom label business is primarily commercial customer driven and we are always looking to grow these sales. 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 through direct delivery or drop ship delivery from Virginia to New York. We worked with our food service partners as well as to expand our private sector customers.

We currently employ three full-time blind associates and one part-time blind associate in all aspects of our beverage division and expect to increase blind employment as the business grows. In FY17, BISM Beverage is focusing on building and expanding the relationship with our Maryland State customers, especially in the gaming industry.

## **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 2016 was a strong and consistent year for BISM's cutting and sewing divisions due to the improvement in fabric deliveries and consistent customer demand. The improvements in supplier deliveries of fabric allowed BISM to manufacture in accordance to the customer delivery schedules with minimum overtime, thus improving the bottom line from FY15. The volume of orders across the board filled BISM to within 90% of capacity during the year, which had a positive impact on the bottom line for FY16.

Demand for the cutting operations was consistent throughout the year and the performance of our cutting locations were positive. We benefitted from an additional textile cutting operation, opened in 2015 under the PIE Program with Federal Prison Industries at FCI Butner, NC. FCI Butner positively impacted 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 FY16. BISM was able to meet all customer needs without the use of overtime and no orders were delinquent. The Baltimore and Salisbury cutting locations contributed above planned earnings in FY16. The sewing operations at Salisbury and Cumberland were on track and met all performance expectations for FY16.

Our cutting and sewing division at Raleigh (NC) had a strong performance in FY16. 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.*

FY16 was an exciting and 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.

All of the AbilityOne BSC locations held 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 2016, our blind and visually impaired workforce grew through the employment of 40 additional blind positions, or 16.6% over the prior year in a number of positions ranging from instructor to production associate.

BISM is currently looking at ways to increase our opportunities to employ more blind associates and has made a number of changes, one of which is the start-up of a sewing department in our Baltimore production facility. BISM has added 25 new jobs, 20 of which are new blind jobs, producing the inside jacket lining for a military garment. Most of the people hired did not have prior sewing experience. BISM also increased our efforts to boost industrial contracts and added nine blind associates who assemble and add value to products for distribution to various State agencies. BISM also increased our employment of blind Marylanders in our Accounting and Human Resources departments.

The Human Resources department is concentrating on specific areas to support the long-term growth of BISM and to reward those associates' behaviors which reinforce BISM's vision, mission and purpose. This year we concentrated on providing training for our supervisors to help them develop the skills to be the next generation of BISM leaders.

BISM has continued to focus on the health of our associates through a number of workshops on diet, stress management, heart health and disease, healthy eating, and diabetes. BISM also offers workshops on financial management throughout the year that benefit all associates. We believe that the investment we make in our associates is an investment in the future prosperity of BISM.

## **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 2016 was a good year for BISM's Rehabilitation Department, as we continued to reach more blind Marylanders through our innovative youth, adult and senior programs. As the only agency in the State of Maryland using the structured discovery method of rehabilitation teaching philosophy, BISM provides students with the knowledge and skills that they need to live independent lives.

A total of 73,041 training hours were provided in FY16 through adult (46,455 hours), senior (15,300 hours), youth (9,814 hours), and home instruction (664 hours) programs. These programs occurred at our center-based locations in Baltimore, Cumberland,

Salisbury, Hagerstown, University of Maryland Baltimore County (UMBC), and at students' homes throughout the State of Maryland. They also include support groups, community workshops and a residential senior retreat.

There were 257 referrals to our adult and senior blindness skills training programs and 61 people completed BISM training programs. The youth division served 202 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 FY16, there were 14 students (12 from Maryland) who successfully graduated or completed the CORE program. Sixteen additional students took part in CORE training in FY16, many of whom are scheduled to graduate in FY17. Of the 30 total CORE students, 27 were residents of Maryland.

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, adjustment to blindness seminars, physical fitness, woodshop, job readiness, 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, build their confidence, and further develop 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 the Baltimore Running Festival, a white water rafting trip, a weekend trip to Ocean City, and numerous excursions to restaurants in downtown Baltimore to apply skills acquired at BISM in real world settings. In addition to training in Baltimore, students spend 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 Chicago, Jacksonville, Savannah, Philadelphia, and Pittsburgh.

### **Senior Services**

In FY16, a total of 350 blind and low vision senior citizens received blindness skills training, 227 of which received services through center-based training, support groups, specialized classes, and home visits, while 123 seniors attended workshops or a four-day retreat, for a total of 15,300 hours of training. We provided 64 facility tours for senior citizens interested in attending BISM training, plus many additional tours for families, supporters, counselors, professionals, and large groups.

BISM presented the Possibilities Fair for Seniors Losing Vision in FY16. Over 300 seniors from around the State attended to gather a wealth of information plus enjoy motivational speakers, a luncheon, and entertainment. This unique, one-day event featured a variety of vendors, wellness booths, service agencies, health screenings, demonstrations, adapted items, and services all designed especially for seniors experiencing vision loss.

Outreach, events and presentations by senior staff reached over 2,000 seniors in FY16. Thousands more received information about BISM Senior Services through targeted media efforts, publications, company newsletters, special events, community partners, and the BISM website.

BISM Senior Services offer five programming options designed to meet the unique service needs of senior citizens losing vision. 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 who otherwise could not receive valuable life skills training to regain independence after vision loss.

BISM Senior Programs include:

1. Seniors Achieving Independent Living (SAIL), weekly training classes
2. Senior Support Groups, monthly in four locations
3. Home instruction, statewide
4. Community Workshops, statewide
5. Residential SILVER Retreat, annually

BISM Senior Services staff provides training, services and resources at BISM training centers in Baltimore, Cumberland, Salisbury, and a community site in Hagerstown. One-day workshops, on topics such as Financial Independence, Adapted Technology, and Life Enhancement, are presented by senior staff in

different counties throughout the State. The annual four-day residential SILVER Retreat is based in Baltimore and is open to qualified senior citizens statewide. Senior program 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 their own personal goals for independence with training tailored to each person's real-life situation. With skills and confidence acquired at BISM, senior 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.

The goal of all BISM Senior Services programs is to empower blind and low vision senior citizens with the skills and confidence necessary to live independent, fulfilling lives at the residence of their choice. Successful senior program graduates can avoid unnecessary placement in costly assisted living facilities and diminished quality of life.

### **Youth Services**

This past summer, BISM offered Work to Independence 2016 to 13 high school students, who spent seven weeks developing confidence and increasing independence. This program was housed on the UMBC campus and featured staff comprised of qualified blind adults, who provided the 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 and New York City. Students and staff also travelled to Orlando, FL, where they spent one week meeting successful blind adults and learning about new issues in the blind community at the annual National Federation of the Blind convention. Students and staff also took trips to downtown Baltimore, Chesapeake Beach Water Park, a yoga studio, an indoor trampoline park, and the mall and movies.

For two weeks during the program, each Work to Independence student was employed at a local business or organization for 16-24 hours a week. Participating businesses included The Loading Dock, The Inn at the Colonnades by Hilton, The Inner Harbor Project, an AbilityOne Base-Supply store, and more. Students were responsible for traveling to and from their work site and fulfilling the job duties required of them.

BISM Youth Services also offered Independence 101 in FY16, which included six blind middle school students spending three weeks developing confidence and increasing independence. This program was also housed on the UMBC campus, and the program staff was comprised of qualified blind adults who provided the students with individualized non-visual life skills instruction and mentoring.

Independence 101 staff taught the students braille, technology, independent living, and travel.

Aside from independent skills development, the second focus of the Independence 101 program was confidence building. Several activities were put in place to enable students to trust and believe in themselves and their abilities. For example, students took on the challenge of rock climbing under sleep shades. We also took trips to downtown Baltimore, Washington D.C., Chesapeake Beach Water Park, an indoor trampoline park, a yoga studio, and the mall and movies.

BISM also created the Gaining Leadership, Independence, Direction and Experience (GLIDE) program to assist blind and low vision high school students with job skills throughout the year. The program brought nine participants to BISM's Baltimore headquarters four times between February and April 2016. The GLIDE program featured the following four workshops: Professional Preparation, Workplace Resources and Technology, Workplace Communication, and a Business Trip. Participants learned how to prepare lunches, talk with potential employers, identify suitable accommodations, disclose their disability, 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 Rehabilitation programs and services are imperative to develop the life skills that help blind people 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, 2016

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## Independent Auditor's Report

RSM US LLP

To the Board of Trustees  
Blind Industries and Services of Maryland  
Baltimore, 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, 2016 and 2015, 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, 2016 and 2015, 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 26, 2016

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**Blind Industries and Services of Maryland**

**Statements of Financial Position  
June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 136,134	\$ 80,276
Trade and other accounts receivable, less allowance for doubtful accounts (2016 and 2015 – \$82,160)	11,450,228	8,648,580
Inventories (Note 3)	11,194,716	7,345,901
Prepaid expenses and other assets	432,501	509,709
<b>Total current assets</b>	<b>23,213,579</b>	<b>16,584,466</b>
Investments (Notes 4, 5 and 11)	<b>10,277,903</b>	10,665,630
Property, plant and equipment (Notes 2, 5 and 6):		
Land	3,354,978	3,280,098
Buildings and improvements	22,853,989	21,816,131
Machinery and equipment	8,777,186	7,736,931
Motor vehicles	920,176	908,266
Equipment under capital leases	311,992	168,000
Furniture and fixtures	610,332	610,332
	<b>36,828,653</b>	<b>34,519,758</b>
Less accumulated depreciation, including accumulated depreciation (2016 – \$49,602; 2015 – \$18,971) relating to equipment under capital leases	<b>15,092,909</b>	14,255,192
	<b>21,735,744</b>	<b>20,264,566</b>
<b>Total assets</b>	<b>\$ 55,227,226</b>	<b>\$ 47,514,662</b>

See notes to financial statements.

	2016	2015
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 7,356,878	\$ 6,864,182
Liability under capital lease obligations (Note 6)	44,822	16,929
Accounts payable	8,769,222	7,217,509
Accrued expenses and other liabilities	4,370,854	3,187,248
<b>Total current liabilities</b>	<b>20,541,776</b>	<b>17,285,868</b>
Long-term debt (Note 5)	13,928,715	11,463,586
Interest rate swap (Notes 5 and 11)	513,084	448,640
Liability under capital lease obligations, noncurrent portion (Note 6)	227,540	136,904
Commitments (Notes 6, 7 and 8)		
Net assets:		
Unrestricted	19,989,111	18,152,664
Permanently restricted	27,000	27,000
<b>Total net assets</b>	<b>20,016,111</b>	<b>18,179,664</b>
<b>Total liabilities and net assets</b>	<b>\$ 55,227,226</b>	<b>\$ 47,514,662</b>

**Blind Industries and Services of Maryland**

**Statements of Activities  
Years Ended June 30, 2016 and 2015**

	2016		
	Unrestricted	Permanently Restricted	Total
<b>Revenue:</b>			
Sales	\$ 102,272,208	\$ -	\$ 102,272,208
State of Maryland appropriations	531,115	-	531,115
Contributions and grants (Note 2)	746,194	-	746,194
Miscellaneous	586,243	-	586,243
	<u>104,135,760</u>	-	<u>104,135,760</u>
<b>Expenses (Notes 6, 7 and 8):</b>			
Cost of sales, including commissions to National Industries for the Blind (2016 – \$2,305,621; 2015 – \$1,773,720)	91,775,824	-	91,775,824
Blind rehabilitation and training	1,757,114	-	1,757,114
Fundraising and development	128,699	-	128,699
General and administrative	8,212,132	-	8,212,132
	<u>101,873,769</u>	-	<u>101,873,769</u>
<b>Excess of operating revenue over expenses</b>	<b>2,261,991</b>	<b>-</b>	<b>2,261,991</b>
<b>Other revenue and expenses:</b>			
Investment income (loss) (Note 4)	264,460	-	264,460
Loss on interest rate swap contract (Note 5)	(64,444)	-	(64,444)
Interest expense (Notes 5 and 6)	(533,250)	-	(533,250)
Letter of credit fees (Note 5)	(92,310)	-	(92,310)
	<u>1,836,447</u>	-	<u>1,836,447</u>
<b>Change in net assets</b>	<b>1,836,447</b>	<b>-</b>	<b>1,836,447</b>
<b>Net assets:</b>			
Beginning of year	<u>18,152,664</u>	<u>27,000</u>	<u>18,179,664</u>
End of year	<u>\$ 19,989,111</u>	<u>\$ 27,000</u>	<u>\$ 20,016,111</u>

See notes to financial statements.

2015		
Unrestricted	Permanently Restricted	Total
\$ 83,866,869	\$ -	\$ 83,866,869
531,115	-	531,115
230,370	-	230,370
432,445	-	432,445
85,060,799	-	85,060,799
75,572,496	-	75,572,496
1,579,536	-	1,579,536
123,041	-	123,041
7,442,902	-	7,442,902
84,717,975	-	84,717,975
342,824	-	342,824
(210,582)	-	(210,582)
(10,404)	-	(10,404)
(508,708)	-	(508,708)
(96,914)	-	(96,914)
(483,784)	-	(483,784)
18,636,448	27,000	18,663,448
\$ 18,152,664	\$ 27,000	\$ 18,179,664

## Blind Industries and Services of Maryland

### Statements of Cash Flows Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 1,836,447	\$ (483,784)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,162,909	1,045,203
Increase (decrease) in inventory reserve	279,782	(12,614)
Net unrealized depreciation of investments	3,221,525	427,754
Net realized gain on sales of investments	(3,303,285)	(49,997)
(Gain) loss on disposal of property, plant and equipment	(25,793)	13,624
Loss on interest rate swap contract	64,444	10,404
Changes in assets and liabilities:		
(Increase) decrease in:		
Trade and other accounts receivable	(2,801,648)	(3,306,765)
Inventories	(4,128,597)	(1,623,129)
Prepaid expenses and other assets	77,208	(187,187)
Increase in:		
Accounts payable	1,551,713	2,252,815
Accrued expenses and other liabilities	1,183,606	298,779
<b>Net cash used in operating activities</b>	<u>(881,689)</u>	<u>(1,614,897)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	8,381,115	765,240
Purchases of investments	(7,911,628)	(846,520)
Acquisition of Shoregood assets for cash	(900,000)	-
Purchases of property, plant and equipment	(1,314,303)	(836,530)
<b>Net cash used in investing activities</b>	<u>(1,744,816)</u>	<u>(917,810)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	3,321,477	85,623
Net borrowings on line of credit	303,221	3,305,765
Principal payments on long-term debt	(881,282)	(901,644)
Financing costs	(35,591)	-
Principal payments on capital lease obligations	(25,462)	(59,612)
<b>Net cash provided by financing activities</b>	<u>2,682,363</u>	<u>2,430,132</u>
<b>Net increase (decrease) in cash</b>	<u>55,858</u>	<u>(102,575)</u>
Cash:		
Beginning of year	80,276	182,851
End of year	<u>\$ 136,134</u>	<u>\$ 80,276</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 532,522</u>	<u>\$ 508,024</u>
Supplemental schedules of noncash investing and financing activities:		
Acquisition of Shoregood assets through issuance of promissory note	<u>\$ 250,000</u>	<u>\$ -</u>
Equipment acquired under capital lease	<u>\$ 143,991</u>	<u>\$ 90,000</u>

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 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, 2016 and 2015.

**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.

**Financial 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.

**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>In 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.

**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.

## 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 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 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 \$213,420 and \$224,968 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015.

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, 2013.

## Blind Industries and Services of Maryland

### Notes to Financial Statements

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

**Recently issued accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (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 April 2015, the FASB issued 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 is not expected to have a material impact on the financial statements.

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 FIFO 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. This ASU is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The adoption of the standard is not expected to have a material impact on the 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 balance sheet 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 2015 amounts have been reclassified to conform to the 2016 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 26, 2016, 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, 2016 and 2015, are as follows:

	2016	2015
Raw materials	\$ 3,848,096	\$ 3,075,422
Work-in-process	3,561,319	1,260,680
Finished goods	2,488,252	1,613,536
Base supply center division merchandise	1,831,481	1,650,913
Reserves for obsolescence	(534,432)	(254,650)
	<u>\$ 11,194,716</u>	<u>\$ 7,345,901</u>

## Blind Industries and Services of Maryland

### Notes to Financial Statements

#### Note 4. Investments

A summary of investments, at June 30, 2016 and 2015, is as follows:

	2016		2015	
	Cost or Donated Value	Fair Value	Cost or Donated Value	Fair Value
Short-term investments and money market accounts	\$ 809,318	\$ 809,784	\$ 2,820,573	\$ 2,820,573
U.S. Government and agency obligations	675,122	688,463	631,131	623,881
Corporate bonds and other fixed income	678,905	690,764	-	-
Equity securities:				
Energy	279,715	273,477	301,575	878,381
Exchange traded funds	3,647	3,811	471,933	414,519
Finance	694,274	666,703	26,583	587,345
Healthcare	616,773	675,528	733,351	1,106,179
Natural resources	198,668	195,014	122,979	464,115
Retail	1,037,335	1,025,845	617,758	1,600,934
Technology	1,339,729	1,372,661	1,153,374	1,766,753
Industrial	495,383	496,048	-	-
Other	68,369	78,084	376,434	402,950
Mutual funds:				
Fixed income	2,723,728	2,746,137	-	-
Other	553,148	555,584	-	-
	<u>\$ 10,174,114</u>	<u>\$ 10,277,903</u>	<u>\$ 7,255,691</u>	<u>\$ 10,665,630</u>

Gross unrealized appreciation and depreciation of investments, at June 30, 2016 and 2015, is as follows:

	2016	2015
Gross unrealized appreciation	\$ 326,502	\$ 3,755,055
Gross unrealized depreciation	(222,713)	(345,116)
	<u>\$ 103,789</u>	<u>\$ 3,409,939</u>

Investment income (loss) for the years ended June 30, 2016 and 2015, include the following:

	2016	2015
Interest and dividends	\$ 182,700	\$ 167,175
Net realized gain on sales of investments	3,303,285	49,997
Net unrealized depreciation of investments	(3,221,525)	(427,754)
	<u>\$ 264,460</u>	<u>\$ (210,582)</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, 2016 and 2015, consist of the following:

	2016	2015
Revolving line of credit	\$ 6,234,885	\$ 5,931,664
Promissory note	4,935,390	1,678,523
Bond payable	5,400,000	5,800,000
Term loan	4,312,586	4,589,519
Equipment note	156,899	328,062
Shoregood promissory note	245,833	-
	<u>21,285,593</u>	<u>18,327,768</u>
Less current maturities	7,356,878	6,864,182
	<u>\$ 13,928,715</u>	<u>\$ 11,463,586</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 \$9,000,000, through March 31, 2017, 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 1.96% and 1.68% at June 30, 2016 and 2015, 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 2.96% and 2.68% at June 30, 2016 and 2015, 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 .55% and .17% at June 30, 2016 and 2015, 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, 2017. The outstanding balance on the letter of credit was \$5,462,137 and \$5,866,740 at June 30, 2016 and 2015, 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 is non-interest-bearing and requires 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, 2016, are due in future years as follows:

Years ending June 30:	
2017	\$ 7,356,878
2018	987,377
2019	1,010,657
2020	1,034,509
2021	1,054,885
Thereafter	9,841,287
	<u>\$ 21,285,593</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 \$2,700,000 and \$2,900,000 at June 30, 2016 and 2015, 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 loss of \$64,444 and \$10,404 for the years ended June 30, 2016 and 2015, respectively, relating to this hedging instrument.

Total interest expense was \$533,250 and \$508,708 for the years ended June 30, 2016 and 2015, 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, 2016, are as follows:

Years ending June 30:		
2017	\$	71,868
2018		71,868
2019		71,868
2020		71,868
2021		61,012
Thereafter		42,627
Total minimum lease payments		<u>391,111</u>
Less amount representing executory costs including profit thereon, included in total minimum lease payments		<u>69,187</u>
Net minimum lease payments		<u>321,924</u>
Less the amount representing interest		<u>49,562</u>
Present value of minimum lease payments		<u>272,362</u>
Less current portion of obligations under capital lease		<u>44,822</u>
Long-term portion of obligations under capital lease	\$	<u><u>227,540</u></u>

Interest expense attributable to capital leases was \$13,849 and \$10,151 for the years ended June 30, 2016 and 2015, 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 hired before December 31, 1995, are immediately vested in the Plan. Employees hired after December 31, 1995, become 25% vested after two years of service and an additional 25% for each subsequent year of service, until fully vested after five years of service. BISM has the right to terminate the Plan at any time. Employer cash contributions to the Plan were \$698,271 and \$304,172 during 2016 and 2015, respectively. Pension expense was \$907,037 and \$224,399 for the years ended June 30, 2016 and 2015, 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 \$53,503,425 and \$41,052,150 for the years ended June 30, 2016 and 2015, 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 \$242,468 and \$200,978 for the years ended June 30, 2016 and 2015, respectively. Rent expense was \$191,654 and \$182,776 for rehabilitation training facilities and \$50,814 and \$18,202 for operating facilities for the years ended June 30, 2016 and 2015, respectively.

**Profit sharing plan:** BISM has a discretionary profit sharing plan under which BISM may contribute a portion of profits to its employees. Profit sharing expense was \$975,738 for the year ended June 30, 2016. There was no profit sharing expense for the year ended June 30, 2015.

#### Note 9. Major Customers

Approximately 51% and 47% of revenue was derived from sales to three and two organizations for the years ended June 30, 2016 and 2015, respectively. Accounts receivable due from these organizations totaled \$4,890,802 and \$5,861,793 at June 30, 2016 and 2015, respectively.

#### Note 10. Major Vendors

Approximately 16% and 25% of purchases were derived from transactions with two vendor organizations for the years ended June 30, 2016 and 2015, respectively. Accounts payable to these vendors were \$189,618 and \$1,514,317 at June 30, 2016 and 2015, respectively.

#### Note 11. 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 11. 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 LIBOR swap rate. The LIBOR swap 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, 2016 and 2015.

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, 2016 and 2015:

	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>

  

	2015			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 623,881	\$ -	\$ 623,881	\$ -
Equity securities	7,221,176	7,221,176	-	-
Interest rate swap contract	(448,640)	-	(448,640)	-
	<u>\$ 7,396,417</u>	<u>\$ 7,221,176</u>	<u>\$ 175,241</u>	<u>\$ -</u>

**Blind Industries and Services of Maryland**

**Notes to Financial Statements**

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**Note 11. Fair Value Measurements (Continued)**

BISM excludes cash and cash equivalents from the fair value hierarchy, as cash is generally measured at cost. As such, \$809,784 and \$2,820,573 of money market funds held in BISM's investment portfolio at June 30, 2016 and 2015, respectively, has been excluded from this table.