

BLIND INDUSTRIES AND SERVICES OF MARYLAND

BISM

Governor's Annual Report

FY 2022 (7/1/21-6/30/22)



www.BISM.org

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Baltimore, MD 21227**

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**Blind Industries and
Services of Maryland
Governor's Annual Report
FY 2022 (7/1/21-6/30/22)**

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

**Joint Message from Chairman of the Board Walter A. Brown
and President Michael Gosse, Ph.D.**

Blind Industries and Services of Maryland ("BISM") is honored to present its Annual Report for the Fiscal Year beginning as of July 1, 2021 and concluded as of June 30, 2022. 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 2022 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.

This Fiscal Year saw BISM beginning to emerge from the adverse effects of the Covid-19 Pandemic and the stresses related thereto, including material and commodity shortages, supply line issues, military base staffing reductions and a difficult and tight labor pool for qualified workers. Indeed, BISM, like other similar businesses, has been forced to deal with dramatic changes to how we do business how we will achieve success in an ever more challenging economic climate. We are also keenly aware that BISM is only as good as our Associates. To that end, we are pleased and proud to report that, despite the personal and professional challenges presented, our Associates have risen to these challenges, and we see progress and positive trending throughout BISM's businesses.

Our Independence Training and Rehabilitation Department was able to begin fully operating its programming and continued to provide the best training and programing for blind and low vision people in the State.

In previous years, BISM has advised that, despite the procurement preference afforded to BISM, compliance by State agencies and State related agencies was spotty and unenforced. Recently, BISM has been impressed by the attention and interest displayed by a number of State Agencies in both learning and appreciating BISM's Mission and the importance of State purchasing from BISM. Special appreciation to Secretary of the Department of General Services, Ellington Churchill, Jr., for his time and energy in meeting and working with BISM on these issues. While there is still work to do on these issues, BISM is optimistic and looking forward to making progress.

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

Sincerely,

Walter A. Brown
Chairman, Board of Trustees

Michael Gosse, Ph.D.
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 is the largest employer of Blind and Low Vision individuals in the State of Maryland and currently employs over 500 Associates. BISM maintains and operates manufacturing facilities in Baltimore, Federalsburg, Salisbury (2) and Raleigh, North Carolina and also BISM also owns and operates seven (7) AbilityOne Base Supply Centers on federal and/or military installations.

BISM manufactures various products at competitive prices for sale to its State of Maryland customers including office paper pads; copy paper; paper towels; toilet tissue; janitorial/sanitation supplies, such as soaps and disinfecting chemicals; assembly services (better known as "kitting"); and custom label bottled water. A significant portion of BISM's business operation is BISM's production of cut and sewn textile products for the federal government, including uniforms and other garments for many branches of the United States military.

With regard to its workforce, BISM offers competitive wages, health and retirement benefits. We are constantly striving to improve our training and accessibility to allow for the professional, vocational and personal growth of our blind (and sighted) Associates. 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's Independence Training and Rehabilitation ("ITR") Department provides comprehensive independence and skills training 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 offers these high-quality training programs and services free of charge to blind and low vision Maryland residents. BISM works closely with Maryland state agencies, specifically the Department of Rehabilitative Services, 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.

The ITR Department is funded by a combination of: (1) a State Grant (through the Department of Education); (2) fee for service work conducted by our Associates; and (3) profits generated by BISM's manufacturing and sales operations. Unfortunately, as the needs of our blind and low vision continue to increase, BISM's margins from manufacturing continue to shrink and, despite our requests, the State has not approved any significant additional funding for this crucial programming. This situation is financially unsustainable and BISM wants to avoid any type of curtailment of services of programming to the blind and low vision community.

Detailed Status of BISM – Fiscal Year 2022 (July 1, 2021 – June 30, 2022)

Independence Training and Rehabilitation

The mission of BISM's Independence Training and Rehabilitation Department 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.

In FY 2022, BISM's Independence Training and Rehabilitation (ITR) Department worked to provide training and independence services across the State of Maryland - all while being mindful of the ongoing Covid-19 pandemic and CDC Guidelines for safety. BISM conducted its activities using established protocols, emphasizing cleanliness and social distancing while also considering the health concerns of each individual student. Examples included smaller class sizes, reduced enrollment, and improving the curriculum to include a class focused on sanitizing, social distancing, and daily living in the pandemic era. BISM has continued to utilize virtual instruction as an option but reduced the number of virtual classes to twice a month, down from twice a week in FY2021. BISM wants both students and staff to be prepared and have multiple options for learning in the coming years.

During FY 2021 and at the height of the pandemic, BISM, while moving cautiously, found success despite instruction hours being well below previous years. In FY 2022, BISM continued with the cautious approach while expanding programs and increasing options for the Blind community of Maryland. We are excited at our progress and the possibilities ahead for BISM. We provided quality blindness skills training that will benefit the Blind population of Maryland.

During FY 2022, ITR 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 three (3) training locations across Maryland. As the only organization in the State of Maryland utilizing the "structured discovery method" of independence and rehabilitation teaching and philosophy, BISM provides students with the knowledge and skills that they need to live independent lives.

In FY 2022, BISM also continued our revolutionary 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 led to 4 Blind Marylanders finding employment.

Of the 21 Marylanders who staffed ITR during FY 2022, 16 are blind (including 5 Supervisor

positions). BISM's ITR staff provided 49,796 training hours to 1,427 blind individuals. Instruction and training hours were provided to adults (33,438 hours), seniors (10,859 hours), youth (720 hours), and customized programming (4,779 hours). Programs also include support groups, home visits, job development, job coaching, instruction to Blind Marylanders incarcerated in Maryland State Prisons, and community workshops.

Throughout the year, there were 317 referrals to all BISM blindness skills training programs and 54 people completed BISM training programs. The youth division served 9 blind Elementary, Middle, and High school students through both training programs and workshops.

These efforts resulted in 28 Blind Marylanders finding employment.

BISM's ITR training programs and related 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 2022, 7 students successfully graduated or completed the CORE program. Additionally, the CORE assisted 18 program alumni find employment.

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 at 300 West Lombard Street in downtown Baltimore City. 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 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

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, Hagerstown, Salisbury, Western Maryland Counties and throughout the State of Maryland in students homes. 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 across the State of Maryland in Hagerstown, Baltimore, Easton, and Salisbury. Our support groups were active in FY 2022 organizing social events and bringing together Blind Seniors for activities, mentorship, and camaraderie. Throughout the year seniors experienced all that Maryland has to offer by visiting local shopping venues, historical sites, and performing arts programs. Seniors made crafts and shared talents while engaging in thought-provoking discussions. The goal of helping seniors adjust to vision loss and develop a positive outlook while maintaining independence is always in the forefront.

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.

In FY 2022, BISM provided 10,859 hours of training to seniors throughout the State of Maryland, and 336 blind and low vision senior citizens received blindness skills training. We provided 62 facility tours for senior citizens interested in attending BISM training plus many additional tours for families, supporters, counselors, professionals, and large groups. These tours are the cornerstone of our training as they show in real-time the skills and work required to become an independent Blind Senior Citizen in Maryland.

Outreach, events, and presentations were back in the mix in FY 2022, senior staff reached out with information to over 800 providers and community associations in FY 2022. These presentations took place at senior centers, assistive living and retirement communities, civic organizations, schools, helping agencies, and community low vision support groups. BISM 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. Thousands more received information about BISM Senior Services through targeted media efforts, advertising, publications, company newsletters, special events, and the BISM website.

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'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, tissues, paper towels, warewashing chemicals, bleach, and personal care products.

Fiscal Year 2022 was the beginning of recovery from the Covid-19 pandemic and a return to "normal" business operations. Nonetheless, BISM continued to deal with challenges such as supply chain issues, commodity shortages across a number of platforms and significant price increases across the whole spectrum of BISM's Master List of products. BISM sales to our State of Maryland customers continued to decline, however, we are hopeful that State customers will fully return to work into Fiscal Year 2023. Nationwide supply-chain issues, manufacturing raw material allocations, changing supplier agreements, combined with spikes in fuel prices and transportation costs, have continued to create increasing challenges to meeting customer demands. Despite these challenges, BISM has maintained and even expanded our relationships and contracts with current vendors and partners while adding several more as an effort to improve production and supply.

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, 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.

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 remains marginal putting upward pressure on BISM's ability to fund our core mission of empowering blind/visually impaired individuals. Almost daily, BISM representatives need to directly work to: (1) resist competition from commercial companies vying for State business; (2) educate on the purpose of State 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.

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.

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 commercial 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.

Manufacturing and Production – Federal Contracts

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 2022 was a lower-than-expected sales year for BISM’s fabric cutting and sewing divisions, which continued to be impacted by Covid-19. Demand from DLA Troop Support was improved from the previous year and demand from Federal Prison Industries rebounded from the previous year which helped the cutting operation at Salisbury, MD exceed the plan for this fiscal year.

All sites continued to be challenged in FY22, to recruit, train and retain a consistent labor workforce as the population and industry continued recovery from the pandemic. Our suppliers, peer manufacturers and customers focused on a number of strategies and actions to cope with a very challenging manufacturing environment.

BISM was 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 did encounter a mission change, reassigning many experienced workers, resulting in lower than planned performance. 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 2022. Since these orders did not return to normal levels of demand, BISM closed the Cumberland Operation and consolidated this work to the sewing operations at Salisbury. Less than anticipated demand resulted in these two operations performing below plan for this fiscal year.

Our Raleigh cutting and sewing division's performance improved in FY 2022 but due to the negative impact of the mission change at FCI Butner the performance still was below the planned levels for this fiscal year. 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.

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 and Ukraine War efforts, our sales at the BSC Division continued to be significantly impacted. FY2022 sales for our BSCs were down almost 12% from FY2021.

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 FY 2022, BISM continued to meet challenges related to the aftermath of the Covid-19 pandemic and the market-wide changes to, and difficulties in, the general and Blind employment market including adverse impacts on our attendance, vocational training and overall ability to meet staffing expectations. BISM, throughout the Covid-19 pandemic, closely followed CDC Guidelines, including quarantine guidelines. CDC's change in the quarantine guidelines from a ten (10) day to five (5) day period helped BISM minimize employee time missed from work.

Beginning in July, 2021, BISM was forced to make a difficult decision to close its Cumberland, Maryland location. This decision was based primarily on BISM's loss of a major contract for this facility, the general aging and changes in the Cumberland workforce and our inability to hire a workforce of blind and low vision individuals sufficient to efficiently (and profitably) continue this location. The HR Department worked diligently to communicate with our employees in

Cumberland, advise them of issues and assist them with a variety of options for severance and, in some cases, placement with other area businesses.

BISM was pleased to hire a new Director of Human Resources in November 2021 and the positive impact of this hire has already been felt throughout the organization.

BISM continues to increase its focus on internal training and skills development with a goal constantly improve our workforce and to encourage upward vocational opportunities. As a result, BISM saw a marked increase in the number of internal promotions of blind/low vision employees across the spectrum - from entry-level manufacturing positions to multiple roles including, but not limited to, production, leadership and administrative support roles.

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. Our focus is to remain safe, provide a safe workspace, and provide ongoing support to our Associates who are braving the world to come into work and produce products for our customers.

Development

Throughout its history, BISM has been inconsistent in its attempts to create and maintain regular fundraising efforts. Part of this inconsistency is based on BISM's historical financial successes and its ability to fund its vocational training and Independence Training and Rehabilitation ("ITR") Department from the surpluses realized from its manufacturing and sales businesses. Today, BISM's businesses have become more competitive and less profitable, and the costs associated with large scale employment (including minimum wage increases, ESS and other benefits) are all taking a toll. BISM finds that, as costs increase and margins shrink, the "old" model of funding is unsustainable.

In Fiscal Year 2022, BISM has recommitted its efforts to build and operate a successful development and fundraising department. To that end, in April 2022, BISM hired a new full time Director of Development - who is a seasoned nonprofit and development professional - to spearhead this effort and BISM has allocated resources to make this successful and sustainable.

BISM has both advantages and challenges when it comes to fundraising. On the one hand, BISM's unique structure can pose challenges when potential donors are aware of our gross income and business operations. On the other hand, ITR's programming and services align well with general philanthropy and with many foundations that will look favorably towards supporting BISM.

Internally, BISM's organizational culture has, in the past, been focused more on supporting and growing its business side without much interest in fundraising. To realize its potential to raise funds, BISM is working to shift this mindset, broaden its priorities, and realize the importance of fundraising. To be effective, we know that BISM must recognize that successful fundraising is built upon cultivating relationships, with the community, in addition to staff and board support.

BISM anticipates it will take a number of years to effectively meet our development goals and raise funds to meet the ongoing needs to sustain, and grow, our ITR Department. Stay tuned.

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, 2022

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RSM US LLP

Independent Auditor's Report

Board of Trustees
Blind Industries and Services of Maryland

Opinion

We have audited the financial statements of Blind Industries and Services of Maryland (the Company), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Baltimore, Maryland
December 8, 2022

Blind Industries and Services of Maryland

**Statements of Financial Position
June 30, 2022 and 2021**

	2022	2021
Assets		
Current assets:		
Cash	\$ 1,012,606	\$ 812,629
Trade and other accounts receivable, less allowance for doubtful accounts (2022 and 2021—\$193,086) (Notes 3, 6 and 7)	4,711,668	3,989,829
Inventories, net (Note 2)	11,928,426	11,794,531
Prepaid expenses and other assets	183,489	348,905
Total current assets	17,836,189	16,945,894
Property, plant and equipment (Notes 3, 4, 6 and 10):		
Land	3,354,978	3,354,978
Buildings and improvements	23,425,498	23,443,493
Machinery and equipment	11,344,408	11,180,795
Motor vehicles	513,072	573,421
Equipment under capital leases	744,941	744,941
Furniture and fixtures	545,180	530,707
	39,928,077	39,828,335
Less accumulated depreciation and amortization, including accumulated amortization relating to equipment under capital leases (2022—\$692,675; 2021—\$581,238)	21,595,440	20,291,918
	18,332,637	19,536,417
Total assets	\$ 36,168,826	\$ 36,482,311

See notes to financial statements.

	2022	2021
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt (Note 3)	\$ 639,074	\$ 3,910,189
Liability under capital lease obligations (Note 4)	47,884	122,356
Accounts payable (Notes 6 and 8)	6,851,562	6,081,774
Accrued expenses and other liabilities	2,058,191	1,855,008
Total current liabilities	9,596,711	11,969,327
Long-term debt (Note 3)	14,315,676	12,813,986
Interest rate swap contract (Notes 3 and 9)	-	219,533
Liability under capital lease obligations, noncurrent portion (Note 4)	7,403	55,288
Commitments (Notes 5 and 6)		
Net assets:		
Without donor restrictions	12,249,036	11,424,177
Total net assets	12,249,036	11,424,177
Total liabilities and net assets	\$ 36,168,826	\$ 36,482,311

Blind Industries and Services of Maryland

Statements of Activities
Years Ended June 30, 2022 and 2021

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Sales (Notes 6 and 7)	\$ 74,907,438	\$ -	\$ 74,907,438
State of Maryland appropriations	531,115	-	531,115
Contributions and grants	240,323	-	240,323
Miscellaneous	471,765	-	471,765
	<u>76,150,641</u>	<u>-</u>	<u>76,150,641</u>
Expenses (Notes 3, 4, 5, 6 and 8):			
Program	74,466,562	-	74,466,562
General and administrative	4,322,796	-	4,322,796
Fundraising and development	162,369	-	162,369
	<u>78,951,727</u>	<u>-</u>	<u>78,951,727</u>
Gain (loss) on sale of property, plant and equipment	<u>2,349</u>	<u>-</u>	<u>2,349</u>
Operating loss	(2,798,737)	-	(2,798,737)
Other revenue and expenses:			
Forgiveness of Paycheck Protection Program loan (Note 3)	3,576,463	-	3,576,463
Gain on interest rate swap contract (Note 3)	47,133	-	47,133
	<u>824,859</u>	<u>-</u>	<u>824,859</u>
Change in net assets	824,859	-	824,859
Net assets:			
Beginning of year	<u>11,424,177</u>	<u>-</u>	<u>11,424,177</u>
End of year	<u>\$ 12,249,036</u>	<u>\$ -</u>	<u>\$ 12,249,036</u>

See notes to financial statements.

2021

Without Donor Restrictions	With Donor Restrictions	Total
\$ 82,692,214	\$ -	\$ 82,692,214
531,115	-	531,115
43,446	-	51,924
198,910	-	190,432
<u>83,465,685</u>	-	<u>83,465,685</u>
79,476,567	-	79,476,567
4,544,675	-	4,544,675
108,716	-	108,716
<u>84,129,958</u>	-	<u>84,129,958</u>
(641,007)	-	(641,007)
(1,305,280)	-	(1,305,280)
-	-	-
<u>88,946</u>	-	<u>88,946</u>
(1,216,334)	-	(1,216,334)
12,640,511	-	12,640,511
<u>\$ 11,424,177</u>	<u>\$ -</u>	<u>\$ 11,424,177</u>

Blind Industries and Services of Maryland

**Statements of Functional Expenses
Years Ended June 30, 2022 and 2021**

	2022			Total
	Program	General and Administrative	Fundraising and Development	
Advertising and promotion	\$ 62	\$ 9,997	\$ -	\$ 10,059
Commissions	962,412	-	-	962,412
Credit card fees	529,550	-	-	529,550
Depreciation and amortization	1,095,263	256,482	-	1,351,745
Financing fees (Note 3)	32,101	-	-	32,101
Freight out	1,065,506	-	-	1,065,506
Information technology	41,574	68,653	7,609	117,836
Insurance	508,352	85,516	1,643	595,511
Interest expense (Notes 3 and 4)	512,638	530,726	-	1,043,364
Lobbying fees	-	40,000	-	40,000
Materials and product costs	55,668,179	-	-	55,668,179
Office expenses	56,521	162,516	7,663	226,700
Other expenses	246,170	250	4,729	251,149
Payroll taxes and benefits (Note 5)	3,757,252	677,470	17,655	4,452,377
Professional fees	-	210,690	36,236	246,926
Rehabilitation costs	1,143,713	-	-	1,143,713
Rent and occupancy (Note 6)	738,664	63,396	2,530	804,590
Repairs, maintenance and consumables	698,456	-	-	698,456
Salaries	6,883,043	2,160,606	84,221	9,127,870
Service expenses	437,771	-	-	437,771
Travel	12,554	56,494	83	69,131
Vehicle repairs and fuel	76,781	-	-	76,781
Total expenses	\$ 74,466,562	\$ 4,322,796	\$ 162,369	\$ 78,951,727

See notes to financial statements.

2021

Program	General and Administrative	Fundraising and Development	Total
\$ 9,890	\$ 2,656	\$ -	\$ 12,546
1,313,819	-	-	1,313,819
585,479	-	-	585,479
1,476,896	279,325	-	1,756,221
112,168	86,399	-	198,567
895,842	-	-	895,842
94,852	55,859	4,004	154,715
622,319	88,551	1,721	712,591
455,066	601,758	-	1,056,824
-	40,000	-	40,000
59,660,479	-	-	59,660,479
296,867	111,299	7,212	415,378
460,146	-	-	460,146
4,579,463	669,054	17,917	5,266,434
-	431,648	9,604	441,252
837,897	-	-	837,897
1,095,569	56,044	2,582	1,154,195
958,078	-	-	958,078
5,535,899	2,086,299	65,676	7,687,874
443,219	-	-	443,219
2,722	35,783	-	38,505
39,897	-	-	39,897
<u>\$ 79,476,567</u>	<u>\$ 4,544,675</u>	<u>\$ 108,716</u>	<u>\$ 84,129,958</u>

Blind Industries and Services of Maryland

Statements of Cash Flows Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 824,859	\$ (1,216,334)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,351,745	1,756,221
Forgiveness of Paycheck Protection Program loan	(3,576,463)	-
Increase in allowance for doubtful accounts	-	94,220
Amortization of deferred financing costs	209,904	154,760
Increase in inventory reserve	252,928	12,372
(Gain) loss on sale of property, plant and equipment	(2,349)	641,007
Gain on interest rate swap contract	(47,133)	(88,946)
Changes in assets and liabilities:		
Decrease (increase) in:		
Trade and other accounts receivable	(721,839)	1,187,958
Inventories	(386,823)	2,642,892
Prepaid expenses and other assets	165,416	(49,641)
Decrease in:		
Accounts payable	769,788	(5,518,651)
Accrued expenses and other liabilities	244,621	(539,463)
Net cash used in operating activities	(915,346)	(923,605)
Cash flows from investing activities:		
Net proceeds from sale of property, plant and equipment	6,265	3,734,526
Purchases of property, plant and equipment	(151,881)	(252,195)
Net cash (used in) provided by investing activities	(145,616)	3,482,331
Cash flows from financing activities:		
Proceeds from long-term debt	15,249,000	2,915,000
Loan costs	(373,972)	(312,108)
Principal payments on long-term debt	(13,319,332)	(5,574,299)
Principal payments on capital lease obligations	(122,357)	(157,568)
Disposal of interest rate swap	(172,400)	-
Net cash provided by (used in) financing activities	1,260,939	(3,128,975)
Net increase (decrease) in cash	199,977	(570,249)
Cash:		
Beginning of year	812,629	1,382,878
End of year	<u>\$ 1,012,606</u>	<u>\$ 812,629</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 1,090,773</u>	<u>\$ 980,441</u>
Supplemental schedule of noncash operating activities:		
Forgiveness of Paycheck Protection Program Loan and related interest	<u>\$ 3,576,463</u>	<u>\$ -</u>

See notes to financial statements.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Blind Industries and Services of Maryland (BISM) is a public corporation created by Article 30 of the Annotated Code of Maryland for the purpose of training, rehabilitating, employing and furnishing services to the 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, 2022 and 2021.

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 FASB 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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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 interest rate swap was terminated in December 2021. 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 had 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. In December 2021, BISM terminated the contract (see Note 3).

BISM's interest rate swap contract was 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)

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 judgment or estimation.

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 asset or liability.

In determining the appropriate levels, BISM performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. 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 2 or 3 inputs for any assets held by BISM at June 30, 2022. There were no Level 3 inputs for any assets held by BISM at June 30, 2021.

Advertising: BISM expenses advertising costs as incurred. Advertising expense was \$10,059 and \$12,546 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

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.

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, 2019.

Recently issued accounting pronouncement (adopted): In September 2020, the FASB issued Accounting Standards Update (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. The adoption of this standard did not have an effect on the financial statements.

Recently issued accounting pronouncements (not yet adopted): In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. 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 June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of functional expenses as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. BISM is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Reclassification: Certain 2021 amounts were reclassified to conform to 2022 presentation. These reclassifications had no effect on the previously reported net assets or change in net assets.

Subsequent events: Management has evaluated subsequent events through December 8, 2022, which is the date the financial statements were available to be issued.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 2. Inventories, Net

Components of inventories at June 30, 2022 and 2021, are as follows:

	2022	2021
Raw materials	\$ 5,926,394	\$ 6,336,538
Work-in-process	1,593,228	690,920
Finished goods	2,856,970	3,282,837
Base supply center division merchandise	2,310,919	1,990,393
Reserves for obsolescence	(759,085)	(506,157)
	<u>\$ 11,928,426</u>	<u>\$ 11,794,531</u>

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

Promissory note: BISM had a \$5,000,000 promissory note with a bank related to a building located on the Fort Knox Military Reservation. The interest rate on this promissory note was at the London Interbank Offered Rate (LIBOR), plus 3.75% at June 30, 2021. The interest rate was 5% at June 30, 2021. The promissory note was subject to certain financial covenants and was 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 noted various reporting covenants and acts of good faith.

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. 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%. In December 2021, the promissory note was refinanced.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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% at June 30, 2021. The bonds could 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 had 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. The outstanding balance on the letter of credit was \$3,536,274 at June 30, 2021.

In December 2021, these borrowings were refinanced.

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 was collateralized by a deed of trust on real property and related fixtures. In December 2021, these borrowings were refinanced.

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).

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. The loans bore interest from inception through February 2021, at 11.99%. Effective March 1, 2021, interest was calculated using 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. Both loans were collateralized by real property. In December 2021, these borrowings were refinanced.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

Equipment loans: In March 2018, BISM entered into \$95,559 equipment loan with a lender. The loan requires monthly principal and interest payments of \$1,801, which began in April 2018, with an interest rate of 4.95% through March 2023.

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 in 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.

Paycheck Protection Program 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 (PPP) under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted on March 27, 2020. On July 30, 2021, BISM received full legal forgiveness of the loan from the Small Business Administration. BISM recognized a gain on extinguishment of debt within other revenue and expenses on the statement of activities. Under the terms of the program, the SBA has six years from the date the loan was forgiven to subject BISM to audit. BISM does not anticipate any significant adjustments as a result of such an audit.

Refinancing: On December 29, 2021, BISM refinanced its existing outstanding debt. 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 NCM A 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.

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. At June 30, 2022, BISM had failed certain financial covenants and obtained a waiver from the bank.

Term loans: 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 0.90%. 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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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.

Revolving line of credit: 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. There was no outstanding balance on the line of credit as of June 30, 2022.

Bond payable: The proceeds from the MEDCO Series 2021 bond loan were used to refund the outstanding balance of the MEDCO Series 2003 bonds. 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 begin on February 1, 2022, through the maturity date on January 1, 2047.

Long-term debt and related current maturities at June 30, 2022 and 2021, consist of the following:

	2022	2021
Promissory note	\$ -	\$ 3,536,274
Bond payable	-	3,375,000
Term loan	-	3,101,565
NCM A	-	1,815,000
NCM B	-	1,100,000
PPP loan	-	3,535,025
Equipment loans	115,340	215,189
NIB equipment note	105,609	218,229
Term loans	11,830,294	-
Bond payable	3,240,083	-
	<u>15,291,326</u>	<u>16,896,282</u>
Less deferred financing costs	(336,576)	(172,107)
Total long-term debt, including current maturities	14,954,750	16,724,175
Less current maturities	639,074	3,910,189
Total long-term debt	<u>\$ 14,315,676</u>	<u>\$ 12,813,986</u>

Future maturities of long-term debt are as follows at June 30, 2022:

Years ending June 30:	
2023	\$ 639,074
2024	483,621
2025	472,820
2026	487,880
2027	482,661
Thereafter	12,725,270
	<u>\$ 15,291,326</u>

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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 had a remaining notional amount of \$1,687,500 at June 30, 2021. Under the terms of the swap contract, BISM paid monthly a fixed annual interest rate of 3.97% and received monthly the variable interest rate of the USD-BMA Municipal Swap Index, based on a monthly average. BISM recognized a gain \$88,946 for the year ended June 30, 2021 relating to this hedging instrument. In December 2021, BISM terminated the swap agreement and paid a termination fee of \$172,400. Prior to termination, BISM recognized a gain of \$47,133.

Total interest expense was \$1,043,364 and \$1,056,824 for the years ended June 30, 2022 and 2021, 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, 2022, are as follows:

Years ending June 30:	
2023	\$ 50,406
2024	7,494
Total minimum lease payments	<u>57,900</u>
Less amount representing executory costs including profit thereon, included in total minimum lease payments	1,302
Net minimum lease payments	<u>56,598</u>
Less the amount representing interest	1,311
Present value of minimum lease payments	<u>55,287</u>
Less current portion of obligations under capital lease	47,884
Long-term portion of obligations under capital lease	<u>\$ 7,403</u>

Interest expense attributable to capital leases was \$8,326 and \$12,733 for the years ended June 30, 2022 and 2021, 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 \$54,544 and \$110,074 to the Plan for the years ended June 30, 2022 and 2021, respectively.

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 \$24,372,470 and \$33,262,592 for the years ended June 30, 2022 and 2021, respectively, which are included in sales on the statements of activities. Commissions paid to NIB totaled \$962,412 and \$1,313,819 for the years ended June 30, 2022 and 2021, respectively.

Trade accounts receivable include \$409,816 and \$700,514 due from NIB at June 30, 2022 and 2021, respectively. Accounts payable include \$67,881 and \$289,917 due to NIB at June 30, 2022 and 2021, 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 BISM's Hagerstown location, 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 10), 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 \$60,000.

Rent expense was \$115,759 and \$115,788 for rehabilitation training facilities and \$21,969 and \$359,347 for operating facilities for the years ended June 30, 2022 and 2021, respectively. Total rent expense was \$137,728 and \$475,135 for the years ended June 30, 2022 and 2021, 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 10) and BISM was required to pay a termination fee of \$175,000.

Note 7. Major Customers

Approximately 43% and 49% of sales revenue was derived from sales to two customers and three customers for the years ended June 30, 2022 and 2021, respectively. Accounts receivable due from these customers totaled \$1,378,236 and \$2,833,023 at June 30, 2022 and 2021, respectively.

Note 8. Major Vendor

Approximately 10% of purchases were derived from transactions with one vendor for the years ended June 30, 2022 and 2021. Accounts payable due to this vendor was \$454,542 and \$983,253 at June 30, 2022 and 2021, respectively.

Blind Industries and Services of Maryland

Notes to Financial Statements

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.

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

The swap was terminated in December 2021.

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, 2022 and 2021, are as follows:

	2022	2021
Cash	\$ 1,012,606	\$ 812,629
Trade and other accounts receivable, less allowance for doubtful accounts	4,711,668	3,989,829
Financial assets available to meet general expenditures in the next 12 months	\$ 5,724,274	\$ 4,802,458

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.