

**Blind Industries &
Services of Maryland
Governor's Annual Report
2015**

**Blind Industries & Services of Maryland
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Joint Message from BISM Chairman of the Board Donald J. Morris and President Frederick J. Puente

Blind Industries and Services of Maryland (BISM) is honored to present our Annual Report for the Fiscal Year that concluded on June 30, 2015. 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 2015 Annual Report is presented to The Honorable Governor Lawrence J. Hogan, Jr., the General Assembly, and the Honorable C. William Frick and Guy J. Guzzone, Co-Chairs of the Joint Audit Committee.

BISM's overall Fiscal Year 2015 was a challenging year with downward pressure on prices from customers, particularly at the federal level. Outside forces continue to try to eliminate our ability to provide State of Maryland customers products at competitive prices. Despite these challenges, BISM associates exceeded customers' needs and overall we had a solid FY15.

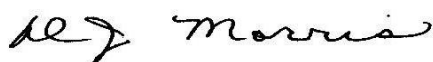
BISM celebrated the Grand Opening of our Raleigh, North Carolina cutting and sewing facility in FY15, which currently employs 74 blind or low vision associates.

The Rehabilitation and Training division reached more blind and low vision people by expanding our youth and college prep programs, and we continue to gain recognition around the country as a premier blindness training destination.

In FY16, BISM has redoubled its effort to improve the communication process with the Legislature and showcase how we are a very competitive supplier for the State of Maryland. The volume of our business looks strong and we are focused on employing more blind and low vision people.

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,



Donald J. Morris
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, the majority of whom are blind or visually impaired, at 14 locations in five states. BISM owns and operates eight AbilityOne Base Supply Centers and our main manufacturing facilities are located in Baltimore, Cumberland, Salisbury (2), and Raleigh (NC). BISM manufactures the following at very competitive prices for the State of Maryland: office paper products; janitorial/sanitation supplies, from chemicals to application; assembly and packaging 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 2015

(July 1, 2014 – June 30, 2015)

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, small cell batteries (AAA, AA, C, D & 9 Volt), and much more.

We had a good State sales year, but fell just short of our sales goals for FY15. We attribute this to contracts expected to begin in FY15 that were delayed. BISM continues to promote our Mission despite the continuing efforts of commercial entities that are attempting to hinder our ability to be successful. Starting in FY15, and concluding in FY16, BISM had an eight month State Legislative Audit, the results of which refuted all the claims made by these commercial companies. One contention was that BISM prices were much higher than Fair Market. The State Audit found that BISM prices were well within Fair Market value and that State of Maryland saved money by purchasing from BISM.

During FY15, BISM revamped our entire chemical and floor care product lines, offering additional Green products to State customers in new, more manageable case sizes. In so doing, we were able to substantially increase labor performed by blind associates while lowering the price of these chemicals to State of Maryland customers.

The same procedure was done with BISM's can liner offerings. This major product line for BISM has substantially increased labor performed by blind BISM associates and decreased cost to State of Maryland Customers. It is an ongoing BISM directive to work with manufacturers to create more blind labor opportunities.

In FY14, we introduced the Black Shadow Dilution System and in FY15 it became preeminent in the State of Maryland, with agencies and contractors. It is a highly effective cleaning system with top quality products and has shown to save customers a significant amount of money. It is a true winner.

BISM introduced a full line of cylindrical and mortise lock sets and panic bars in FY15 and all are now on BISM's master list. We partner with a Pennsylvania lock manufacturer and BISM associates provide full lock assembly. These are high quality products provided to the State of Maryland at better than Fair Market price.

In FY15, BISM rebranded our ecommerce division as ShopBISM.com. ShopBISM.com offers our State customers a new way to purchase all BISM produced Master List items, plus access to over 60,000 additional SKUs. State of Maryland customers can enter their own customized portal, making shopping easy and convenient. The individually customized portal allows customers to keep and print records of purchases from their account page.

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 FY15, 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. 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, 16.9 oz and 20 oz product to our customer base throughout the Middle 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 in all aspects of our water division and expect to increase blind employment as the business grows. In FY16, BISM Beverage is focusing on building and expanding the relationship with our Maryland State customers.

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 2015 was a challenging year for BISM's cutting and sewing divisions due to the continued fabric issues from FY14 and their impact on the operation. The delays in obtaining fabric that met all shade requirements in FY14 created order delinquencies that had to be addressed by working overtime in FY15, thus negatively impacting costs and earnings. The volume of orders across the board rebounded, which had a positive impact on the bottom line for FY15.

Demand for the cutting operations was consistent throughout the year and the performance of our cutting locations were positive. During FY15, an additional cutting operation was opened under the PIE Program with Federal Prison Industries at FCI Butner, NC. The cost of starting this operation impacted the financial picture of FY15 but was established to provide BISM more flexibility to compete with the commercial market place for cutting services.

Demand for the APFU Jacket, IPTU Jacket and EXCW Jacket for the Federal Government increased in FY15. In order to meet customer demands, BISM was required to hire additional associates and work extensive overtime in FY15 at our Cumberland and Salisbury sewing locations, as well as open an additional sewing operation under the PIE Program with Federal Prison Industries at FCI Butner, NC.

Our cutting and sewing division at Raleigh (NC) had a strong performance in FY15, and increased demand caused the hiring of more associates and overtime. The Raleigh location cuts and sews a variety of textile products including 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 60,000 office and janitorial supplies, next day delivery on most items and free shipping on orders over \$50. The Dover AbilityOne Base Supply Center also operates the HazMart Pharmacy, where all items deemed as hazardous are managed by BISM associates.

FY15 was an exciting and rewarding year for the Base Supply Center division. The Base Supply Centers generated \$20,474,701 in sales during FY15. More than one-third of our Base Supply Center retail associates are blind or visually impaired and blind associates play a pivotal role in all aspects of the operations. 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 Base Supply Centers 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.

The future of the AbilityOne Base Supply Center division looks bright in FY16 as we continue to pursue the opportunity to open a new BSC on Fort Meade, and as the AbilityOne Base Supply Center program celebrates its 20th Anniversary.

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 FY15, our blind and visually impaired workforce grew by 3% over the prior year in a number of positions ranging from instructor to production associate. We also had twelve associates promoted into roles of increasing responsibility, four of which were blind or low vision. BISM is currently looking at ways to increase our opportunities to employ more blind associates and has made a number of changes to increase our blind employment.

The Human Resources department is concentrating on specific content 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 associate wellness and partnered with St. Agnes Hospital to conduct a number of on-site clinics on diet, stress management, heart diseases, healthy eating, heart health for women, and diabetes. Plus, we did CRP and First Aid training and we joined Maryland's Healthy Businesses. As a service, BISM HR talked with every associate about the importance of filling out the health assessment and scheduling time to meet with their primary care provider.

BISM continues to focus on workshops that will benefit all associates on personal health and financial management. We believe that the investment we make in our associates is an investment in the future prosperity of BISM.

Development and Fundraising

In FY15, the Development and Fundraising efforts included an Open House at our Baltimore, Cumberland, Salisbury, and Raleigh locations which focused on informing community leaders, residents, and supporters about all that BISM has to offer while expanding our fundraising network. Each Open House had a distinguished guest or speaker, including Maryland Delegate Terri Hill at the Baltimore event and former Maryland Delegate and Speaker of the House Casper "Cas" Taylor at the Cumberland event.

The 9th annual BISM Pro-Invitational Golf Classic, our cornerstone fundraiser, was a sellout and raised the largest amount in the history of the event. We also had successful fundraising events with BISM's Big Bash in Salisbury and TEAM BISM at the Baltimore Running Festival. The net proceeds from the fundraisers benefit various Rehabilitation programs for blind youth, adults, and seniors.

In FY16, we will be creating a Case Statement that will be used for all outreach events as well as a giveaway for new prospects. It will focus on our Rehabilitation department, including the summer youth program, the residential adult CORE program, and senior programs and services. We will continue our existing fundraising events and will also be hosting an additional Pro-Invitational Golf Classic fundraiser in Salisbury in June.

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 2015 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 71,462 total training hours were provided in FY15 through adult (45,123 hours), senior (16,483 hours), youth (8,992 hours) programs and a Home Instruction (864 hours) program. These programs occurred at our center-based locations in Baltimore, Cumberland, Salisbury, Hagerstown, University of Maryland Baltimore County (UMBC), and in student's homes throughout the state of Maryland. They also include support groups, community workshops and a residential senior retreat.

There were 308 referrals to our adult and senior blindness skills training programs and 43 people completed BISM training programs. The youth division served 175 blind middle and high school students through weekend, workshop, and overnight training programs.

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.

CORE Program

BISM's Comprehensive Orientation, Rehabilitation, and Empowerment (CORE) program teaches blind and visually impaired adults the skills of blindness so they can become employed, pursue post-secondary education and regain control of their lives. Confidence building is an essential element of the program and is reinforced with each accomplishment. CORE students are taught by blind instructors and learn non-visual methods 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 central 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, address location, build their confidence, and further develop their travel skills during practical applications. With three certified Orientation & Mobility instructors, the BISM CORE program is 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 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, some of the cities students visited were San Francisco, Seattle, Chicago, New York, Richmond, Providence, and Pittsburgh.

The College Prep program served three students in FY15. Participants in this program received instruction in braille, technology, independent living, and cane travel while also maximizing an opportunity to strengthen home management skills in BISM's convenient, downtown apartments. Prior to enrolling in the college or university of their choice, students receive career and course load guidance, strengthen time-management and notetaking skills, and learn about electronic textbook formats and assistive technology devices.

In FY15, there were ten students who successfully graduated or completed the CORE program. Seventeen additional students took part in CORE training in

FY15, many of whom are scheduled to graduate in FY16. Of the 27 total CORE students, 24 were residents of Maryland.

Senior Services

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 within the residence of their choice. Successful senior program graduates can avoid unnecessary placement in costly assisted living facilities and diminished quality of life.

In FY15, BISM presented the Possibilities Fair for Seniors Losing Vision. 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.

A total of 350 blind and low vision senior citizens received blindness skills training in FY15, 244 of which received services through center-based training, support groups, specialized classes, and home visits, while 106 seniors attended workshops or the retreat, for a total of 16,483 hours of training. We provided 82 facility tours for senior citizens interested in attending BISM training, plus many additional tours for families, supporters, counselors, professionals, and large groups.

Outreach, events and presentations by senior staff reached over 2,000 seniors in FY15. Thousands more received information about BISM Senior Services through targeted media efforts, publications, company newsletters, special events, community partners, and the BISM website.

Youth Services

This past summer, BISM offered Work to Independence 2015 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 Dover, DE, 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. We also took trips to a ropes course, downtown Baltimore, a fireworks display, Chesapeake Beach Water Park, a yoga studio, an indoor trampoline park, and several malls.

The final three weeks of the program focused on job readiness. Each Work to Independence student was employed at a local business or organization for 16-24 hours a week. Participating businesses included Second Chance furniture store, Learning Is For Tomorrow adult literacy center, Meals on Wheels, 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 FY15, which included three 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 Dover International Speedway, downtown Baltimore, Washington D.C., Chesapeake Beach Water Park, an indoor trampoline park, a yoga studio, and several malls.

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, 2015

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RSM US LLP

Independent Auditor's Report

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, 2015 and 2014, 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, 2015 and 2014, 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
November 18, 2015

Blind Industries and Services of Maryland

**Statements of Financial Position
June 30, 2015 and 2014**

Assets	2015	2014
Current Assets		
Cash	\$ 80,276	\$ 182,851
Trade and other accounts receivable, less allowance for doubtful accounts (2015 – \$82,160; 2014 – \$82,160) (Note 4)	8,648,580	5,341,815
Inventories (Note 2)	7,345,901	5,710,158
Prepaid expenses and other assets	509,709	322,522
Total current assets	16,584,466	11,557,346
Investments (Notes 3, 4 and 10)	10,665,630	10,962,107
Property, Plant and Equipment (Notes 4 and 5)		
Land	3,280,098	3,280,098
Buildings and improvements	21,816,131	21,330,003
Machinery and equipment	7,736,931	7,928,390
Motor vehicles	908,266	1,010,021
Equipment under capital leases	168,000	301,000
Furniture and fixtures	610,332	604,087
	34,519,758	34,453,599
Less accumulated depreciation, including accumulated depreciation (2015 – \$18,971; 2014 – \$45,413) relating to equipment under capital leases	14,255,192	14,056,736
	20,264,566	20,396,863
Total assets	\$ 47,514,662	\$ 42,916,316

See Notes to Financial Statements.

Liabilities and Net Assets	2015	2014
Current Liabilities		
Current maturities of long-term debt (Note 4)	\$ 6,864,182	\$ 3,528,199
Liability under capital lease obligations (Note 5)	16,929	52,759
Accounts payable	7,217,737	4,964,922
Accrued expenses and other liabilities	3,187,020	2,888,241
Total current liabilities	17,285,868	11,434,121
Long-Term Debt (Note 4)	11,463,586	12,309,825
Interest Rate Swap (Notes 4 and 10)	448,640	438,236
Liability Under Capital Lease Obligations, Noncurrent portion (Note 5)	136,904	70,686
Commitments (Notes 5, 6 and 7)		
Net Assets		
Unrestricted	18,152,664	18,636,448
Permanently restricted	27,000	27,000
Total net assets	18,179,664	18,663,448
Total liabilities and net assets	\$ 47,514,662	\$ 42,916,316

Blind Industries and Services of Maryland

Statements of Activities
Years Ended June 30, 2015 and 2014

	2015		
	Unrestricted	Permanently Restricted	Total
Revenue			
Sales	\$ 83,866,869	\$ -	\$ 83,866,869
State of Maryland appropriations	531,115	-	531,115
Contributions and grants	230,370	-	230,370
Miscellaneous	432,445	-	432,445
	<u>85,060,799</u>	<u>-</u>	<u>85,060,799</u>
Expenses (Notes 6 and 7)			
Cost of sales, including commissions to National Industries for the Blind (2015 – \$1,773,720; 2014 – \$1,807,588)	75,572,496	-	75,572,496
Rehabilitation and training	1,579,536	-	1,579,536
Fundraising and development	123,041	-	123,041
General and administrative	7,442,902	-	7,442,902
	<u>84,717,975</u>	<u>-</u>	<u>84,717,975</u>
Excess (deficiency) of operating revenue over expenses	342,824	-	342,824
Other Revenue and Expenses			
Investment income (loss) (Note 3)	(210,582)	-	(210,582)
Gain (loss) on interest rate swap contract (Note 4)	(10,404)	-	(10,404)
Interest expense (Notes 4 and 5)	(508,708)	-	(508,708)
Letter of credit fees	(96,914)	-	(96,914)
	<u>(886,608)</u>	<u>-</u>	<u>(886,608)</u>
Change in net assets	(483,784)	-	(483,784)
Net Assets			
Beginning of year	<u>18,636,448</u>	<u>27,000</u>	<u>18,663,448</u>
End of year	<u>\$ 18,152,664</u>	<u>\$ 27,000</u>	<u>\$ 18,179,664</u>

See Notes to Financial Statements.

2014

Unrestricted	Permanently Restricted	Total
\$ 75,412,834	\$ -	\$ 75,412,834
531,115	-	531,115
202,041	-	202,041
399,405	-	399,405
<u>76,545,395</u>	<u>-</u>	<u>76,545,395</u>
67,623,027	-	67,623,027
1,681,304	-	1,681,304
45,527	-	45,527
7,628,259	-	7,628,259
<u>76,978,117</u>	<u>-</u>	<u>76,978,117</u>
(432,722)	-	(432,722)
1,232,771	-	1,232,771
28,191	-	28,191
(243,181)	-	(243,181)
<u>(102,971)</u>	<u>-</u>	<u>(102,971)</u>
482,088	-	482,088
<u>18,154,360</u>	<u>27,000</u>	<u>18,181,360</u>
<u>\$ 18,636,448</u>	<u>\$ 27,000</u>	<u>\$ 18,663,448</u>

Blind Industries and Services of Maryland

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ (483,784)	\$ 482,088
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,045,203	989,906
Decrease in allowance for doubtful accounts	-	(3,215)
Decrease in inventory reserve	(12,614)	(27,736)
Net unrealized depreciation (appreciation) of investments	427,754	(1,093,268)
Net realized gain on sales of investments	(49,997)	(19,916)
Loss (gain) on disposal of property, plant and equipment	13,624	(9,009)
Loss (gain) on interest rate swap contract	10,404	(28,191)
Changes in assets and liabilities:		
(Increase) decrease in:		
Trade and other accounts receivable	(3,306,765)	1,954,264
Inventories	(1,623,129)	387,330
Prepaid expenses and other assets	(187,187)	(178,704)
Increase (decrease) in:		
Accounts payable	2,252,815	922,085
Accrued expenses and other liabilities	298,779	(346,564)
Net cash provided by (used in) operating activities	(1,614,897)	3,029,070
Cash Flows From Investing Activities		
Proceeds from sales of investments	765,240	282,006
Purchases of investments	(846,520)	(319,213)
Purchases of property, plant and equipment	(836,530)	(6,592,903)
Net cash used in investing activities	(917,810)	(6,630,110)
Cash Flows From Financing Activities		
Proceeds from long-term debt	85,623	4,714,377
Net borrowings (repayments) on line of credit	3,305,765	(192,434)
Principal payments on long-term debt	(901,644)	(544,264)
Principal payments on capital lease obligations	(59,612)	(200,388)
Net cash provided by financing activities	2,430,132	3,777,291
Net increase (decrease) in cash	(102,575)	176,251
Cash		
Beginning of year	182,851	6,600
End of year	\$ 80,276	\$ 182,851
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 508,024	\$ 249,573
Supplemental Schedules of Noncash Financing Activities		
Equipment acquired under long-term debt	\$ -	\$ 513,489
Equipment acquired under capital lease	\$ 90,000	\$ 78,000

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 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 are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by 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, 2015 and 2014.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by BISM's actions.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. BISM uses the allowance method to determine uncollectible trade receivables. The allowance is based on prior years' experience and management's analysis of specific receivables. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 31 days. Interest is not charged on past due trade receivables.

Inventories: Inventories are stated at the lower of cost or market. The moving weighted average cost method is used for retail store (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

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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

Income tax status: BISM is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not considered to be a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. BISM did not have any net unrelated business income for the years ended June 30, 2015 and 2014.

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, 2012.

Interest rate swap contract: BISM accounts for interest rate swap contracts in accordance with ASC 815, *Derivatives and Hedging*. BISM uses an interest rate swap principally to manage the risk that changes in interest rates have on its floating rate long-term debt. The following is a summary of BISM's risk management strategy and the effect of this strategy on the financial statements.

Interest rate swap contracts are used to adjust a portion of total debt that is subject to variable interest rates. Under the interest rate swap contract, BISM has agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract.

BISM's interest rate swap contract is considered to be a hedge against changes in the amount of future cash flows associated with BISM's interest payments under variable rate debt obligations. Accordingly, the interest rate swap contract is reflected at fair value in the statements of financial position, and the related gain or loss on this contract is recognized in the statements of activities. The effect of this accounting on BISM's operating results is that interest expense on the portion of variable rate debt being hedged is generally recorded based on fixed interest rates.

The fair value of 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 \$224,968 and \$201,998 for the years ended June 30, 2015 and 2014, respectively.

Subsequent events: BISM evaluated subsequent events through November 18, 2015, which is the date the financial statements were available to be issued.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

Reclassification: Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation. These reclassifications had no effect on previously reported change in net assets.

Note 2. Inventories

Components of inventories, at June 30, 2015 and 2014, are as follows:

	2015	2014
Raw materials	\$ 3,075,422	\$ 2,134,780
Work-in-process	1,260,680	549,401
Finished goods	1,613,536	1,605,139
Base supply center division merchandise	1,650,913	1,688,102
Reserves for obsolescence	(254,650)	(267,264)
	<u>\$ 7,345,901</u>	<u>\$ 5,710,158</u>

Note 3. Investments

A summary of investments, at June 30, 2015 and 2014, is as follows:

	2015		2014	
	Cost or Donated Value	Fair Value	Cost or Donated Value	Fair Value
Short-term investments and money market accounts	\$ 2,820,573	\$ 2,820,573	\$ 3,301,227	\$ 3,301,227
U.S. Government and agency obligations	631,131	623,881	941,966	968,313
Stocks and mutual funds				
Energy	301,575	878,381	301,575	1,088,400
Exchange traded funds	471,933	414,519	197,403	199,014
Finance	26,583	587,345	26,583	584,320
Healthcare	733,351	1,106,179	513,726	797,836
Natural resources	122,979	464,115	122,979	655,818
Retail	617,758	1,600,934	334,618	1,378,246
Technology	1,153,374	1,766,753	1,190,807	1,774,663
Miscellaneous	376,434	402,950	193,530	214,270
	<u>\$ 7,255,691</u>	<u>\$ 10,665,630</u>	<u>\$ 7,124,414</u>	<u>\$ 10,962,107</u>

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 3. Investments (Continued)

Gross unrealized appreciation and depreciation of investments, at June 30, 2015 and 2014, is as follows:

	2015	2014
Gross unrealized appreciation	\$ 3,755,055	\$ 3,991,274
Gross unrealized depreciation	(345,116)	(153,581)
	<u>\$ 3,409,939</u>	<u>\$ 3,837,693</u>

Investment income (loss) for the years ended June 30, 2015 and 2014, include the following:

	2015	2014
Interest and dividends	\$ 167,175	\$ 119,587
Net realized gain on sales of investments	49,997	19,916
Net unrealized appreciation (depreciation) of investments	(427,754)	1,093,268
	<u>\$ (210,582)</u>	<u>\$ 1,232,771</u>

Note 4. Long-Term Debt and Interest Rate Swap Agreement

Long-term debt and related current maturities, at June 30, 2015 and 2014, consist of the following:

	2015	2014
Revolving line of credit	\$ 5,931,664	\$ 2,625,899
Promissory note	1,678,523	1,798,523
Bond payable	5,800,000	6,200,000
Term loan	4,589,519	4,714,377
Equipment note	328,062	499,225
	<u>18,327,768</u>	<u>15,838,024</u>
Less current maturities	6,864,182	3,528,199
	<u>\$ 11,463,586</u>	<u>\$ 12,309,825</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 January 31, 2016, 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 1.68% and 1.64% at June 30, 2015 and 2014, 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 requires monthly principal payments of \$10,000 plus accrued interest. The promissory note bears interest at LIBOR plus 2.5%, with all unpaid principal and accrued interest due on October 31, 2016. The interest rate was 2.68% and 2.64% at June 30, 2015 and 2014, respectively. The note is collateralized by the parcels of land located in Baltimore County, together with any and all improvements thereon.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 4. Long-Term Debt and Interest Rate Swap Agreement (Continued)

In connection with this construction, BISM executed a 25-year lease with the Department of the Army for the land on which the building stands, which began on September 1, 2008. The lease is revocable at will by the Secretary of the Army. In such event, the lease provides for an equitable adjustment to be made in the investment in construction on the premises paid or to be paid by BISM under the terms of the lease.

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 .17% and .19% at June 30, 2015 and 2014, respectively. Principal installments on the bonds are due semi-annually beginning on May 1, 2005, and continuing through November 1, 2028. The bonds may be tendered by the bondholder upon seven days written notice and are subject to a remarketing agreement backed by an irrevocable letter of credit. In addition, the Series 2003 bonds are subject to certain financial covenants.

Under the terms of the related Deed of Trust and Credit Agreement, BISM has granted to MEDCO and its trustee a security interest in parcels of land located in Baltimore County, together with any and all improvements thereon.

As security for repayment of principal and interest on the bonds, a bank, as trustee for MEDCO, issued an irrevocable letter of credit at a stated amount equal to the aggregate outstanding principal amount of the Series 2003 bonds at any time plus 35 days interest calculated at 12% per annum. The letter of credit was issued for \$10,115,069 and expires on November 1, 2017. The available balance on the letter of credit was \$5,866,740 and \$6,271,342 at June 30, 2015 and 2014, 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. (RLCB) 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.

Maturities of long-term debt, at June 30, 2015, are due in future years as follows:

Year Ending June 30,

2016	\$ 6,864,182
2017	2,369,795
2018	667,437
2019	681,172
2020	695,140
Thereafter	7,050,042
	<u>\$ 18,327,768</u>

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 4. 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 has a remaining notional amount of \$2,900,000 and \$3,100,000 at June 30, 2015 and 2014, respectively. This cash flow hedge changes the variable interest rate on a portion of the balance of BISM's bond payable to a fixed-rate of interest. Under the terms of the swap contract, which expires in November 2028, BISM pays monthly a fixed annual interest rate of 3.97%, and receives monthly the variable interest rate of the USD-BMA Municipal Swap Index, based on a monthly average. BISM recognized a net gain (loss) of (\$10,404) and \$28,191, for the years ended June 30, 2015 and 2014, respectively, relating to this hedging instrument.

Total interest expense was \$508,708 and \$243,181 for the years ended June 30, 2015 and 2014, respectively.

Note 5. Capital Lease Obligations

BISM leases equipment for which the minimum lease rentals have been capitalized using the rates implicit in the leases. The leases expire at various dates through 2022. Future minimum lease payments under the capital leases as of June 30, 2015, are as follows:

Year Ending June 30,

2016	\$	39,300
2017		39,300
2018		39,300
2019		39,300
2020		39,300
Thereafter		81,925
Total minimum lease payments		<u>278,425</u>
Less amount representing executory costs including profit thereon, included in total minimum lease payments		80,589
Net minimum lease payments		<u>197,836</u>
Less the amount representing interest		44,003
Present value of minimum lease payments		<u>153,833</u>
Less current portion of obligations under capital lease		16,929
Long-term portion of obligations under capital lease	\$	<u><u>136,904</u></u>

Interest expense attributable to capital leases was \$10,151 and \$7,891 for the years ended June 30, 2015 and 2014, respectively.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 6. Pension Plans

BISM has established a Section 403(b) defined contribution annuity plan (the Plan), under which employees are eligible to participate in a salary deferral program. To receive employer contributions, an employee must complete six months of service. BISM's matching contributions to the Plan are discretionary and limited up to 15% of each employee's compensation. Employees hired before December 31, 1995, are immediately vested in the Plan. Employees hired after December 31, 1995, become 25% vested after two years of service and an additional 25% for each subsequent year of service, until fully vested after five years of service. BISM has the right to terminate the Plan at any time. Employer cash contributions to the Plan were \$304,172 and \$635,153 during 2015 and 2014, respectively. Pension expense was \$224,399 and \$583,497 for the years ended June 30, 2015 and 2014, respectively.

Note 7. 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 \$41,052,150 and \$41,026,455 for the years ended June 30, 2015 and 2014, respectively.

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 \$200,978 and \$656,043 for the years ended June 30, 2015 and 2014, respectively. Rent expense was \$182,776 for rehabilitation training facilities and \$18,202 for operating facilities for the year ended June 30, 2015.

Profit sharing plan: In September 2011, the Board of Trustees established a profit sharing plan for a two-year trial period in which BISM had the option to contribute a portion of profits to its employees. The plan was formally approved by the Board of Trustees on September 5, 2013. There was no profit sharing expense for the years ended June 30, 2015 and 2014.

Note 8. Major Customers

Approximately 47% and 51% of revenue was derived from sales to two and three organizations for the years ended June 30, 2015 and 2014, respectively. Accounts receivable due from these organizations totaled \$5,861,793 and \$3,325,043 at June 30, 2015 and 2014, respectively.

Note 9. Major Vendors

Approximately 25% and 26% of purchases were derived from transactions with two vendor organizations for the years ended June 30, 2015 and 2014, respectively. Accounts payable to these vendors were \$1,514,317 and \$2,069,444 at June 30, 2015 and 2014, respectively.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 10. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. ASC 820 applies to all assets and liabilities that are being measured and reported on a fair value basis. ASC 820 requires new disclosure that establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. ASC 820 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at their fair value will be classified and disclosed in one of the following three categories:

- Level 1 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.

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.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 10. Fair Value Measurements (Continued)

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, 2015 and 2014.

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, 2015 and 2014:

	2015			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 623,881	\$ -	\$ 623,881	\$ -
Common stocks	7,220,228	7,220,228	-	-
Mutual funds	948	948	-	-
Interest rate swap contract	(448,640)	-	(448,640)	-
	<u>\$ 7,396,417</u>	<u>\$ 7,221,176</u>	<u>\$ 175,241</u>	<u>\$ -</u>

	2014			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 968,313	\$ -	\$ 968,313	\$ -
Common stocks	6,691,571	6,691,571	-	-
Mutual funds	996	996	-	-
Interest rate swap contract	(438,236)	-	(438,236)	-
	<u>\$ 7,222,644</u>	<u>\$ 6,692,567</u>	<u>\$ 530,077</u>	<u>\$ -</u>

BISM excludes cash and cash equivalents from the fair value hierarchy, as cash is generally measured at cost. As such, \$2,820,573 and \$3,301,227 of money market funds held in BISM's investment portfolio at June 30, 2015 and 2014, respectively, has been excluded from this table.