



Blind Industries and Services of Maryland

**Governor's Annual Report
FY 2023
(7/1/22-6/30/23)**

**Blind Industries and Services
of Maryland
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www.bism.org**

**Joint Message from Chairman of the Board, Tyrone D.
Bullock, Sr., and President, Dr. Michael Gosse**

Blind Industries and Services of Maryland (“BISM”) is honored to present its Annual Report for the Fiscal Year beginning on July 1, 2022 and ending on June 30, 2023. This Report includes information related to BISM’s manufacturing operations, facilities, employment, development 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 2023 Annual Report is presented to The Honorable Governor Wes Moore, the General Assembly, and Senator Clarence K. Lam and Delegate Jared Solomon, Co-Chairs of the Joint Audit Committee.

Effective August 1, 2022, Dr. Michael Gosse was elected President of BISM by the Board of Trustees – the first new leader of BISM in over 30 years. Senior leadership and the Board of Trustees has worked to address the significant changes in the economy and BISM’s various opportunities and needs in the post Covid-19 landscape. Specifically, BISM undertook a review of all its business activities to determine which of our diverse businesses continue to be worthwhile – both financially and with regard to being “mission worthy”. To that end, in May, 2023, BISM closed its beverage division and sold the facility to a third party purchaser.

BISM has made tremendous strides in its participation in the Maryland Preferred Provider program and has continued to work with the Maryland Department of General Services, the Preferred Provider Pricing and Selection Committee and various procurement officers. BISM, in conjunction with its preferred provider partners, conducted outreach programs to inform and educate the procurement officers of State and State related entities of the applicable laws and requirements of the preferred provider program. Special appreciation to Secretary of the Department of General Services, Atif Chaudhry, 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.

Separate and apart from BISM’s vocational mission of providing vocational opportunities and training, BISM’s Independence Training and Rehabilitation Department (ITR) was able to return to full programming and continues to provide the best training and programming for blind and low vision people in the State. These programs, as noted herein, we are in need of additional State assistance to better serve Maryland’s blind residents and insure that no one in our constituency is left behind. BISM has sent correspondence to the Governor to this effect and is awaiting a response.

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

Sincerely,



Tyrone D. Bullock, Sr.
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, vocational training and comprehensive rehabilitation programs and services for blind and low vision Marylanders of all ages.

BISM is the largest employer of blind individuals in the State of Maryland and currently employs approximately 425 Associates. BISM maintains and operates manufacturing facilities in Baltimore, Salisbury (2) and Raleigh, North Carolina. BISM also operates eight (8) 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; and assembly services (better known as “kitting”). 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.

BISM offers its workforce 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 all of our Associates – blind and sighted. Our organization is built on the belief that all of our Associates play an integral part in our overall success. BISM has an uncompromising belief in the capabilities of people who are blind.

BISM’s Independence Training and Rehabilitation (“ITR”) Department provides comprehensive independence and skills training for adults, seniors, and youth. Our staff, most of whom are blind, teach Braille, Computer Technology, Independent Living, Orientation and Mobility, Job Readiness, and Woodshop in a classroom setting, and offers 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 ITR Department continues to effectively provide crucial services to the blind and low vision community.

The ITR Department is funded by a combination of: (a) a State Grant (through the Department of Education); (b) fee for service work conducted by our Associates; and (c) funds generated by BISM’s manufacturing and sales operations. Unfortunately, as the needs of our blind and low vision continue to increase and BISM’s margins from manufacturing continue to shrink, 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. On June 14, 2023, BISM formally requested the Governor’s assistance in addressing these issues and we are hopeful of a positive outcome.

Detailed Status of BISM – Fiscal Year 2023 (July 1, 2022 – June 30, 2023)

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 instructors – most of whom are blind - serve as teachers, mentors, role models, and friends to the students.

In FY 2023 BISM's Independence Training and Rehabilitation ("ITR") department was back out in the community providing services across the State of Maryland. This past fiscal year saw increased training options for the blind community with an addition of two BISM training options. Youth programming added a residential summer program while a new division focused on Training & Accessibility. This new program evaluates the skills and accessibility needs for employed blind Marylanders. The goal of this program is to increase growth opportunities for employed blind Marylanders.

As a byproduct of the COVID-19 pandemic, BISM has continued to utilize virtual instruction where appropriate. This tool allows BISM to effectively reach Marylanders in all areas of the State who may have health concerns or transportation issues. Whether in person, at one of three BISM training centers, in the community, at student's home, or virtually, BISM Staff is prepared to offer resources and instruction to all those who serve and are a part of Maryland's blind community.

During FY 2022, BISM employed a cautious, post pandemic, approach to its expansion of programming. In FY 2023, BISM was able to use multiple virtual techniques, skills and methods learned during the pandemic to meet and exceed pre-pandemic instruction hours. We are excited at our progress and the possibilities ahead for BISM. BISM provided quality blindness skills training that will benefit the blind population of Maryland.

BISM also continued our revolutionary training program, WRAP (Work Readiness Assessment Program). This program worked one-on-one with ten (10) blind Maryland consumers who have been in the job market for an extended period. We work with these consumers for 80 hours, assessing 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 three (3) blind Marylanders finding employment.

Of the twenty four (24) Marylanders who staffed BISM's ITR department during FY2023, eighteen (18) are blind (including five (5) Supervisor positions). BISM exceeded its services production from FY22 (49,796 training hours provided to 1,427 blind individuals). The total hours of instruction provided for FY 2023 were 55,971 and BISM provided services to 1,643 individuals.

Instruction and training hours were provided to adults (32,150 hours), seniors (14,611 hours), youth (6,3319 hours), and customized programming (2,891 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 FY 2023, there were 377 referrals to all BISM blindness skills training programs and 52 people completed BISM training programs.

The youth division served 379 Elementary, Middle, and High school students and staff through both training programs and workshops.

These efforts resulted in twenty one (21) blind Marylanders finding employment.

BISM's rehabilitation training programs and services are offered at no cost to adults and seniors who are Maryland residents. A percentage of the adult CORE and senior services programs are funded by a State Grant authorized by the Governor and overseen by Department of Rehabilitative Services (DORS). BISM funds the balance of ITR's programming from BISM's operating funds.

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

The CORE program teaches blind and low vision adults the skills of blindness so they can become employed, pursue post-secondary education, and regain control of their lives. Confidence building is an essential element of the program and is reinforced with each accomplishment. CORE students are taught by blind instructors and learn non-visual methods, both inside and outside of a classroom setting. The curriculum includes braille, long white cane travel, independent living, assistive computer technology, job readiness, woodshop, physical fitness, adjustment to blindness seminars, and off-site training. The CORE program generally requires eight to eleven months to complete.

CORE is a residential program, and we consider residential living an essential component, designed to integrate skills developed throughout training. Students live in an apartment building in downtown Baltimore City. 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.

In FY 2023, five (5) students successfully graduated or completed the CORE program. Additionally, the CORE assisted twelve (12) program alumni find new employment.

B. Senior Services.

BISM Senior Services programs are 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, and throughout the State of Maryland in students' homes. Programs for low vision and blind senior citizens are provided 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 2023 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 2023, BISM provided 14,611 hours of training to seniors throughout the State of Maryland, and 323 blind and low vision senior citizens received blindness skills training. We provided 97 facility tours for those 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 by BISM staff continue to accent the services BISM is able to provide. In FY 2023, senior staff reached out with information to over 800 providers and community associations. This includes senior centers, assistive living and retirement communities, civic organizations, schools, helping agencies, community business groups, neighborhoods, and

low vision support groups. This network of providers serves countless Marylanders, increasing the knowledge BISM services and capabilities statewide.

C. Youth Services

This past summer, BISM offered the newly created STAR (Students Training in Advocacy and Responsibility) program. This 4-week, fully residential program aids sixteen (16) blind and low vision students and staff in developing a true understanding of the career choices available to them through information and skills acquisition, confidence building, and practical experience. Through an experiential learning approach, students will be exposed to a new industry each week, exploring the career options within the industry, attending job site tours, and completing real-life tasks and assignments in that profession. At the completion of the STAR Program, students will walk away with a career plan listing their desired goals and steps to achieve them, a blind mentor in the field of their interest, a positive blindness philosophy, and an expanded view of what they are capable of as a blind person.

BISM also partnered with the NFB of Maryland to run the Bell X Academy. A custom designed One (1) week braille academy for nine (9) middle school aged students on the Eastern Shore of Maryland.

BISM continues to offer a full academic year of workshops under the Gaining Leadership, Independence, Direction and Experience (GLIDE) program, geared to assist blind and low vision high school students with life and job skills as they grow into young adults. The monthly program had 23 participants and took place at BISM Baltimore from September 2022 to May 2023. The GLIDE program featured workshops on independent living skills, work readiness, advocacy, career exploration, communication, and more.

State Sales - Preferred Provider Program

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 and/or controlled entities, and commercial entities. 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, 30% and 50% recycled content copy paper, hand soaps, sanitizers, a full line of janitorial chemicals, floor care products, trash can liners, toilet paper and tissue, paper towels, warewashing chemicals, and personal care products.

Fiscal Year 2023 saw the State return to its standard business operations and the economy finally returning to "normal" after numerous economic hurdles associated with the Covid-19 pandemic and its aftermath. BISM experienced a much-improved supply chain of products and raw materials while price increases stabilized across the whole spectrum of BISM's Master List of products. With improvements in supply and stabilized pricing, BISM's sales to our State of Maryland customers improved steadily for FY 2023. BISM was able to focus on growing our mission of expanding meaningful vocational training and employment opportunities for blind/low vision individuals. BISM has maintained - and even expanded - our relationships and contracts with current vendors and partners while working to expand both our production and

efficiency and adding new employment opportunities.

BISM is a participant in the Preferred Provider program which, under State law, requires the State and 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.

In FY2023, BISM, in partnership with Maryland preferred providers (Maryland Works and Maryland Correctional Enterprise), participated in several meetings with the Secretary's office within the Maryland Department of General Services. The results of the meetings have been very positive. The DGS Secretary strongly emphasized the Agency's support of the Preferred Provider program and in enforcing this preference in the State procurement system. BISM, with its preferred Provider partners, continue to work to improve and help educate the State procurement community on the preference and the importance and relevance of our collective missions. As a part of our combined outreach, BISM, Maryland Works, and Maryland Correctional Enterprise participated in the State Procurement Advisory Group (SPAG) quarterly meetings. Our presence and involvement seems to be an important key in connecting the State's procurement officers to the State Preferred Provider program and helping everyone involved to understand the critical assistance provided to our constituents.

With the help of the Department of General Services and the State Procurement team, BISM aims to strengthen our ability to fund our core mission of empowering blind/visually impaired individuals. Our goal in working very closely with both the Department of General Services and the preferred provider partners is to: (1) educate on the purpose of State procurement preference and the overall social bargain made between the State and BISM and (2) educate new procurement officers through training to ensure compliance of the statute.

BISM Beverage

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

In April, 2023, BISM made the decision to cease this business operation and close this facility. While several factors were in play for this decision, BISM determined that, while marginally profitable over the years, this segment did not adequately satisfy our employment goals and mission and, in the near future, would require significant equipment investment to continue operating at a high level. BISM was able to close the facility and sell the building and underlying real property to a third party purchaser in June, 2023.

Federal Contracts – AbilityOne Program

BISM's 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 2023 sales rebounded from the previous few years and met the plan for BISM's fabric cutting and sewing divisions. Demand from DLA Troop Support was improved from the previous year and demand from Federal Prison Industries was consistent from the previous year which helped the cutting operation at Salisbury exceed the plan for this fiscal year.

All sites continued to be challenged in FY23, to recruit, train and retain a consistent labor workforce post pandemic. Because of these continuing hiring issues, BISM was not able to meet customer demands for some items and delivered late against contracts. Our suppliers, peer manufacturers and customers focused on several strategies and actions to cope with a very challenging manufacturing environment which also impacted material supplies to BISM which also impacted delivery issues.

While BISM was able to benefit from an additional textile sewing operation at Federal Correction Institution (FCI) in Butner, North Carolina, the impact has been reduced by mission changes and production inefficiencies since the pandemic. 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. With the reduction in efficiency and mission changes, this operation has 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 increased in FY 2023. In addition, demand for Army Combat Coat (ACU) decreased during FY2023. With the changing demand and the prior year closing of the Cumberland Operation, the manufacturing operations were streamlined to limit the impact of multiple items in one locations. This consolidation of this work improved operations at the Salisbury location but to date has not impacted the Raleigh location as significantly.

Our Raleigh cutting and sewing division's performance continues to be a focus in FY 2023 but continues to be negatively impact of the mission change and lower than expected performance FCI Butner. The Raleigh location manufacturing processes and end items are being modified to create improvements in this location for FY2024. Raleigh also cuts a variety of textile products for other customers.

AbilityOne Base Supply Centers

BISM owns and operates eight (8) AbilityOne Base Supply Centers (BSC) on federal military installations in Maryland, Delaware, District of Columbia, and Kentucky. The AbilityOne program is a Federal program intended to support and empower blind and low vision individuals by creating vocational opportunities. The BSC retail model is a true one-stop shopping solution for military bases and other government facilities by offering on site and ecommerce office supplies and furniture, cleaning products, tools, and military uniforms.

More than one-third (1/3) of our BSC retail Associates are blind or low vision. These Associates play a pivotal role in all aspects of the operations. The BSC program is innovative in providing

accessible technology tools for our blind and low vision Associates and, thus, allowing them to operate to their full capacity. These tools include a computer magnification program known as ZoomText, CCTVs, wireless handheld talking scanners, and “talking” Point of Sale registers.

In May, 2023, BISM opened our newest location within the Defense Information Systems Agency (DISA) facility on the Fort George G. Meade, MD complex. Ft. Meade is one of the largest bases in the U.S. and we have high expectations for our sales and growth at this BSC location. Overall, sales for our BSC’s in FY23 exceeded our Budget expectations. We are also working to combine the BSC shopping experience with our Ecommerce portal, ShopBISM.com, to adjust for the increase in virtual and out of office work by our federal customers.

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 2023, BISM continued to meet challenges related to the aftermath of the Covid-19 pandemic and the market-wide changes in employee availability – both for blind and sighted Associates. BISM has found it increasingly difficult to find and retain employees at all job and pay levels and these difficulties have adversely impacted BISM’s ability to efficiently meet its mission goals.

BISM continues to increase its focus on internal identification of quality employees and dedicating training and skills development to them to ensure the improvement of our workforce and to encourage upward vocational opportunities. As a result, BISM saw a significant 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 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

Beginning in 2022, BISM recommitted its efforts to establish and grow a successful development and fundraising department. The purpose of these efforts is to offset the expenses associated with BISM’s Independence Training and Rehabilitation (“ITR”) Department. While ITR receives a partial grant from the Maryland State Department of Education each year, this grant has been relatively flat while the cost of providing ITR’s programming and services grows each year. As stated above in the ITR section of this Annual Report, BISM believes it should be the State’s responsibility to fully fund the programs and services which BISM provides, for free, to

Maryland residents. Absent this funding, the ITR budget is subsidized from BISM's other business activities and BISM is aware that these subsidies are not sustainable over the long run. While BISM continues to work to find ways to responsibly fund ITR without having to cut programming and services to our blind and visually impaired clientele, each year brings a greater challenge to do so.

Under the direction and leadership of BISM's Director of Development, BISM has undertaken several fundraising activities and community engagements. These include an annual donor drive, numerous applications for grants, partnerships with community organizations, and other third party assistance as well as a golf tournament.

It's clear that there are both advantages and challenges when it comes to fundraising for BISM. BISM's business-based vocational training and employment, at first blush, does not lend itself to the more common non-profit fundraising program. However, ITR's programs and services, are not fully funded and the programs provided by BISM cannot be duplicated anywhere else in the State of Maryland.

BISM anticipates it will take several years to effectively meet our development goals and raise funds to meet the ongoing needs to sustain, and grow, BISM's ITR Department.

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 Independence Training and Rehabilitation programs and services develop the life skills that help blind people of all ages be more independent and successful in all elements of their lives.

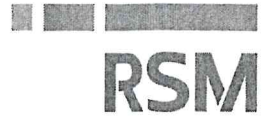
We appreciate the support from the Governor's Office, the Maryland Legislature, and State agencies, and we look forward to creating more opportunities for blind Marylanders in the future.

Blind Industries and Services of Maryland

Financial Report
June 30, 2023

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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, 2023 and 2022, 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, 2023 and 2022, 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 (U.S. GAAP).

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 U.S. GAAP 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
November 14, 2023

Blind Industries and Services of Maryland

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash	\$ 971,514	\$ 1,012,606
Restricted cash	979,584	-
Trade and other accounts receivable, less allowance for doubtful accounts (2023—\$191,581; 2022—\$193,086) (Notes 6 and 7)	5,793,135	4,711,668
Inventories, net (Note 2)	11,481,073	11,928,426
Prepaid expenses and other assets	266,156	183,489
Total current assets	19,491,462	17,836,189
Property, plant and equipment (Notes 3 and 4):		
Land	3,280,098	3,354,978
Buildings and improvements	22,760,378	23,425,498
Machinery and equipment	10,022,779	11,344,408
Vehicles	584,847	513,072
Equipment under capital leases	-	744,941
Furniture and fixtures	566,277	545,180
	37,214,379	39,928,077
Less accumulated depreciation and amortization, including accumulated amortization relating to equipment under capital leases (2023—\$0; 2022—\$692,675)	20,944,011	21,595,440
	16,270,368	18,332,637
Right of use assets—finance leases, net (Note 4)	174,135	-
Total assets	\$ 35,935,965	\$ 36,168,826

See notes to financial statements.

	2023	2022
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt (Note 3)	\$ 476,991	\$ 639,074
Liability under capital lease obligations (Note 4)	-	47,884
Current finance lease liabilities (Note 4)	115,345	-
Accounts payable (Note 8)	8,601,311	6,851,562
Accrued expenses and other liabilities	1,910,727	2,058,191
Total current liabilities	11,104,374	9,596,711
Long-term debt (Note 3)	13,906,877	14,315,676
Liability under capital lease obligations, noncurrent portion (Note 4)	-	7,403
Finance lease liabilities, net of current portion (Note 4)	61,124	-
Total liabilities	25,072,375	23,919,790
Commitments (Notes 5 and 6)		
Net assets:		
Without donor restrictions	10,863,590	12,249,036
Total net assets	10,863,590	12,249,036
Total liabilities and net assets	\$ 35,935,965	\$ 36,168,826

Blind Industries and Services of Maryland

Statements of Activities

Years Ended June 30, 2023 and 2022

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Sales (Notes 6 and 7)	\$ 84,080,704	\$ -	\$ 84,080,704
State of Maryland appropriations	600,000	-	600,000
Contributions and grants	100,106	-	100,106
Miscellaneous	442,114	-	442,114
	<u>85,222,924</u>	<u>-</u>	<u>85,222,924</u>
Expenses (Notes 3, 4, 5, 6 and 8):			
Program	82,912,637	-	82,912,637
General and administrative	3,595,286	-	3,595,286
Fundraising and development	286,098	-	286,098
	<u>86,794,021</u>	<u>-</u>	<u>86,794,021</u>
Gain on sale of property, plant and equipment	176,728	-	176,728
Operating loss	(1,394,369)	-	(1,394,369)
Other revenue and expenses:			
Forgiveness of Paycheck Protection Program loan (Note 3)	-	-	-
Interest income	8,923	-	8,923
Gain on interest rate swap contract (Note 3)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,385,446)	-	(1,385,446)
Net assets:			
Beginning of year	12,249,036	-	12,249,036
End of year	<u>\$ 10,863,590</u>	<u>\$ -</u>	<u>\$ 10,863,590</u>

See notes to financial statements.

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 74,907,438	\$ -	\$ 74,907,438
531,115	-	531,115
240,323	-	240,323
471,765	-	471,765
<u>76,150,641</u>	-	<u>76,150,641</u>
74,466,562	-	74,466,562
4,322,796	-	4,322,796
162,369	-	162,369
<u>78,951,727</u>	-	<u>78,951,727</u>
2,349	-	2,349
(2,798,737)	-	(2,798,737)
3,576,463	-	3,576,463
-	-	-
<u>47,133</u>	-	<u>47,133</u>
824,859	-	824,859
11,424,177	-	11,424,177
<u>\$ 12,249,036</u>	<u>\$ -</u>	<u>\$ 12,249,036</u>

Blind Industries and Services of Maryland

Statements of Functional Expenses
Years Ended June 30, 2023 and 2022

	2023			Total
	Program	General and Administrative	Fundraising and Development	
Advertising and promotion	\$ -	\$ 34,156	\$ -	\$ 34,156
Commissions	941,572	-	-	941,572
Credit card fees	607,364	-	-	607,364
Depreciation and amortization	966,277	265,583	-	1,231,860
Financing fees (Note 3)	-	-	-	-
Freight out	1,100,152	-	-	1,100,152
Information technology	36,845	60,503	4,588	101,936
Insurance	510,448	79,943	3,548	593,939
Interest expense (Notes 3 and 4)	382,619	320,895	-	703,514
Lobbying fees	-	40,000	-	40,000
Materials and product costs	57,626,385	-	-	57,626,385
Office expenses	69,742	104,748	8,019	182,509
Other expenses	186,807	621	35,591	223,019
Payroll taxes and benefits (Note 5)	3,558,183	711,896	35,941	4,306,020
Professional fees	-	100,943	35,601	136,544
Rehabilitation costs	1,411,325	-	-	1,411,325
Rent and occupancy (Note 4)	744,798	66,106	2,955	813,859
Repairs, maintenance and consumables	813,567	-	-	813,567
Salaries	13,370,887	1,752,263	159,026	15,282,176
Service expenses	480,290	-	-	480,290
Travel	21,491	57,629	829	79,949
Vehicle repairs and fuel	83,885	-	-	83,885
Total expenses	\$ 82,912,637	\$ 3,595,286	\$ 286,098	\$ 86,794,021

See notes to financial statements.

2022

Program	General and Administrative	Fundraising and Development	Total
\$ 62	\$ 9,997	\$ -	\$ 10,059
962,412	-	-	962,412
529,550	-	-	529,550
1,095,263	256,482	-	1,351,745
32,101	-	-	32,101
1,065,506	-	-	1,065,506
41,574	68,653	7,609	117,836
508,352	85,516	1,643	595,511
512,638	530,726	-	1,043,364
-	40,000	-	40,000
49,404,001	-	-	49,404,001
56,521	162,516	7,663	226,700
246,170	250	4,729	251,149
3,757,252	677,470	17,655	4,452,377
-	210,690	36,236	246,926
1,143,713	-	-	1,143,713
738,664	63,396	2,530	804,590
698,456	-	-	698,456
13,147,221	2,160,606	84,221	15,392,048
437,771	-	-	437,771
12,554	56,494	83	69,131
76,781	-	-	76,781
<u>\$ 74,466,562</u>	<u>\$ 4,322,796</u>	<u>\$ 162,369</u>	<u>\$ 78,951,727</u>

Blind Industries and Services of Maryland

Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (1,385,446)	\$ 824,859
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,231,860	1,351,745
Forgiveness of Paycheck Protection Program loan	-	(3,576,463)
Decrease in allowance for doubtful accounts	(1,505)	-
Amortization of deferred financing costs	74,795	209,904
Increase in inventory reserve	205,312	252,928
Gain on sale of property, plant and equipment	(176,728)	(2,349)
Gain on interest rate swap contract	-	(47,133)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Trade and other accounts receivable	(1,079,962)	(721,839)
Inventories	242,041	(386,823)
Prepaid expenses and other assets	(82,667)	165,416
Increase (Decrease) in:		
Accounts payable	1,749,749	769,788
Accrued expenses and other liabilities	(147,464)	244,621
Net cash provided by (used in) operating activities	629,985	(915,346)
Cash flows from investing activities:		
Net proceeds from sale of property, plant and equipment	1,124,722	6,265
Purchases of property, plant and equipment	(76,073)	(151,881)
Net cash provided by (used in) investing activities	1,048,649	(145,616)
Cash flows from financing activities:		
Proceeds from long-term debt	-	15,249,000
Loan costs	-	(373,972)
Principal payments on long-term debt	(645,677)	(13,319,332)
Principal payments on capital lease obligations	-	(122,357)
Principal payments on finance leases applied to lease liabilities	(94,465)	-
Disposal of interest rate swap	-	(172,400)
Net cash (used in) provided by financing activities	(740,142)	1,260,939
Net increase in cash and restricted cash	938,492	199,977
Cash and restricted cash:		
Beginning of year	1,012,606	812,629
End of year	\$ 1,951,098	\$ 1,012,606
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 705,078	\$ 1,090,773
Right-of-use assets obtained in exchange for existing property and equipment	\$ 6,655	\$ -
Right-of-use assets obtained in exchange for new finance lease obligations	\$ 215,647	\$ -
Supplemental schedule of noncash operating activities:		
Forgiveness of Paycheck Protection Program loan and related interest	\$ -	\$ 3,576,463

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, 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. BISM had no donor-restricted net assets at June 30, 2023 and 2022.

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.

Restricted cash: BISM holds an escrow cash account which is restricted to provide funds to reimburse amounts owed to lender for amounts outstanding under the related loan agreement (see Note 3). The balance as of June 30, 2023 and 2022 was \$979,584 and \$0, respectively.

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: BISM recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows: (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.

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.

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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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 used an interest rate swap principally to manage the risk that changes in interest rates had 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.

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.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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, 2023 and 2022.

Advertising: BISM expenses advertising costs as incurred. Advertising expense was \$34,156 and \$10,059 for the years ended June 30, 2023 and 2022, respectively.

Income tax status: BISM is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code 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, 2023 and 2022.

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, 2020.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

Recently issued accounting pronouncement (adopted): In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. BISM adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, BISM has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with BISM's historical accounting treatment under ASC Topic 840, Leases.

BISM elected the "package of practical expedients" under the transition guidance within Topic 842, in which BISM does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. BISM has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

BISM determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) BISM obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. BISM also considers whether its service arrangements include the right to control the use of an asset.

BISM made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, BISM made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

BISM has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate asset class. The non-lease components typically represent additional services transferred to BISM, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

The adoption of the new lease standard did not materially impact net assets or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Recently issued accounting pronouncements (not yet adopted): 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 2022 amounts were reclassified to conform to 2023 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 November 14, 2023, which is the date the financial statements were available to be issued.

Note 2. Inventories, Net

Components of inventories at June 30, 2023 and 2022, are as follows:

	2023	2022
Raw materials	\$ 5,736,428	\$ 5,926,394
Work-in-process	335,674	1,593,228
Finished goods	3,947,849	2,856,970
Base supply center division merchandise	2,425,519	2,310,919
Reserves for obsolescence	(964,397)	(759,085)
	<u>\$ 11,481,073</u>	<u>\$ 11,928,426</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 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 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. In December 2021, these borrowings were refinanced.

Term loan: In January 2014, BISM obtained a \$4,800,000 construction term loan with a bank. In December 2021, these borrowings were refinanced.

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. Both loans were collateralized by real property. In December 2021, these borrowings were refinanced.

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 March 2023, the loan was paid in full.

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 7.25% 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. In June 2023, the note was paid in full.

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 statements 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. As of June 30, 2023, BISM had failed a certain financial covenant and has obtained a waiver from the bank.

Blind Industries and Services of Maryland

Notes to Financial Statements

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

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.

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, 2023.

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.

In May 2023, BISM executed an amendment requiring proceeds from the sale of a property to be deposited into an escrow account, granting the lender a continuing security interest in the escrow account, to be held by the lender to provide funds to reimburse for amounts outstanding under the related loan agreement.

Long-term debt and related current maturities at June 30, 2023 and 2022, consist of the following:

	2023	2022
Equipment loans	\$ 19,892	\$ 115,340
NIB equipment note	-	105,609
Term loans	11,517,474	11,830,294
Bond payable	3,108,283	3,240,083
	<u>14,645,649</u>	<u>15,291,326</u>
Less deferred financing costs	(261,781)	(336,576)
Total long-term debt, including current maturities	<u>14,383,868</u>	<u>14,954,750</u>
Less current maturities	476,991	639,074
Total long-term debt	<u>\$ 13,906,877</u>	<u>\$ 14,315,676</u>

Blind Industries and Services of Maryland

Notes to Financial Statements

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

Future maturities of long-term debt are as follows at June 30, 2023:

Years ending June 30:

2024	\$ 476,991
2025	472,820
2026	487,880
2027	482,665
2028	466,779
Thereafter	<u>12,258,514</u>
	<u>\$ 14,645,649</u>

Interest rate swap: On May 1, 2005, BISM entered into an interest rate swap contract with a bank related to its issuance of the Series 2003 variable rate bonds. The interest rate swap 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 related to long-term debt was \$699,803 and \$1,043,364 for the years ended June 30, 2023 and 2022, respectively.

Note 4. Leases

BISM leases vehicles under finance lease agreements with terms ranging from approximately one to four years and interest rates ranging from 3.83% to 4.38%. In addition, certain leases contain termination options, where the rights to terminate are held by either BISM, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise that option. BISM's finance leases generally do not contain any material restrictive covenants or residual value guarantees.

Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended June 30, 2023:

Finance lease cost—amortization of right-of-use assets	\$ 48,167
Finance lease cost—interest on lease liabilities	3,711
Short-term lease costs	<u>149,724</u>
Total lease cost	<u>\$ 201,602</u>

Total rent expense for short-term lease costs was \$137,728 for the year ended June 30, 2022.

Blind Industries and Services of Maryland

Notes to Financial Statements

Note 4. Leases (Continued)

Finance leases:	
Vehicles	\$ 295,505
Accumulated depreciation	(121,370)
Finance leases, right-of-use assets, net	<u>\$ 174,135</u>
Weighted-average discount rate	4.14%
Weighted-average remaining financing lease term	2.00 years

Future undiscounted cash flows for each of the next five years and thereafter, and a reconciliation to the lease liabilities recognized on the statement of financial position, are as follows as of June 30, 2023:

Years ending June 30:	
2024	\$ 119,904
2025	36,030
2026	19,188
2027	7,995
Total lease payments	<u>183,117</u>
Less imputed interest	6,648
Total present value of lease liabilities	<u>\$ 176,469</u>

Future minimum lease payments, under Topic ASC 840, required under these leases, at June 30, 2022, are as follows:

Years ending June 30:	
2023	\$ 50,406
2024	7,494
Thereafter	-
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>

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 \$0 and \$54,544 to the Plan for the years ended June 30, 2023 and 2022, 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 \$24,227,577 and \$24,372,470 for the years ended June 30, 2023 and 2022, respectively, which are included in sales on the statements of activities. Commissions paid to NIB totaled \$941,572 and \$962,412 for the years ended June 30, 2023 and 2022, respectively.

Trade accounts receivable include \$586,314 and \$409,816 due from NIB at June 30, 2023 and 2022, respectively. Accounts payable include \$72,583 and \$67,881 due to NIB at June 30, 2023 and 2022, respectively.

Equipment loan: BISM has a promissory note with NIB for the purchase of equipment (see Note 3). This was paid off in its entirety in June 2023.

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

Rent expense was \$124,368 and \$115,759 for short-term rehabilitation training facilities and \$25,356 and \$21,969 for short-term operating facilities for the years ended June 30, 2023 and 2022, respectively. Total rent expense was \$149,724 and \$137,728 for the years ended June 30, 2023 and 2022, respectively.

Note 7. Major Customers

Approximately 40% and 43% of sales revenue was derived from sales to the same two customers for the years ended June 30, 2023 and 2022, respectively. Accounts receivable due from these customers totaled \$1,490,676 and \$1,378,236 at June 30, 2023 and 2022, respectively.

Note 8. Major Vendor

Approximately 21% and 10% of purchases were derived from transactions with two vendors and one vendor for the years ended June 30, 2023 and 2022. Accounts payable due to these two vendors and this one vendor was \$1,550,330 and \$454,542 at June 30, 2023 and 2022, respectively.

Note 9. 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, 2023 and 2022, are as follows:

	2023	2022
Cash	\$ 971,514	\$ 1,012,606
Trade and other accounts receivable, less allowance for doubtful accounts	5,793,135	4,711,668
Financial assets available to meet general expenditures in the next 12 months	<u>\$ 6,764,649</u>	<u>\$ 5,724,274</u>