American Bureau of Shipping
Reports on Federal Awards in Accordance with the Uniform Guidance
December 31, 2022

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## Contents

**Part I**

**Financial Statements and Schedule of Expenditures of Federal Awards**

**Report of Independent Auditors**

To Management and the Board of Directors of
American Bureau of Shipping

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying financial statements of American Bureau of Shipping (the "Company"), which comprise the balance sheet as of December 31, 2022, and the related statement of revenue in excess of (less than) expense and surplus and of cash flow for the year then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the change in its surplus and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditors' 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 auditors' 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 US GAAS and *Government Auditing Standards*, 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.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, 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.

***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2022 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2022. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Houston, Texas
August 31, 2023

# American Bureau of Shipping

## Balance Sheet
## As of December 31, 2022 *(In Thousands)*

| | | |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | **95,839** |
| Investments | | **1,163,098** |
| Accounts receivable, net of allowance for doubtful accounts of $8,574 at December 31, 2022 | | **88,440** |
| Due from affiliates | | **431,154** |
| Deferred expenses and unbilled revenue | | **44,326** |
| Prepaid expenses and other current assets | | **25,780** |
| Total current assets | | **1,848,637** |
| | | |
| Investment in unconsolidated subsidiaries | | **121,911** |
| Property and equipment, net | | **35,532** |
| Intangible assets, net | | **30,055** |
| Prepaid pension and postretirement benefits | | **128,333** |
| Operating lease assets | | **77,852** |
| Other long-term assets | | **15,295** |
| Total assets | **$** | **2,257,615** |
| | | |
| **Liabilities and surplus** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ | **71,683** |
| Due to affiliates | | **423,072** |
| Deferred revenue | | **89,516** |
| Total current liabilities | | **584,271** |
| | | |
| Pension, postretirement, and severance benefits | | **31,155** |
| Operating lease liabilities – noncurrent | | **100,370** |
| Other long-term liabilities | | **27,771** |
| Total liabilities | | **743,567** |
| | | |
| **Commitments and Contingencies (see Note 11)** | | |
| Surplus: | | |
| Surplus | | **1,696,472** |
| Pension and other postretirement | | **(122,500)** |
| Foreign currency | | **(59,924)** |
| Total Surplus | | **1,514,048** |
| Total liabilities and surplus | **$** | **2,257,615** |

*See accompanying notes.*

American Bureau of Shipping

Statement of Revenue in Excess of (Less Than) Expense
and Surplus
For the year ended December 31, 2022 *(In Thousands)*

| | |
|---|---|
| Revenue: | |
| Revenue | **$ 469,915** |
| Revenue - affiliates | **11,071** |
| Total revenue | **480,986** |
| | |
| Expenses: | |
| Direct operating expense | **295,822** |
| Direct operating expense - affiliates | **87,521** |
| General and administrative expense | **111,631** |
| Total expenses | **494,974** |
| Loss from operations | **(13,988)** |
| | |
| Loss from investment securities and financial instruments, net | **(134,696)** |
| Loss on investments in unconsolidated affiliates | **(912)** |
| Loss from investments in unconsolidated subsidiaries | **(4,120)** |
| Foreign exchange gain, net | **715** |
| Other income, net | **27,995** |
| Revenue in excess of (less than) expense before income taxes | **(125,006)** |
| | |
| Provision for income taxes | **10,732** |
| Revenue in excess of (less than) expense | **(135,738)** |
| | |
| Change in pension and other postretirement liabilities | **4,581** |
| Foreign currency adjustments | **(12,964)** |
| Other transfers and adjustments | **25** |
| Total decrease in surplus | **(144,096)** |
| | |
| Surplus at beginning of year | **1,658,144** |
| Surplus at end of year | **$ 1,514,048** |

*See accompanying notes.*

# American Bureau of Shipping

## Statement of Cash Flow
## For the year ended December 31, 2022 *(In Thousands)*

| | | |
|---|---|---|
| **Operating activities** | | |
| Revenue in excess of (less than) expense | **$** | **(135,738)** |
| Adjustments to reconcile revenue in excess of (less than) expense to net cash provided by operating activities: | | |
| Depreciation and amortization | | **11,016** |
| Provision for bad debts | | **1,558** |
| Provision for employee benefits | | **1,026** |
| Contributions for employee benefits | | **(2,882)** |
| Deferred tax expense (benefit) | | **1,122** |
| Unrealized (gain) loss on investment securities, net | | **186,909** |
| Realized gain on sale of investment securities, net | | **(20,472)** |
| Amortization of fixed income securities | | **(16,118)** |
| Other charges, net | | **(4,664)** |
| Changes in assets and liabilities: | | |
| Accounts receivable | | **(8,745)** |
| Due from affiliates | | **(6,390)** |
| Deferred expenses and unbilled revenue | | **(700)** |
| Prepaid expenses and other current assets | | **(7,189)** |
| Loss from investments in subsidiaries | | **4,120** |
| Other long-term assets | | **1,128** |
| Accounts payable and accrued expenses | | **4,780** |
| Deferred revenue | | **5,923** |
| Other long-term liabilities | | **1,820** |
| Net cash provided by operating activities | | **16,504** |
| **Investing activities** | | |
| Purchases of property and equipment and intangible assets | | **(4,847)** |
| Purchases of investment securities | | **(633,989)** |
| Proceeds from sales of investment securities | | **613,997** |
| Investment in unconsolidated affiliates | | **(672)** |
| Net cash used in investing activities | | **(25,511)** |
| **Financing activities** | | |
| Principal repayments of finance leases | | **(1,196)** |
| Net cash used in financing activities | | **(1,196)** |
| Effect of exchange rate changes on cash and cash equivalents | | **(327)** |
| Net decrease in cash and cash equivalents | | **(10,530)** |
| Cash and cash equivalents, beginning of year | | **106,369** |
| Cash and cash equivalents, end of year | **$** | **95,839** |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid during the year for: | | |
| Income taxes | **$** | **6,810** |
| Interest on finance leases | | **82** |

*See accompanying notes.*

American Bureau of Shipping

Notes to Financial Statements

December 31, 2022

## 1. Organization

The accompanying financial statements consists of the accounts of American Bureau of Shipping (ABS or the Company). The Company provides services to clients through a network of offices in 60 countries.

The Company is an international classification society incorporated in 1862 as a membership-type organization. The responsibility of the classification society is to verify that marine vessels and offshore structures comply with Rules that the society has established for design, construction, and periodic survey.

The Company is organized into two primary global operations: Survey and Engineering. The Company derives its revenue principally from fees it charges for the services of its surveyors and engineers who are engaged in the classification, testing, surveying, and certification of marine vessels and offshore structures for the benefit of the maritime and offshore industries on a worldwide basis. Worldwide building activities in the maritime and offshore industries can have an impact on the amount of the Company's revenue.

The Company has no capital stock, pays no dividends, and is classified as an exempt organization under the United States Internal Revenue Code (Code). It is also exempt from income taxes in certain foreign countries that grant exemptions like those allowed under the Code.

The Company has unconsolidated subsidiaries, including those which perform classification work on behalf of the Company, ABS Group of Companies, Inc. and its Subsidiaries (collectively, ABS Group) which provide non-classification inspections and consulting services, and ABS Boiler and Marine Insurance Company and Subsidiary (BMIC), which is a Vermont captive insurance company that primarily provides liability coverage to the Company and its unconsolidated subsidiaries.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

These single entity financial statements of ABS are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). These financial statements include the Company's foreign branches but exclude all its domestic and foreign subsidiaries. In the single entity financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries since the date of acquisition or establishment. Investment in subsidiaries is also adjusted for pension and foreign currency balances in Surplus, which are included in the single entity Surplus. The Company's share of net income of its unconsolidated subsidiaries is included in income using the equity method of accounting. Single entity financial statements should be read in conjunction with the Company's consolidated financial statements. All significant intercompany accounts and transactions within the Company have been eliminated.

The Company also utilizes the equity method of accounting when it has ownership interest between 20% and 50% in an entity and has the ability to exercise significant influence over the investee's operations. Investments in these affiliated companies are included in "Other long-term assets" on the accompanying Balance Sheet.

The Company had no restrictions on its net assets, including no restrictions from outside parties and no designations by its board of directors as of December 31, 2022. The Company received income that had restrictions of less than $3.0 million for the year ended December 31, 2022. All associated restrictions were satisfied as of December 31, 2022.

### Revenue Recognition

The Company generates substantially all its revenue from providing professional services to its clients. As a service provider, the Company generally recognizes revenue over time as control is transferred to a client based on the extent of progress towards satisfaction of the performance obligation. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

**2. Summary of Significant Accounting Policies (continued)**

Many of the Company's contracted services are of a short-term nature and consist of one task, such as an annual inspection or annual survey, representing one performance obligation. Other contracts require the Company to perform many tasks in providing an integrated service, such as performing multiple surveys for a newly constructed vessel, representing only one performance obligation culminating in the issuance of a class certificate. Many contracts, such as contracts to perform multiple surveys for a ship over a period of five years, have multiple performance obligations.

Satisfaction of performance obligations for most services occurs upon the issuance of a report or certification associated with a survey or inspection.

Revenues are generated mostly under fixed-price and time-and-materials arrangements. Fixed-price contracts of a long-term nature may provide for milestone billings based on the attainment of a specific project stage or are billed monthly. Fixed-price contracts of a short-term nature are billed upon completion. The payment terms of invoices generally are due upon receipt or within a range of 30 to 60 days from the invoice date. There is not a significant financing component in the payment terms.

The input method based on hours worked is used to measure progress for fixed-price contracts. When a performance obligation is billed using a time and materials contract type, the Company uses the output method to estimate revenue earned based on hours worked at the contractual rates. For contracts in which the estimated cost to perform exceeds the consideration to be received ("loss contracts"), the Company accrues for the entire estimated loss during the period in which the loss is determined. Revenue recognition requires the use of judgment including, but not limited to: evaluating agreements in terms of the number and nature of performance obligations; establishing the original estimated hours; and estimating progress towards satisfying the performance obligation.

**Foreign Currency Translation**

The U.S. dollar is the functional currency for the Company's U.S.-based operations. The functional currency for foreign operations is predominantly the local currency. Results of operations for foreign subsidiaries and branches have been translated into U.S. dollars using the average exchange rates during the period. Assets and liabilities of foreign subsidiaries and branches have been translated into U.S. dollars using exchange rates at the end of the period. The effects of foreign currency exchange gains and losses that result from the translation of assets and liabilities are included in other comprehensive income (loss). The foreign currency exchange gains and

**2. Summary of Significant Accounting Policies (continued)**

losses associated with the remeasurement of short-term monetary assets and intercompany balances are recorded in income, whereas gains and losses associated with intercompany balances designated as long-term are recorded in other comprehensive income (loss).

**Cash and Cash Equivalents**

Cash and cash equivalents include money market funds, short-term investment funds and time deposits. Short-term investment funds are collective trust money market funds with the Company's investment custodian, which holds underlying investments in obligations issued by the U.S. government or its agencies with maturities of three months or less.

**Investment Securities**

Investments and marketable securities are measured at fair value. Unrealized gains and losses are included in the determination of Revenue in excess of (less than) expense. Dividend and interest income is recognized when earned.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Significant additions or improvements extending asset lives are capitalized. Normal maintenance and repair costs are expensed as incurred.

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

**Leases**

The Company has both operating and finance leases. The operating leases consist of office and residential real estate, vehicles, and office equipment. The finance leases consist of vehicles and office equipment. The Company generally does not include renewal or termination options in the assessment of the leases unless extension or termination for certain assets is deemed to be reasonably certain. The option terms are limited to extensions and terminations found in most standard lease agreements.

**2. Summary of Significant Accounting Policies (continued)**

For all leases with a term in excess of 12 months, the Company recognizes a lease liability equal to the present value of the lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. Operating lease expense is recognized on a straight-line basis over the lease term, while finance leases include both lease expense and interest expense components. For all leases with a term of 12 months or less, the Company elected the practical expedient to not recognize lease assets and liabilities and recognizes lease expense for these short-term leases on a straight-line basis over the lease term.

Many of the vehicle leases have a guaranteed residual value. Most of these arrangements guarantee that the proceeds from the sale of the vehicle after termination of the lease will be more than the unamortized cost of the vehicle. The amortization period for most of the vehicles is 48 months.

The accounting for some leases requires judgment which includes determining whether a contract contains a lease, determining the incremental borrowing rate to utilize in the net present value calculation for lease agreements when the implicit rate is not known, and assessing the likelihood of renewal or termination options being exercised. The incremental borrowing rate outside the United States is based on the swap rate for specific countries and regions increased by the spread above LIBOR of the Company's borrowing rate. Upon cessation of LIBOR in 2023 a new base rate will be utilized. The Company has elected the practical expedient to account for lease and non-lease components as a single lease component for all asset classes.

**Intangible Assets**

The Company has identifiable intangible assets with determinable lives which include software. Software is amortized on a straight-line basis over the estimated useful lives of three to ten years.

The Company's policy provides for the capitalization of external direct costs of materials and services associated with developing internal use computer software. The Company also capitalizes certain payroll and payroll-related costs for employees to the extent they are directly associated with the development of internal use software and performing capitalizable tasks.

**2. Summary of Significant Accounting Policies (continued)**

At December 31, 2022, intangible assets and the related accumulated amortization consisted of the following (in thousands):

| | | |
|---|---|---|
| Software | $ | **76,957** |
| Less accumulated amortization | | **46,902** |
| Intangible assets, net | $ | **30,055** |

Amortization expense of intangible assets was $6.3 million for the year ended December 31, 2022. The Company estimates that annual amortization expense with respect to intangible assets recorded as of December 31, 2022 will be approximately $6.2 million in 2023, $6.0 million in 2024, $5.7 million in 2025, $5.0 million in 2026, and $4.3 million in 2027.

**Impairment of Long-Lived Assets**

Long-lived assets, such as property and equipment and intangible assets with determinable lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such an indicator is identified, the Company measures the recoverability of these assets by comparing the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, then an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. Fair value is typically determined based on discounted cash flows based on assumptions typical of third-party market participants.

**Pension Plans, Postretirement, and Other Benefits**

The Company offers several contributory and noncontributory defined benefit pension plans for eligible employees worldwide. The Company also provides health care and life insurance to eligible retired U.S. employees. The Company accounts for its pension and other postretirement plans by the measurement of fair value of plan assets and benefit obligations as of the balance sheet date, recognition of the funded status of the Company's defined benefit pension and other postretirement benefit plans in the Balance Sheet, and additional disclosures.

**2. Summary of Significant Accounting Policies (continued)**

The amounts recognized in the financial statements for the Company's benefit obligations are determined on an actuarial basis as of the date of the financial statements. Significant assumptions involved in determining the Company's pension and other postretirement benefit expense include the expected return on plan assets, expected health care cost, and the discount rate for calculating the present value of future liabilities. The assumed long-term rate of return on assets is applied to the value of plan assets, resulting in an estimated return on plan assets that is included in current year pension income or expense. The cost of pension and other postretirement benefits is accrued during the employees' years of active service. Service costs are recognized in Direct operating expense and General and administrative expense. Other components of periodic benefit costs are included in Other income, net on the Statement of Revenue in Excess of (Less Than) Expense and Surplus.

Certain countries require the Company to pay severance benefits for active employees upon termination of employment. The Company's policy is to conform to local requirements and record the appropriate reserves for mandatory payments. The Company provides for the cost of these benefits over the term of employment. Generally, these benefits are unfunded.

**Income Taxes**

The Company is exempt from income taxes in the United States and in certain foreign countries. The Company's foreign operations file income tax returns in their local jurisdiction. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carryforwards. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if the Company believes it is more likely than not that all or a portion of the entire asset will not be realized. The effect on deferred tax assets and liabilities due to a change in tax rates or a change in the determination that the Company will not realize the benefit of some or all of its deferred tax assets is recognized in the Company's provision for income taxes in the same period as the respective change occurs.

The Company recognizes tax benefits from uncertain tax positions only when it is more likely than not, based on the technical merits of the position, that the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the financial statements from such a position are measured as the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

## 2. Summary of Significant Accounting Policies (continued)

### Fair Value of Financial Instruments

Investments are recorded at their fair market value in the Balance Sheet. The carrying amounts reported in the Balance Sheet for cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term nature of those instruments.

### Fair Value Measurements

The Company uses various inputs to determine the fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined 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. The Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value. The Company's financial assets and liabilities are measured using inputs from all levels of the fair value hierarchy. The fair value hierarchy is as follows:

Level 1 Inputs: Quoted prices in active markets for identical assets or liabilities that are accessible on the measurement date.

Level 2 Inputs: Other significant observable inputs, including: (a) quoted prices for similar assets in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable; and (d) inputs that are not directly observable but derived principally from or corroborated by observable market data.

Level 3 Inputs: Unobservable inputs that reflect the Company's own estimates and assumptions that a market participant would use in pricing the asset or liability. These inputs would be based on the best information available to the Company, including certain pricing models, discounted cash flow methodologies, and similar techniques.

The Company maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

**2. Summary of Significant Accounting Policies (continued)**

With regard to the pension plans, the Level 2 plan assets include commingled equity and fixed income funds. These funds are valued on a reported net asset value (NAV) per unit of the fund based on the current fair values of the underlying investments. The underlying investments have readily observable inputs for valuation assessment (i.e., quoted prices for similar assets in active markets).

The Company has investments in limited partnership interests in a fund of hedge funds (the Fund) and hedge funds. As it relates to the Fund, the unit of account that is valued by the Company is its interest in the Fund, not the underlying holdings of the Fund. Thus, the inputs used by the Company to value its investment in the Fund may differ from the inputs used to value the underlying holdings of such investment funds or other financial instruments. This valuation is based on the NAV calculated by the general partner of the Fund which the Company considers to be the best estimate of fair value. The limited partnership interests in the hedge funds are valued based on the NAV calculated by the general partners of the hedge funds. The Company considers the ability of the Fund and hedge funds to satisfy redemption requests at NAV. The limited partnership investments mostly have redemption frequencies of monthly or quarterly while several investments have frequencies of annually to two years. The redemption notice period varies from 3 to 90 days.

**Use of Estimates and Assumptions**

The preparation of the financial statements in conformity with U.S. GAAP requires management to use estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include revenue recognition, loss contract accruals, useful lives of intangible assets and property and equipment, assessment of asset impairment, valuation allowances, and assets and obligations related to employee benefits. Actual results could differ from those estimates.

**Concentrations of Credit Risk and Foreign Currency Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, investments, accounts receivable, and unbilled revenue. Concentration of credit risk associated with investments is limited due to the diversified nature of the Company's portfolio. With respect to trade accounts receivable and unbilled revenue, this risk is limited due to the large number of customers in various geographic regions and industry segments comprising the Company's customer base. No single customer accounted for more than 10% of revenue in 2022. Management regularly monitors the collectability of receivables and

**2. Summary of Significant Accounting Policies (continued)**

believes that it has adequately provided for any exposure to potential credit losses. Allowance for doubtful accounts is based on management's past collection experience and existing economic conditions. Doubtful accounts are written off upon final determination that the trade accounts will not be collected.

The Company is exposed to changes in foreign currency rates as a result of its revenues and expenses generated in currencies other than the U.S. dollar. Revenue and Revenue in excess of (less than) expense generated by international operations, will increase or decrease compared to prior periods as a result of changes in foreign currency exchange rates. The concentration of foreign currency risk in one currency is limited, due to operations being in 60 different countries, with no single foreign currency accounting for more than 20% of revenue and only one in excess of 10% of revenue in 2022.

**Recently Issued Pronouncements**

In June 2016, the Financial Accounting Standards Board (the FASB) issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). The new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The new accounting standard introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. The new guidance eliminates the probable initial recognition threshold in current U.S. GAAP and, instead, reflects an organization's current estimate of all expected credit losses over the contractual term of its financial assets and broadens the information that an entity can consider when measuring credit losses to include forward looking information. The new guidance affects the Company's trade receivables and contract assets. The ASU is effective for the Company for fiscal years beginning after December 15, 2022. On January 1, 2023, ABS recorded a reduction to the allowance for credit losses of $7.1 million.

**3. Financial Assets and Liquidity**

The Company's financial assets available within one year of the balance sheet date, December 31, 2022, for general expenditures are as follows:

| | |
|---|---|
| Cash and cash equivalents | **$ 95,839** |
| Accounts receivable | **88,440** |
| Short-term investments | **147,076** |
| Other investments | **1,016,022** |
| | **$ 1,347,377** |

The Company does not have any restricted funds, therefore the above financial assets are available for general expenditure. The Company structures its financial assets to be available as general expenditures, liabilities and other obligations come due. Cash and cash equivalent balances are maintained to support daily operations throughout the year. The Company manages a short-term investment portfolio to provide an additional layer of liquidity if needed. The investment portfolio that represents the above other investments is designed to be held for a longer term but is available to meet short-term liquidity needs. In addition to help manage unanticipated liquidity needs, the Company has a $100 million credit facility with available capacity of $85.9 million at December 31, 2022 (see Note 6).

Cash and cash equivalents at December 31, 2022 consist of the following (in thousands):

| | |
|---|---|
| Cash | **$ 75,374** |
| Cash equivalents in investment portfolios | **12,430** |
| Time deposits | **8,035** |
| Cash and cash equivalents | **$ 95,839** |

**3. Financial Assets and Liquidity (continued)**

Cash equivalents in investment portfolios consists of investment funds that are valued on a reported NAV per unit of the fund based on current fair values of the underlying investments. The underlying investments have readily observable inputs for valuation assessment, generally quoted prices for similar assets in active markets. These investment funds are not a money market fund registered with the Securities and Exchange Commission.

Time deposits are cash with financial institutions and banks that generate interest based on prevailing rates. These time deposits have original maturities as short as one day, but no more than three months. The fair value of the time deposits is equivalent to the actual amount of cash on deposit.

**4. Investments**

The placement in the fair value hierarchy, cost, gross unrealized gains and losses, and fair value of investments at December 31, 2022 are as follows (in thousands):

| | Fair Value Hierarchy | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| Equity securities: | | | | | |
| Domestic | 1 | $ 142,543 | $ 18,386 | $ (22,491) | $ 138,438 |
| International | 1 | 13,516 | 1,896 | (1,355) | 14,057 |
| Preferred stock | 1 | 41 | 2 | (10) | 33 |
| Total equity securities | | 156,100 | 20,284 | (23,856) | 152,528 |
| Debt securities: | | | | | |
| U.S. treasuries | 2 | 137,135 | 2 | (7,945) | 129,192 |
| Government agencies | 2 | 6,824 | - | (296) | 6,528 |
| Corporate debt securities | 2 | 263,828 | 137 | (27,854) | 236,111 |
| Commercial paper | 2 | 35,252 | – | – | 35,252 |
| Total debt securities | | 443,039 | 139 | (36,095) | 407,083 |
| Mutual funds | 1 | 109,942 | 1,028 | (8,737) | 102,233 |
| Exchange traded funds | 1 | 306,096 | 34,315 | (19,710) | 320,701 |
| Limited partnership interests | NAV | 114,169 | 67,619 | (1,235) | 180,553 |
| Total investment securities | | $ 1,129,346 | $ 123,385 | $ (89,633) | $ 1,163,098 |

**4. Investments (continued)**

Loss from investment securities and financial instruments, net for the year ended December 31, 2022, consists of the following (in thousands):

| | |
|---|---|
| Investment securities: | |
| Interest and dividends | **$ 37,935** |
| Unrealized loss, net | **(186,909)** |
| Realized gain on sale, net | **20,472** |
| Total loss from investment securities, net | **(128,502)** |
| | |
| Income from cash and cash equivalents | **183** |
| Investment management fees | **(6,149)** |
| Other | **(228)** |
| Total loss from investment securities and financial instruments, net | **$ (134,696)** |

The Company's portfolio holdings are held for a total return investment objective. Investment managers are governed by an investment policy with guidelines intended to limit exposure to credit risk and provide for a diversified portfolio of fixed income, equity and other investment holdings. Concentration of credit risk associated with investments is limited due to the diversified nature of the Company's portfolio. Unrealized losses within the fixed income portfolio arise primarily from changes in interest rates and adverse credit rating changes.

**5. Property and Equipment**

At December 31, 2022, property and equipment and the related accumulated depreciation and amortization consisted of the following (in thousands):

| | |
|---|---|
| Buildings | **$ 818** |
| Furniture and equipment | **28,681** |
| Leasehold improvements | **33,283** |
| | **67,782** |
| Less accumulated depreciation and amortization | **27,250** |
| Property and equipment, net | **$ 35,532** |

**5. Property and Equipment (continued)**

Depreciation and amortization expense of property and equipment was $4.7 million for the year ended December 31, 2022.

**6. Pension Plans**

The Company amended the US pension plan in 2021 to close the plan to new participants as of January 1, 2022. U.S. employees hired prior to this date are covered under a noncontributory defined benefit pension plan which is funded. Foreign nationals are covered under either contributory or noncontributory defined benefit pension plans, several of which are funded on an insured basis or through a trust arrangement.

Independent actuarial valuations are used to measure pension costs and to determine the amount of contributions to U.S. and non-U.S. defined benefit pension plans, which are in accordance with their respective regulatory requirements. The projected unit credit actuarial cost method is used to determine pension cost. The Company uses a December 31 measurement date for its pension plans.

**6. Pension Plans (continued)**

The following table sets forth the plans' projected benefit obligation, fair value of plan assets, funded status, and accrued benefit cost at December 31, 2022 (in thousands):

| | U.S. | Non-U.S. | Total |
|---|---|---|---|
| Projected benefit obligation | $ (331,640) | $ (106,856) | $ (438,496) |
| Fair value of plan assets | 381,751 | 142,425 | 524,176 |
| Funded status | $ 50,111 | $ 35,569 | $ 85,680 |
| Accumulated benefit obligation | $ (288,015) | $ (92,753) | $ (380,768) |
| Amounts recognized in the balance sheet consist of: | | | |
| Noncurrent assets | $ 54,362 | $ 37,502 | $ 91,864 |
| Current liabilities | - | (193) | (193) |
| Noncurrent liabilities | (4,251) | (1,740) | (5,991) |
| Net amount recognized | $ 50,111 | $ 35,569 | $ 85,680 |
| Amounts not yet reflected in net periodic cost and included in Surplus: | | | |
| Prior service cost | $ – | $ (584) | $ (584) |
| Accumulated loss | (126,065) | (16,498) | (142,563) |
| Recognized in Surplus | (126,065) | (17,082) | (143,147) |
| Cumulative employer contributions in excess of net periodic cost | 176,176 | 52,651 | 228,827 |
| Net amount recognized | $ 50,111 | $ 35,569 | $ 85,680 |

**6. Pension Plans (continued)**

Actuarial gains related to projected benefit obligations of U.S. defined benefit pension plans was $129.3 million for the year ended December 31, 2022. The gain was primarily the result of the increase in discount rates.

Actuarial gains related to projected benefit obligations of non-U.S. defined benefit pension plans was $44.2 million for the year ended December 31, 2022. The gain was primarily the result of the increase in discount rates. Other significant factors were gains caused by exchange rate movements for the international plans which were partially offset by demographic and inflationary assumption changes, and census updates.

The aggregate projected benefit obligation of defined benefit pension plans with projected benefit obligations in excess of plan assets (unfunded plans) was $6.2 million as of December 31, 2022. The aggregate accumulated benefit obligation of defined benefit pension plans with accumulated benefit obligations in excess of plan assets (unfunded plans) was $4.4 million as of December 31, 2022.

The following table sets forth the plans' weighted-average assumptions used to determine the benefit obligations as of December 31, 2022:

| | **U.S.** | **Non-U.S.** |
|---|---|---|
| Discount rate | **5.49%** | **4.21%** |
| Expected long-term rate of return on plan assets | **6.25** | **4.31** |
| Rate of compensation increase | **4.30** | **3.95** |

**6. Pension Plans (continued)**

The following table sets forth the plans' weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31, 2022:

| | U.S. | Non-U.S. |
|---|---|---|
| Discount rate - service cost | **3.21%** | **2.63%** |
| Discount rate - interest cost | **2.74%** | **2.41%** |
| Expected long-term rate of return on plan assets | **6.25** | **4.31** |
| Rate of compensation increase | **3.33** | **3.95** |

The expected long-term rate of return on plan assets assumption is based upon estimates of the long-term inflation rate and the relationship of the market risk premiums of the assets in the portfolio over the same period.

To meet the plan requirements, the investment strategy utilized by the Company's U.S. Bureau pension plan and International Benefit Plan is to emphasize total return, while providing protection against changes in the discount rate utilized in the valuation of the underlying plan liabilities. The investment strategy utilized by the Company's other pension plans is to emphasize total return. This includes all inflation-adjusted earnings through capital appreciation and investment income to meet the current and future financial requirements of the plan.

Plan assets are invested in well-diversified portfolios of equities (including domestic and international commingled fund-equity), debt securities (including commingled fund fixed income), exchange traded funds, cash and cash equivalents (including short-term investment funds), and a limited partnership interest (fund of funds).

The asset allocation strategy varies by plan. The following table reflects the actual asset allocations for pension plan assets as of December 31, 2022:

| | |
|---|---|
| Debt securities | **44%** |
| Equity securities | **55** |
| Limited partnerships | **1** |

The asset mix at December 31, 2022 approximates the targeted portfolio mix.

**6. Pension Plans (continued)**

Fair value and NAV measurements at December 31, 2022 are as follows (in thousands):

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
| **Assets** | | | | |
| Equity securities: | | | | |
| Commingled fund – equity | $ 192,693 | $ 3,750 | $ – | $ 196,443 |
| Debt securities: | | | | |
| Commingled fund – fixed income | 229,216 | 2,249 | – | 231,465 |
| Cash and cash equivalents | 449 | – | – | 449 |
| Exchange traded funds | 91,135 | – | – | 91,135 |
| | $ 513,493 | $ 5,999 | $ – | 519,492 |
| Limited partnership interest measured at NAV | | | | 4,684 |
| Total | | | | $ 524,176 |

The following table sets forth the plans' benefit costs, contributions, and benefits paid for the year ended December 31, 2022:

| | U.S. | Non-U.S. |
|---|---|---|
| Periodic benefit cost | $ 5,320 | $ 544 |
| Employer contributions | 1,049 | 1,729 |
| Benefits paid | 38,487 | 7,839 |

**6. Pension Plans (continued)**

The following table sets forth the change recognized in Surplus during 2022 (in thousands):

| | U.S. | Non-U.S. |
|---|---|---|
| Net gain (loss) arising during the year | **$ (28,195)** | **$ 718** |
| Effect of exchange rates on amounts included in AOCI | **–** | **753** |
| Amortization or curtailment recognition of prior service cost | **–** | **120** |
| Amortization or settlement recognition of net loss | **4,248** | **286** |
| Total change recognized in Surplus | **$ (23,947)** | **$ 1,877** |

The Company estimates that the annual benefits paid by the plans for the next five years and in the aggregate for the next five years after that will be as follows (in thousands):

| | U.S. | Non-U.S. | Total |
|---|---|---|---|
| 2023 | **$ 22,479** | **$ 5,819** | **$ 28,298** |
| 2024 | **21,824** | **6,291** | **28,115** |
| 2025 | **25,106** | **5,962** | **31,068** |
| 2026 | **25,414** | **6,373** | **31,787** |
| 2027 | **24,992** | **6,501** | **31,493** |
| Next five years | **125,278** | **35,075** | **160,353** |

The Company expects to contribute $1.5 million to the non-U.S. plans in 2023.

**7. Postretirement Benefits**

The Company provides certain health care and life insurance benefits to eligible retired U.S. employees, generally age 62 with 10 years of service, or anyone who had at least 15 years of service as of January 1, 2011. New entrants were excluded beginning in 2013. In 2020, effective July 1, 2021, the Company adopted an amendment to move from the ABS sponsored medical plan to individual plans from the Medicare Supplement/Medicare Advantage plan marketplace. Plan participants participate in a Medicare Exchange which provides plan participants with a large selection of individual medical and prescription drug plans from multiple insurance companies. The Company recognizes the cost of providing postretirement benefits, including health care and life insurance coverage, during the active service period of the employee. The majority of the benefits are funded through a Voluntary Employee Beneficiary Association trust. The Company uses a measurement date of December 31 for its postretirement benefit plans.

The following table sets forth the plans' benefit obligation, fair value of plan assets, funded status, and accrued benefit cost at December 31, 2022 (in thousands):

| | | |
|---|---|---|
| Benefit obligation | **$** | **(65,932)** |
| Fair value of plan assets | | **100,827** |
| Funded status | **$** | **34,895** |
| | | |
| Amounts recognized in balance sheet consist of the following: | | |
| Noncurrent assets | **$** | **36,469** |
| Current liabilities | | **(152)** |
| Noncurrent liabilities | | **(1,422)** |
| Net amount recognized | **$** | **34,895** |
| | | |
| Amounts not yet reflected in net periodic cost and included in Surplus: | | |
| Prior service credit | **$** | **28,693** |
| Accumulated loss | | **(13,874)** |
| Recognized in Surplus | | **14,819** |
| Cumulative net periodic cost in excess of employer contributions | | **20,076** |
| Net amount recognized | **$** | **34,895** |

**7. Postretirement Benefits (continued)**

Actuarial gain related to projected benefit obligations was $29.2 million for the year ended December 31, 2022. The gain was primarily the result of the increase in discount rate, partially offset by a change in the actuarial assumption. Other significant factors were gains caused by actuarial assumption changes, the end of the Catastrophic RX benefit due to the Inflation Reduction Act during 2022 and updates to the per capita claims costs partially offset by losses caused by census and other experience. Other significant factors were net gains/losses due to updates for experience, census, underwriting, and mortality improvement scale.

The following table sets forth the plans' weighted-average assumptions used to determine the benefit obligation as of December 31, 2022:

| | |
|---|---|
| Discount rate | **5.43%** |
| Expected long-term rate of return on plan assets | **6.25** |
| Rate of compensation increase | **4.30** |

The following table sets forth the plans' weighted-average assumptions used to determine the net periodic benefit cost for the year ended December 31, 2022:

| | |
|---|---|
| Discount rate | **2.93%** |
| Expected long-term rate of return on plan assets | **6.25** |
| Rate of compensation increase | **3.33** |

The following table sets forth the plans' assumed health care cost trend rates used to determine the postretirement benefit obligation for December 31:

| | **2022** | **2021** |
|---|---|---|
| Initial health care trend rate assumed | **6.60%** | 6.90% |
| Ultimate health care trend rate | **4.50%** | 4.50% |
| Year that the ultimate health care trend rate is reached | **2030** | 2030 |

**7. Postretirement Benefits (continued)**

The initial health care trend rate assumed above represents the rate at the end of the period noted and assumed for the determination of the net periodic benefit cost for the following year.

The long-term rate of return on assets assumption is based upon estimates of the long-term inflation rate and the relationship of the market risk premiums of the assets in the portfolio over the same period.

In order to meet the plan requirements, the investment strategy utilized by the plan is to emphasize total return. This includes all inflation-adjusted earnings through capital appreciation and investment income to meet the current and future financial requirements of the plan.

Plan assets are invested in a well-diversified portfolio of debt securities (including corporate and government bonds), cash and cash equivalents (including short-term investment funds), exchange traded funds, stocks, and a limited partnership interest (fund of funds).

The following table reflects the actual asset allocations for the postretirement benefit plan assets at December 31, 2022:

| | |
|---|---|
| Equity securities | **50%** |
| Limited partnership interest | **28** |
| Debt securities | **20** |
| Cash and cash equivalents | **2** |

The asset mix at December 31, 2022 approximates the targeted portfolio mix.

**7. Postretirement Benefits (continued)**

Fair value measurements at December 31, 2022 are as follows (in thousands):

| | Level 1 Inputs | Level 2 Inputs | Total |
|---|---|---|---|
| **Assets** | | | |
| Debt securities: | | | |
| U.S. treasuries | $ – | $ 19,486 | $ 19,486 |
| Corporate | – | 807 | 807 |
| Total debt | – | 20,293 | 20,293 |
| Equity securities – International stocks | 7,975 | – | 7,975 |
| Cash and cash equivalents | 2,417 | – | 2,417 |
| Exchange traded funds | 42,081 | – | 42,081 |
| | $ 52,473 | $ 20,293 | 72,766 |
| Limited partnership interest measured at NAV | | | 28,061 |
| Total | | | $ 100,827 |

The following table sets forth the plans' benefit income, contributions and benefits paid for the year ended December 31, 2022 (in thousands):

| | |
|---|---|
| Benefit income | $ (6,187) |
| Employer contributions | 104 |
| Participant contributions | 304 |
| Benefits paid | 3,918 |

The following table sets forth the change recognized in Surplus during 2022 (in thousands):

| | |
|---|---|
| Net gain arising during the year | $ 10,066 |
| Amortization or curtailment recognition of prior service credit | (3,723) |
| Amortization or settlement recognition of net loss | 1,434 |
| Total change recognized in Surplus | $ 7,777 |

**7. Postretirement Benefits (continued)**

The Company expects to pay benefits related to its postretirement benefit plans for the next five years and in the aggregate for the next five years after that as follows (in thousands):

| | |
|---|---|
| 2023 | **$ 5,015** |
| 2024 | **4,927** |
| 2025 | **4,841** |
| 2026 | **4,815** |
| 2027 | **4,959** |
| Next five years | **23,926** |

The Company expects to contribute $0.2 million in cash to the postretirement benefit plan in 2023.

**8. Income Taxes**

Total income tax expense for the year ended December 31, 2022 was allocated as follows (in thousands):

| | |
|---|---|
| Income from operations | **$ 10,732** |
| Tax effect of items through accumulated other comprehensive income | **(228)** |
| | **$ 10,504** |

**8. Income Taxes (continued)**

Income tax expense is comprised of the following (in thousands):

| | | |
|---|---|---|
| Current expense | $ | **9,610** |
| Deferred expense | | **1,122** |
| | $ | **10,732** |

The tax effects of temporary differences that give rise to the deferred tax balances at December 31, 2022 are as follows (in thousands):

| | | |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ | **1,837** |
| Accruals for pensions and postretirement benefits | | **298** |
| Allowance for doubtful accounts | | **507** |
| Other accruals and credits, net | | **2,123** |
| Total gross deferred tax assets | | **4,765** |
| | | |
| Valuation allowance | | **(1,756)** |
| Deferred tax asset | | **3,009** |
| | | |
| Deferred tax liabilities: | | |
| Accruals for pensions and postretirement benefits | | **4,147** |
| Withholding taxes on future remittances to Corporate | | **6,314** |
| Long-term contracts | | **2,725** |
| Other | | **1,063** |
| Total deferred tax liability | | **14,249** |
| Net deferred tax liability | $ | **(11,240)** |

**8. Income Taxes (continued)**

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective income tax rate for 2022 is as follows (in thousands):

| | Income | Tax | Rate |
|---|---|---|---|
| Revenue in excess of (less than) expense before income taxes | $ (125,006) | | |
| Statutory U.S. tax rate | | $ (26,251) | 21.0% |
| Income exempt from U.S. income taxes | | 29,135 | (23.3) |
| Items disallowed for tax purposes | | 1,926 | (1.5) |
| Items taxed at non-U.S. rates | | 1,357 | (1.1) |
| Change in valuation allowance | | 164 | (0.1) |
| Uncertain tax positions | | (381) | 0.3 |
| Withholding taxes | | 3,401 | (2.7) |
| Miscellaneous adjustments | | 1,381 | (1.1) |
| Provision for income taxes | | $ 10,732 | (8.6)% |

In 2022, the effective tax rate for the Company was (8.6%) primarily due to losses arising in tax exempt locations which are not deductible for tax purposes.

The net change in the valuation allowances for the year ended December 31, 2022 was an increase of $0.2 million caused primarily by operating losses incurred. The Company has a valuation allowance against various deferred tax assets because it is more likely than not that these assets will not be realized in the foreseeable future. The amount of the asset considered realizable may change if estimates of future taxable income in various locations change.

At December 31, 2022, the Company had foreign net operating losses of $10.5 million. The net operating losses will begin expiring in 2023.

The Company is subject to income tax in many jurisdictions, including the U.S. The Company has tax years open to examination for the years 2020-22 in the U.S. and 2013-2022 in various foreign locations. While the outcome of tax audits is uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to arise.

**8. Income Taxes (continued)**

The Company recognizes interest and penalties related to its expected tax adjustments in current income tax expense. The Company recognized a net decrease in income tax expense in respect of uncertain tax provisions of $0.7 million due to items falling out of statute, increased by additional taxes, interest and penalties of $0.1 million for the year ended December 31, 2022. None of the audit adjustments, if assessed, are expected to be individually material to the Company's financial position, results of operations or cash flows.

**9. Revenue**

Substantially all revenue reported on the Statement of Revenue in Excess of (Less Than) Expense and Surplus is derived from contracts with customers. The Company recognizes revenue over time.

The Company’s contracts vary by service line and generally are either based upon a fixed price or provided on a time and materials basis.

The following table presents the Company’s revenue disaggregated by contract type for the year ended December 31, 2022:

| | |
|---|---|
| Fixed price of a long-term nature | **$ 60,396** |
| Fee schedule of a short-term nature | **390,454** |
| Time and materials and other contracts | **19,065** |
| Total Revenue | **$ 469,915** |

Fixed price contracts of a long-term nature are related to construction of new vessels and major modification of existing vessels. These contracts generally require multiple months or years to complete. These types of contracts represent the Company’s highest amount of performance risk since the Company is required to deliver a scope of work or level of effort for a negotiated fixed price. These contracts also require the most judgment due to the size of the projects and subjectivity of estimating hours in establishing the budget and forecasting hours to complete a project in process. The majority of the work is performed in the Greater China and North Pacific regions. These contracts are billed on a milestone basis or monthly over the term of the contract.

**9. Revenue (continued)**

Services invoiced based on the Company's fee schedules are surveys of materials and equipment and periodic inspections of existing vessels and structures. These services are mostly of a short-term nature, requiring few hours and small monetary consideration. Due to the short-term nature and scope of the work, these contracts pose little risk. These services are provided throughout the world. Inspection of materials and equipment is slightly more weighted to the eastern hemisphere whereas the inspections of existing vessels and structures is more weighted to the western hemisphere.

Time-and-materials contracts are of a long-term and short-term nature and are mostly associated with new construction, major modification and certification work. These contracts require the Company to provide services for negotiated fixed hourly rates. Since the Company is not required to deliver a scope of work prior to billing it considers these contracts to be less risky than a fixed-price agreement. The other contracts are generally of a short-term nature and are associated with inspections and other services. Due to the short-term nature and scope of the work, these contracts pose little risk. These services are provided throughout the world with no concentration in a certain region.

**Contract Assets and Liabilities**

Contract assets consist of unbilled revenue for services performed but not yet billed to clients and are reported as deferred expense and unbilled revenue in the Balance Sheet. The services have been performed, but the Company is not yet entitled to bill the clients because certain events, such as the completion of the project, attainment of a milestone, or timing per the billing agreement, must occur prior to billing. The Company's contract liabilities consist of advance payments and billings more than revenue recognized and are reported as deferred revenue in the Balance Sheet.

**10. Leases**

The following tables illustrate the financial impact of leases as of and for the year ended December 31, 2022, along with other supplemental information about existing leases (in thousands):

| | | |
|---|---|---|
| Components of lease expense: | | |
| Finance lease cost: | | |
| Amortization of right-of-use assets | $ | **1,205** |
| Interest on lease liabilities | | **82** |
| Operating lease cost | | **11,165** |
| Short-term lease cost | | **2,147** |
| Total lease cost | $ | **14,599** |
| Operating leases: | | |
| Operating lease assets | $ | **77,852** |
| Operating lease liabilities – current [1] | | **9,184** |
| Operating lease liabilities – noncurrent | | **100,370** |
| Finance leases: | | |
| Finance lease assets [2] | $ | **3,686** |
| Finance lease liabilities – current [1] | | **1,459** |
| Finance lease liabilities – noncurrent [2] | | **2,273** |

(1) Operating lease liabilities - current and Finance lease liabilities - current are included in Accounts payable and accrued expenses in the Company's Balance Sheet.

(2) Finance lease assets are included in Other long-term assets and Finance lease liabilities - noncurrent are included in Other long-term liabilities in the Company's Balance Sheet.

## 10. Leases (continued)

| | |
|---|---|
| Other supplemental information: | |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ **12,374** |
| Operating cash flows from finance leases | **82** |
| Financing cash flows from finance leases | **1,196** |
| | |
| Right-of-use assets obtained in exchange for new Lease obligations: | |
| Operating leases | **3,035** |
| Finance leases | **2,293** |
| Weighted-average remaining lease terms: | |
| Operating leases | **13.03 years** |
| Finance leases | **2.87 years** |
| Weighted-average discount rate for operating leases | **2.51%** |
| Weighted-average discount rate for finance leases | **3.88%** |

The following table summarizes the maturity of operating and finance leases as of December 31, 2022 (in thousands):

| | Operating Leases | Finance Leases |
|---|---|---|
| 2023 | $ **12,364** | $ **1,567** |
| 2024 | **11,417** | **1,241** |
| 2025 | **9,298** | **812** |
| 2026 | **8,478** | **321** |
| 2027 | **8,553** | **–** |
| Thereafter | **80,994** | **–** |
| Total lease payments | **131,104** | **3,941** |
| Less imputed interest | **(21,550)** | **(210)** |
| Total | $ **109,554** | $ **3,731** |

## 11. Commitments and Contingencies

### Letters of Credit

On July 29, 2021, ABS and ABSG Consulting Inc., a wholly owned subsidiary of ABS Group, entered into a $100.0 million, three year unsecured revolving credit facility with PNC Bank. Under the agreement with PNC Bank, ABS and ABSG Consulting Inc. guarantee each other's liability. At December 31, 2022, ABS Consulting Inc. had $14.1 million of borrowings outstanding under the $100.0 million revolving credit facility. These borrowings were repaid in June 2023. The interest rate for any future borrowings will be based on PRIME or the Secured Overnight Financing Rate (SOFR) at the borrower's option.

The Company pays a commitment fee on the unused portion of the credit facility. The credit facility contains a sublimit of $25.0 million for the issuance of letters of credit. At December 31, 2022, the Company had outstanding letters of credit of $1.4 million. The Company and its unconsolidated subsidiaries had $0.4 million and $4.0 million, respectively, of letters of credit outstanding under the revolving credit facility.

The credit facility includes covenants which, among other things, require the Company and its subsidiaries to maintain a funded debt to total capitalization ratio of less than 40%. At December 31, 2022, the Company was in compliance with all covenants.

### Prestige Litigation

In 2003, the Company was sued by the Kingdom of Spain and several Basque regions due to the sinking of the ABS classed vessel "Prestige" off the coast of Spain in November 2002 and resulting oil spill. Ultimately, the complaint by the Basques was dismissed with prejudice and ABS prevailed against the Kingdom of Spain when, in August 2012, the 2nd Circuit Court of Appeals ruled in favor of ABS on an appeal, effectively ending the case in the United States.

In March 2010, the French government brought an action against the Company seeking €67.0 million in damages arising out of the same oil spill. The parties are in the process of making final submissions on the merits of all issues. As the Company believes it has a viable legal defense of time bar, it does not believe that a loss is probable at this time and is, therefore, unable to reasonably estimate the potential loss or range of loss, if any, arising from this matter. Therefore, no loss has been recorded in the accompanying financial statements.

**11. Commitments and Contingencies (continued)**

In November 2012, the International Oil Pollution Compensation (IOPC) Fund filed a suit in France against ABS. The IOPC is seeking recovery of €14.4 million in damages that it claims to have paid to the victims (mainly Spanish interests) of the resulting oil spill. ABS submitted procedural defenses of immunity, res judicata and statute of limitations on March 8, 2022, and in January 2023, the IOPC filed their legal submissions along with exhibits. ABS has until May 9, 2023, to submit a response. Due to the significant procedural defenses, the Company does not believe that a loss with respect to the IOPC claims is probable at this time and is, therefore, unable to reasonably estimate the potential loss or range of loss, if any, arising from this matter. Therefore, no loss has been recorded in the accompanying financial statements.

**Other Litigation**

The Company is involved, from time to time, in various other legal proceedings arising in the ordinary course of business. While the ultimate results of the proceedings cannot be predicted with certainty, the Company's management believes these claims will not have a material effect on the Company's financial position, results of operations, or cash flows.

**12. Related Parties**

The Company has transactions with its unconsolidated subsidiaries in the normal course of business. The transactions are presented on the Statement of Revenue in excess of (less than) expense and the Due from affiliates and Due to affiliates are presented on the Balance Sheet. The transactions and balances are mostly the result of one entity providing services to the other entity's customers. To a lesser extent they include the allocation of general and administrative costs and technology costs. The balances are also the result of moving cash to and from the Company's unconsolidated subsidiaries. The due to\from affiliates balances are non-interest bearing and generally have no payment terms. Certain balances are settled periodically.

**13. Classification of Expenses**

The Company reports expenses in its statement of Revenue in Excess of (Less Than) Expense by function: Direct operating and General and administrative. The natural classification of expenses by function for the year ended December 31, 2022, consisted of the following:

| | Direct Operating | General and Administrative | Total Expenses |
|---|---|---|---|
| Salaries and Benefits | $ 211,114 | $ 75,075 | $ 286,189 |
| Outside services | 16,003 | 31,478 | 47,481 |
| Travel and transportation | 8,088 | 2,338 | 10,426 |
| Systems and telecommunications | 13,698 | 3,402 | 17,100 |
| Facility and maintenance costs | 10,911 | 6,956 | 17,867 |
| Insurance and other | 35,548 | 12,491 | 48,039 |
| Depreciation and amortization | 7,979 | 3,221 | 11,200 |
| Direct operating expenses - affiliates | 87,521 | - | 87,521 |
| Expense allocations to affiliates | (7,519) | (23,330) | (30,849) |
| | 383,343 | 111,631 | 494,974 |
| Other components of pension expense | (17,954) | (10,450) | (28,404) |
| | $ 365,389 | $ 101,181 | $ 466,570 |

**14. Subsequent Events**

The Company has evaluated all other subsequent events through August 31, 2023, which is the date the financial statements were available to be issued.

**American Bureau of Shipping**
**Schedule of Expenditures of Federal Awards**
**Year Ended December 31, 2022**

| Cluster / Federal Program | Assistance Listing # | Direct | Pass-Through | Pass-Through Entity | Pass-Through Entity Sponsor Number | Total Federal Expenditures | Passed to Sub-Recipients |
|---|---|---|---|---|---|---|---|
| ***Research and Development Cluster*** | | | | | | | |
| **Department of Commerce** | | | | | | | |
| **National Institute of Standards and Technology** | | | | | | | |
| Measurement and Engineering Research and Standards | 11.609 | $ 469,380 | | | | $ 469,380 | $ 378,253 |
| **Total Department of Commerce** | | **$ 469,380** | **-** | | | **$ 469,380** | **$ 378,253** |
| **Department of Energy** | | | | | | | |
| **Office of Nuclear Energy** | | | | | | | |
| Nuclear Energy Research, Development and Demonstration | 81.121 | $ 34,535 | | | | $ 34,535 | |
| **Advanced Research Projects Agency** | | | | | | | |
| Advanced Research Projects Agency - Energy | 81.135 | | $ 7,682 | University of Maine | UMS-1258 | 7,682 | |
| Advanced Research Projects Agency - Energy | 81.135 | | 10,349 | Kent Houston Offshore Engineering, LLC | ABS-061720 | 10,349 | |
| Advanced Research Projects Agency - Energy | 81.135 | | 8,360 | Principle Power Inc | 145018 | 8,360 | |
| Advanced Research Projects Agency - Energy | 81.135 | | 294,108 | Principle Power Inc | DE-AR0001178 | 294,108 | |
| Advanced Research Projects Agency - Energy | 81.135 | | 194,623 | FPS Engineering and Technology LLC | DE-AR0001302 | 194,623 | |
| Advanced Research Projects Agency - Energy | 81.135 | | 73,237 | Colorado School of Mines | 401764-5801 | 73,237 | |
| **Office of Energy Efficiency and Renewable Energy** | | | | | | | |
| Renewable Energy Research and Development | 81.087 | | 7,110 | University of Maine | UMS1277 | 7,110 | |
| Renewable Energy Research and Development | 81.087 | | 88,480 | Pacific Ocean Energy Trust (POET) | Master Network Facility Agreement (ABS)-Task Order 3C | 88,480 | |
| Renewable Energy Research and Development | 81.087 | | 96,080 | Pacific Ocean Energy Trust (POET) | Master Network Facility Agreement (ABS)-Task Order 3B | 96,080 | |
| Renewable Energy Research and Development | 81.087 | | 9,840 | Pacific Ocean Energy Trust (POET) | Master Network Facility Agreement (ABS)- Task Order 3A | 9,840 | |
| Renewable Energy Research and Development | 81.087 | | 6,952 | Principle Power Inc | 154626 | 6,952 | |
| **Total Department of Energy** | | **$ 34,535** | **$ 796,821** | | | **$ 831,356** | |
| **Department of Human and Health Services** | | | | | | | |
| **Center for Disease Control and Prevention (CDC)** | | | | | | | |
| Occupational Safety and Health Program | 93.262 | $ 206,119 | | | | $ 206,119 | $ 157,145 |
| Occupational Safety and Health Program | 93.262 | 160,645 | | | | 160,645 | 9,111 |
| Occupational Safety and Health Program | 93.262 | 5,984 | | | | 5,984 | 3,835 |
| **Total Department of Human and Health Services** | | **$ 372,748** | | | | **$ 372,748** | **$ 170,091** |
| **Department of Interior** | | | | | | | |
| **Bureau of Safety and Environmental Enforcement** | | | | | | | |
| Safety and Environmental Research and Data Collection for Offshore Energy and Mineral Activities | 15.441 | | $ 3,060 | Texas A&M Engineering Experiment Station | M2102650 | $ 3,060 | |
| **Total Department of Interior** | | | **$ 3,060** | | | **$ 3,060** | |
| **Department of Transportation** | | | | | | | |
| **The Maritime Administration** | | | | | | | |
| Air Emissions and Energy Initiative | 20.817 | | $ 11,102 | The International Council on Clean Transportation (ICCT) | | $ 11,102 | |
| **Total Department of Transportation** | | | **$ 11,102** | | | **$ 11,102** | |
| **National Science Foundation (NSF)** | | | | | | | |
| Engineering | 47.041 | | $ 56,088 | University of Florida | 2128895 | $ 56,088 | |
| **Total Department of Natural Science Foundation** | | | **$ 56,088** | | | **$ 56,088** | |
| **Total Award Expenditures** | | **$ 876,663** | **$ 867,071** | | | **$ 1,743,734** | **$ 548,344** |

# Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation

   The accompanying schedule of expenditures of federal awards (the "Schedule") is presented on the accrual basis of accounting. The purpose of this schedule is to present a summary of those activities of American Bureau of Shipping for the year ended December 31, 2022 which have been financed by the United States government ("federal awards"). For purposes of this Schedule, federal awards include all federal assistance awarded directly between American Bureau of Shipping and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. The information in this Schedule is presented in accordance with the requirements of Title 2, *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).* Pass-through entity identification numbers and Assistance Listing numbers have been provided where available.

2. Indirect Cost Rate

   American Bureau of Shipping claims indirect cost recovery using rates that have been negotiated and approved within most awards. To the extent an indirect cost rate is not included in an individual award we use the 10% de minimis indirect cost rate.

## Part II

## Reports on Internal Control and Compliance

**Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To Management and the Board of Directors of
American Bureau of Shipping

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of American Bureau of Shipping (the "Company"), which comprise the balance sheet as of December 31, 2022, and the related statement of revenue in excess of (less than) expense and surplus and of cash flow for the year then ended, including the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated August 31, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Houston, Texas
August 31, 2023

**Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance**

To Management and the Board of Directors of
American Bureau of Shipping

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited American Bureau of Shipping's (the "Company") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended December 31, 2022. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Company's federal programs.

***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. 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 US GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detectingmaterial noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Company's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs and corrective action plan. The Company's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Houston, Texas
August 31, 2023

# Part III

# Findings

# American Bureau of Shipping and the Schedule of Findings and Questioned Costs

## I. Summary of Auditor's Results

**Financial Statements**

| | | |
|---|---|---|
| Type of auditor's report issued | Unmodified | |
| Internal control over financial reporting | | |
| Material weakness(es) identified? | ___ yes | _x_ no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | ___ yes | _x_ none reported |
| Noncompliance material to financial statements noted? | ___ yes | _x_ no |

**Federal Awards**

| | | |
|---|---|---|
| Internal control over major programs | | |
| Material weakness(es) identified? | ___ yes | _x_ no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | ___ yes | _x_ none reported |
| Type of auditor's report issued on compliance for major programs | Unmodified | |
| Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)? | _x_ yes | ___ no |

**Identification of Major Programs**

| Assistance Listing Number(s) | Name of Federal Program/Cluster |
|---|---|
| Various | Research and Development Cluster |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $ 750,000 | |
| Auditee qualified as a low-risk auditee? | ___ yes | _x_ no |

## II. Financial Statement Findings

None noted.

American Bureau of Shipping and the Schedule

of Findings and Questioned Costs

## III. Federal Award Findings and Questioned Costs

### 2022-001 – Subrecipient Monitoring

**Cluster:** Research and Development
**Agency:** Department of Commerce and Department of Health and Human Services
**Award Names:** Standards/Guidance for Rapid Qualification of Metal-Based Additive Manufacturing and Development and Testing a Field-based Hazard/Near-Miss Sharing System for Commercial Fishing Vessels
**Award Numbers:** 70NANB21H038 and U01OH012288
**Assistance Listing Title:** Measurement and Engineering Research and Standards and Occupational Safety and Health Program
**Assistance Listing Number:** 11.609 and 93.262
**Award Year:** FY 2022

**Criteria**

2 CFR 200.332(d) notes that pass-through entity monitoring of the subrecipient must include:

1. Reviewing financial and performance reports required by the pass-through entity.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular subaward.
3. Issuing a management decision for applicable audit findings pertaining only to the Federal award provided to the subrecipient from the pass-through entity as required by 2 CFR 200.521.

2 CFR 200.332(f) notes that a pass-through entity must verify that every subrecipient is audited as required by the Uniform Guidance when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in 2 CFR 200.501.

**Condition**

Through our testing of 4 subrecipients out of a population of 10, we were able to obtain a documented initial risk assessment for each subrecipient selected and other evidence of monitoring such as meetings with the subrecipients. However, we were unable to obtain evidence that the Company obtained and reviewed the annual Uniform Guidance report or annual audited financial statements (if the entity was not subject to a Uniform Guidance audit) for each subrecipient selected for testing.

**Cause**

The Company performed an initial risk assessment but did not understand that obtaining the Uniform Guidance reports or financial statements needed to be completed annually as part of their subrecipient monitoring procedures.

**Effect**

The lack of an annual review of subrecipient audits may result in ineligible subrecipients receiving federal awards, subrecipient findings not being fully remediated and other monitoring procedures (based on risk level) not being performed.

**Questioned Costs**

None noted.

**Recommendation**

We recommend the Company implement a policy to review Uniform Guidance reports (or audited financial statements to the extent Uniform Guidance reports are not available) on an annual basis. When reviewing the reports, they should understand the type of opinion(s) expressed and whether there were any findings associated with their awards, document their review and assess whether there is any change in the risk assessment and subsequent monitoring needed of each subrecipient.

**Management' Views and Corrective Action Plan**

Management's Views and Corrective Action Plan are included at the end of this report.

**2022-002 – Budget to Actual Analysis**

**Cluster:** Research and Development
**Supporting Agency:** Department of Health and Human Services and Department of Energy
**Award Names:** Development and Testing a Field-based Hazard/Near-Miss Sharing System for Commercial Fishing Vessels and Aerodynamic Turbines, Lighter and Afloat, with Nautical Technologies and Integrated Servo-control (ATLANTIS)
**Award Numbers:** U01OH012288 and DE-AR0001188

American Bureau of Shipping and the Schedule

of Findings and Questioned Costs

**Assistance Listing Title:** Occupational Safety and Health Program and Advanced Research Projects Agency - Energy
**Assistance Listing Number:** 93.262 and 81.135
**Award Year:** FY 2022

**Criteria**

2 CFR 200.303 notes that a non-Federal entity must:

1. Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
2. Evaluate and monitor the non-Federal entity's compliance with statutes, regulations, and the terms and conditions of Federal awards.

We note that with regards to the Company's internal controls over Federal awards, a monthly budget to actual review is to be performed and review evidenced for each grant to monitor grant activity, including allowability.

**Condition**

We selected 15 months out of a population of 151 possible months across the Research and Development Cluster awards for testing to evidence that a budget to actual review was being performed, as required by Company policy. Through our testing, we noted 5 instances where appropriate supporting documentation was not maintained to support that the budget to actual review was performed. We noted through inquiry of management that for each selection, a review of expenses was performed but evidence was not formally maintained of the budget to actual review. However, when reviewing the award budget and cumulative expenses incurred on the award for each selection, it was noted that each month selected was within budget.

**Cause**

The Company indicated budget to actual monitoring and reviews were not consistently performed due to a lack of clarity in the Company policy. The Company policy did not clearly articulate the process owners by activity, therefore responsible parties were not aware of this required activity.

**Effect**

Lack of executing this control could result in ineligible costs being submitted for payment and jobs going above the agreed upon budget.

**Questioned Costs**

None noted.

**Recommendation**

We recommend the Company review their policies and ensure appropriate communication and coordination amongst relevant parties to ensure the budget to actual review is performed according to policy and appropriate documentation is maintained.

**Management' Views and Corrective Action Plan**

Management's Views and Corrective Action Plan are included at the end of this report.

**Management Views and Corrective Action Plans**

**Finding 2022-001 – Subrecipient Monitoring**

**Cluster:** Research and Development
**Agency:** Department of Commerce and Department of Health and Human Services
**Award Names:** Standards/Guidance for Rapid Qualification of Metal-Based Additive Manufacturing and Development and Testing a Field-based Hazard/Near-Miss Sharing System for Commercial Fishing Vessels
**Award Numbers:** 70NANB21H038 and U01OH012288
**Assistance Listing Title:** Measurement and Engineering Research and Standards and Occupational Safety and Health Program
**Assistance Listing Number:** 11.609 and 93.262
**Award Year:** FY 2022

To ensure American Bureau of Shipping (ABS) is in compliance with 2 CFR 200.332(d) and 2 CFR 200.332(f), ABS will obtain and review annual Uniform Guidance reports or annual audited financial statements (if the entity was not subject to a Uniform Guidance audit) of all subrecipients. ABS has revised its Contracted Research and Development Process Instruction for subrecipient monitoring. The process instruction is supplemented by a subrecipient monitoring form and check sheet. The annual subrecipient monitoring form and check sheet outline the necessary steps to document and interpret the review of Uniform Guidance reports or financial reports. The annual review will be completed within two months of the grant date anniversary. The contracts administrator and project manager will provide two-step verification by reviewing, dating, and signing both the subrecipient monitoring form and check sheet to document their understanding of the type of opinion(s) expressed, findings associated with their awards, document their review, and assess whether there is any change in the initial risk assessment and subsequent monitoring need of each subrecipient. The annual reviews commenced in July 2023.

**Finding 2022-002 – Budget to Actual Analysis**
**Cluster:** Research and Development
**Supporting Agency:** Department of Health and Human Services and Department of Energy
**Award Names:** Development and Testing a Field-based Hazard/Near-Miss Sharing System for Commercial Fishing Vessels and Aerodynamic Turbines, Lighter and Afloat, with Nautical Technologies and Integrated Servo-control (ATLANTIS)
**Award Numbers:** U01OH012288 and DE-AR0001188
**Assistance Listing Title:** Occupational Safety and Health Program and Advanced Research Projects Agency - Energy
**Assistance Listing Number:** 93.262 and 81.135
**Award Year:** FY 2022

To ensure that ABS is in compliance with 2 CFR 200.303, ABS is updating its Contracted Research and Development Process Instruction to outline appropriate communication and coordination for budget to actual analysis of all research and development projects and to ensure appropriate documentation is maintained. The updated process instruction will articulate the designation of project managers to formally document a consistent review of budgets to actuals cost analysis on a quarterly basis. The process instruction will further ensure the documentation accounts for the review of cost allowability, and the project manager will sign and date as verification of a completed review. The anticipated completion date is the first quarter of 2024.

For inquiries regarding these findings, please contact Domenic Carlucci who is responsible for these corrective actions.

DP Carlucci

Domenic Carlucci
Vice President, Global Government Services
281-877-6161