



American Bureau of Shipping
Reports on Federal Awards in Accordance with the
Uniform Guidance
Year ended December 31, 2023

American Bureau of Shipping

Reports on Federal Awards in Accordance with the Uniform Guidance

Year ended December 31, 2023

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Part I

Financial Statements and Schedule of Expenditures of Federal Awards



Report of Independent Auditors

To the Management and 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 sheets as of December 31, 2023 and 2022, and the related statements of revenue in excess of (less than) expense and surplus, and of cash flows for the years 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2023 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 19, 2024 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, 2023. 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 19, 2024

American Bureau of Shipping

Balance Sheets As of December 31, 2023 and 2022 *(In Thousands)*

	December 31	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 100,727	\$ 95,839
Investments	1,297,842	1,163,098
Accounts receivable, net of allowance of \$2,232 and \$8,574	109,226	88,440
Due from affiliates	511,607	431,154
Deferred expenses and unbilled revenue, net of allowance of \$649 and \$0	48,759	44,326
Prepaid expenses and other current assets	31,427	25,780
Total current assets	2,099,588	1,848,637
Investment in unconsolidated subsidiaries	77,862	121,911
Property and equipment, net	36,441	35,532
Intangible assets, net	30,824	30,055
Prepaid pension and postretirement benefits	117,200	128,333
Operating lease assets	74,034	77,852
Other long-term assets	17,660	15,295
Total assets	\$ 2,453,609	\$ 2,257,615
Liabilities and surplus		
Current liabilities:		
Accounts payable and accrued expenses	\$ 75,628	\$ 71,683
Due to affiliates	482,560	423,072
Deferred revenue	96,324	89,516
Total current liabilities	654,512	584,271
Pension, postretirement, and severance benefits	33,079	31,155
Operating lease liabilities – noncurrent	94,267	100,370
Other long-term liabilities	28,658	27,771
Total liabilities	810,516	743,567
Commitments and Contingencies (see Note 11)		
Surplus:		
Surplus	1,827,098	1,696,472
Pension and other postretirement	(124,186)	(122,500)
Foreign currency	(59,819)	(59,924)
Total Surplus	1,643,093	1,514,048
Total liabilities and surplus	\$ 2,453,609	\$ 2,257,615

See accompanying notes.

American Bureau of Shipping

Statements of Revenue in Excess of (Less Than) Expense and Surplus For the years ended December 31, 2023 and 2022 *(In Thousands)*

	Year Ended December 31	
	2023	2022
Revenue:		
Revenue	\$ 517,637	\$ 469,915
Revenue - affiliates	10,066	11,071
Total revenue	<u>527,703</u>	480,986
Expenses:		
Direct operating expense	295,428	295,822
Direct operating expense – affiliates	103,265	87,521
General and administrative expense	114,257	111,631
Total expense	<u>512,950</u>	494,974
Income (loss) from operations	<u>14,753</u>	(13,988)
Income (loss) from investment securities and financial instruments, net	162,367	(134,696)
Loss on investments in unconsolidated affiliates	(921)	(912)
Income (loss) from investments in unconsolidated subsidiaries	3,958	(4,120)
Foreign exchange gain, net	503	715
Other (expense) income, net	(4,114)	27,995
Revenue in excess of (less than) expense before income taxes	<u>176,546</u>	(125,006)
Provision for income taxes	18,720	10,732
Revenue in excess of (less than) expense	<u>157,826</u>	(135,738)
Change in pension and other postretirement liabilities	1,504	4,581
Foreign currency adjustments	4,184	(12,964)
Other transfers and adjustments	53	25
Sale of unconsolidated subsidiary service line	(4,150)	-
Adjustment for adoption of accounting standards (Note 2)	(30,372)	-
Total increase (decrease) in surplus	<u>129,045</u>	(144,096)
Surplus at beginning of year	1,514,048	1,658,144
Surplus at end of year	<u>\$ 1,643,093</u>	<u>\$ 1,514,048</u>

See accompanying notes.

American Bureau of Shipping

Statements of Cash Flow For the years ended December 31, 2023 and 2022 *(In Thousands)*

	Year Ended December 31	
	2023	2022
Operating activities		
Revenue in excess of (less than) expense	\$ 157,826	\$ (135,738)
Adjustments to reconcile revenue in excess of (less than) expense to net cash provided by operating activities:		
Depreciation and amortization	11,135	11,016
Provision for credit losses	1,342	1,558
Provision for employee benefits	12,633	1,026
Contributions for employee benefits	(1,588)	(2,882)
Deferred tax expense	1,485	1,122
Unrealized (gain) loss on investment securities, net	(133,433)	186,909
Realized gain on sale of investment securities, net	(13,497)	(20,472)
Amortization of fixed income securities	6,351	(16,118)
(Income) loss from investments in subsidiaries	(3,958)	4,120
Remittances from unconsolidated subsidiaries	13,319	-
Other charges, net	1,760	(4,664)
Changes in assets and liabilities:		
Accounts receivable	(16,082)	(8,745)
Due from affiliates	(20,965)	(6,390)
Deferred expenses and unbilled revenue	(5,377)	(700)
Prepaid expenses and other current assets	(5,954)	(7,189)
Other long-term assets	(1,208)	1,128
Accounts payable and accrued expenses	3,648	4,780
Deferred revenue	6,723	5,923
Other long-term liabilities	1,168	1,820
Net cash provided by operating activities	15,328	16,504
Investing activities		
Purchases of property and equipment and intangible assets	(12,835)	(4,847)
Purchases of investment securities	(443,441)	(633,989)
Proceeds from sales of investment securities	449,276	613,997
Investment in unconsolidated affiliates	(883)	(672)
Net cash used in investing activities	(7,883)	(25,511)
Financing activities		
Principal repayments of finance leases	(1,690)	(1,196)
Net cash used in financing activities	(1,690)	(1,196)
Effect of exchange rate changes on cash and cash equivalents	(867)	(327)
Net increase (decrease) in cash and cash equivalents	4,888	(10,530)
Cash and cash equivalents, beginning of year	95,839	106,369
Cash and cash equivalents, end of year	\$ 100,727	\$ 95,839
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	\$ 17,151	\$ 6,810
Interest on finance leases	170	82

See accompanying notes.

American Bureau of Shipping

Notes to Financial Statements

December 31, 2023

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 36 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 section 501 (c)(6) of 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, ABS Digital Solutions LLC (also known as ABS Wavesight) which is dedicated to developing software products for the marine industry, 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.

American Bureau of Shipping

Notes to Financial Statements

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 Sheets. The Company follows the cumulative earnings approach to classify distributions received from equity method investments.

The Company has no restrictions placed on its net assets, including no restrictions from outside parties, and no designations by its board of directors except \$0.5 million associated with grants as of December 31, 2023 and \$0 as of December 31, 2022.

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation of the current year financial statements.

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.

American Bureau of Shipping

Notes to Financial Statements

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.

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 branches have been translated into U.S. dollars using the average exchange rates during the period. Assets and liabilities of foreign 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 surplus. The foreign currency exchange gains and 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 surplus.

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.

Allowance for Expected Credit Losses

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the current expected credit losses. The estimation of the allowance is based on an analysis of historical loss experience, current receivables aging, and management's assessment of current conditions and expectation of future conditions. The Company assesses collectability by pooling receivables where similar characteristics exist and evaluates receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk. The current expected credit losses for at risk balances are determined following a discounted cash flow method, utilizing management's best estimate of an appropriate discount rate and collection period.

The Company's policy for estimating this allowance is based on an expected loss model and reflects the adoption of a new accounting standard as of January 1, 2023. See "Recently Adopted Accounting Pronouncements" in this Note 2 for more information. In prior periods, this allowance was estimated using an incurred loss model, which did not require the consideration of forward-looking information and conditions in the reserve calculation.

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

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.

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 the Company's borrowing rate which is based on the Secured Overnight Financing Rate (SOFR) for 2023 and LIBOR for 2022. 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 life ranging from 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.

At December 31, 2023 and 2022, intangible assets and the related accumulated amortization consisted of the following (in thousands):

	2023	2022
Software	\$ 83,197	\$ 76,957
Less accumulated amortization	(52,373)	(46,902)
Intangible assets, net	<u>\$ 30,824</u>	<u>\$ 30,055</u>

Amortization expense of intangible assets was \$5.6 million and \$6.3 million for the years ended December 31, 2023 and 2022, respectively. The Company estimates that annual amortization expense with respect to intangible assets recorded as of December 31, 2023 will be approximately \$6.5 million in 2024, \$6.3 million in 2025, \$5.7 million in 2026, \$5.1 million in 2027, and \$4.8 million in 2028.

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 Sheets.

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 Statements of Revenue in Excess of (Less Than) Expense and Surplus.

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Investments are recorded at their fair market value in the Balance Sheets. The carrying amounts reported in the Balance Sheets 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.

American Bureau of Shipping

Notes to Financial Statements

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 2023 and 2022. Management regularly monitors the collectability of receivables

American Bureau of Shipping

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

and believes that it has adequately provided for any exposure to potential credit losses. 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 7% of revenue for the years ended December 31, 2023 and 2022, except for one foreign currency that was approximately 17% of revenue.

Recently Issued Pronouncements

In June 2016, the Financial Accounting Standards Board (the FASB) issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including trade accounts receivable and contract assets.

The Company adopted the standard (the “new CECL standard”) as of January 1, 2023, using the modified retrospective method, with a cumulative-effect adjustment of \$6.5 million to the opening balance of Surplus. The cumulative effect of adopting the new CECL standard resulted in an increase of \$7.1 million within Accounts receivable, net, and a decrease of \$0.6 million within Deferred expenses and unbilled revenue on the Balance Sheets as of January 1, 2023. See “Allowance of Expected Credit Losses” in this Note 2 for additional information about the Company’s allowance for expected credit losses. The Company’s unconsolidated subsidiaries also adopted the CECL standard resulting in a cumulative-effect adjustment of \$36.8 million to the opening balance of the Company’s Surplus and to its Investment in unconsolidated subsidiaries.

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Notes to Financial Statements

3. Financial Assets and Liquidity

The Company's financial assets available within one year of the balance sheet date, December 31, 2023 and 2022, for general expenditures are as follows (in thousands):

	2023	2022
Cash and cash equivalents	\$ 100,727	\$ 95,839
Accounts receivable	109,226	88,440
Short-term investments	131,052	147,076
Other investments	1,166,790	1,016,022
	\$ 1,507,795	\$ 1,347,377

The Company has \$0.5 million in restricted funds, with the remainder of the above financial assets 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 and ABS Group (Refer to Note 11) had a \$100 million credit facility with available capacity of \$97.5 million and \$85.9 million at December 31, 2023 and 2022, respectively. In June 2024 the credit facility was renewed at \$50 million. Cash and cash equivalents at December 31, 2023 and 2022 consist of the following (in thousands):

	2023	2022
Cash	\$ 81,478	\$ 75,374
Cash equivalents in investment portfolios	19,214	12,430
Time deposits	35	8,035
Cash and cash equivalents	\$ 100,727	\$ 95,839

American Bureau of Shipping

Notes to Financial Statements

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. The 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.

American Bureau of Shipping

Notes to Financial Statements

4. Investments

The placement in the fair value hierarchy, cost, gross unrealized gains and losses, and fair value of investments at December 31, 2023 and 2022 are as follows (in thousands):

	Fair Value Hierarchy	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023					
Equity securities:					
Domestic	1	\$ 155,848	\$ 36,515	\$ (11,219)	\$ 181,144
International	1	14,084	3,101	(896)	16,289
Preferred stock	1	66	3	(9)	60
Total equity securities		169,998	39,619	(12,124)	197,493
Debt securities:					
U.S. treasuries	2	143,840	375	(4,987)	139,228
Government agencies	2	5,802	-	(125)	5,677
Corporate debt securities	2	282,795	1,006	(39,797)	244,004
Commercial paper	2	17,218	-	-	17,218
Total debt securities		449,655	1,381	(44,909)	406,127
Mutual funds	1	120,582	3,258	(1,990)	121,850
Exchange traded funds	1	306,549	77,655	(4,708)	379,496
Limited partnership interests	NAV	112,539	81,553	(1,216)	192,876
Total investment securities		\$ 1,159,323	\$ 203,466	\$ (64,947)	\$ 1,297,842

	Fair Value Hierarchy	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2022					
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

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Notes to Financial Statements

4. Investments (continued)

Income (loss) from investment securities and financial instruments, net for the years ended December 31, 2023 and 2022, consists of the following (in thousands):

	<u>2023</u>	<u>2022</u>
Investment securities:		
Interest and dividends	\$ 19,581	\$ 37,935
Unrealized gain (loss), net	133,433	(186,909)
Realized gain on sale, net	<u>13,497</u>	<u>20,472</u>
Total income (loss) from investment securities, net	166,511	(128,502)
Income from cash and cash equivalents	523	183
Investment management fees	(5,025)	(6,149)
Other	<u>358</u>	<u>(228)</u>
Total income (loss) from investment securities and financial instruments, net	<u>\$ 162,367</u>	<u>\$ (134,696)</u>

The Company's investment securities 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 related to the fixed income investments arise primarily from changes in interest rates and adverse credit rating changes.

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Notes to Financial Statements

5. Property and Equipment

At December 31, 2023 and 2022, property and equipment and the related accumulated depreciation and amortization consisted of the following (in thousands):

	2023	2022
Buildings	\$ 689	\$ 818
Furniture and equipment	32,680	28,681
Leasehold improvements	33,365	33,283
	66,734	67,782
Less accumulated depreciation and amortization	(30,293)	(27,250)
Property and equipment, net	\$ 36,441	\$ 35,532

Depreciation and amortization expense of property and equipment was \$5.4 million and \$4.7 million for the years ended December 31, 2023 and 2022, respectively.

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. Effective December 31, 2023, the ABS Group pension plan merged with the ABS US pension plan. 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.

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Notes to Financial Statements

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, 2023 and 2022 (in thousands):

	2023			2022		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ (423,951)	\$ (113,174)	\$ (537,125)	\$ (331,640)	\$ (106,856)	\$ (438,496)
Fair value of plan assets	451,517	148,993	600,510	381,751	142,425	524,176
Funded status	<u>\$ 27,566</u>	<u>\$ 35,819</u>	<u>\$ 63,385</u>	<u>\$ 50,111</u>	<u>\$ 35,569</u>	<u>\$ 85,680</u>
Accumulated benefit obligation	<u>\$ (368,405)</u>	<u>\$ (96,556)</u>	<u>\$ (464,961)</u>	<u>\$ (288,015)</u>	<u>\$ (92,753)</u>	<u>\$ (380,768)</u>
Amounts recognized in the balance sheets consist of:						
Noncurrent assets	\$ 34,882	\$ 37,731	\$ 72,613	\$ 54,362	\$ 37,502	\$ 91,864
Current liabilities	-	(164)	(164)	-	(193)	(193)
Noncurrent liabilities	(7,316)	(1,748)	(9,064)	(4,251)	(1,740)	(5,991)
Net amount recognized	<u>\$ 27,566</u>	<u>\$ 35,819</u>	<u>\$ 63,385</u>	<u>\$ 50,111</u>	<u>\$ 35,569</u>	<u>\$ 85,680</u>
Amounts not yet reflected in net periodic cost and included in Surplus:						
Prior service cost	\$ -	\$ (452)	\$ (452)	\$ -	\$ (584)	\$ (584)
Accumulated loss	(114,891)	(14,685)	(129,576)	(126,065)	(16,498)	(142,563)
Accumulated Surplus	(114,891)	(15,137)	(130,028)	(126,065)	(17,082)	(143,147)
Cumulative employer contributions in excess of net periodic cost	142,457	50,956	193,413	176,176	52,651	228,827
Net amount recognized	<u>\$ 27,566</u>	<u>\$ 35,819</u>	<u>\$ 63,385</u>	<u>\$ 50,111</u>	<u>\$ 35,569</u>	<u>\$ 85,680</u>

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Notes to Financial Statements

6. Pension Plans (continued)

Actuarial loss related to projected benefit obligations of U.S. defined benefit pension plans was \$22.0 million at December 31, 2023. For 2023, the loss caused by a decrease in discount rates was partially offset by a change in the lump sum mortality assumptions. 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 loss related to projected benefit obligations of non-U.S. defined benefit pension plans was \$6.4 million at December 31, 2023. For 2023, the loss was primarily the result of the decrease 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 obligations of defined benefit pension plans with projected benefit obligations in excess of plan assets (unfunded plans) were \$9.2 million and \$6.2 million for the years ended December 31, 2023 and 2022, respectively. The aggregate accumulated benefit obligations of defined benefit pension plans with accumulated benefit obligations in excess of plan assets (unfunded plans) were \$6.0 million and \$4.4 million for the years ended December 31, 2023 and 2022, respectively.

The following table sets forth the plans' weighted-average assumptions used to determine the benefit obligations as of December 31, 2023 and 2022:

	2023		2022	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	5.17%	4.16%	5.49%	4.21%
Expected long-term rate of return on plan assets	6.25	4.39	6.25	4.31
Rate of compensation increase	4.17	4.16	4.30	3.95

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Notes to Financial Statements

6. Pension Plans (continued)

The following table sets forth the plans' weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2023 and 2022:

	2023		2022	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate – service cost	5.53%	4.71%	3.21%	2.63%
Discount rate – interest cost	5.39	4.99	2.74	2.41
Expected long-term rate of return on plan assets	6.25	4.39	6.25	4.31
Rate of compensation increase	4.30	3.95	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. 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, 2023 and 2022:

	2023	2022
Debt securities	43%	44%
Equity securities	56	55
Cash equivalents	1	-
Limited partnership	-	1

The asset mix at December 31, 2023 and 2022 approximates the targeted portfolio mix.

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Notes to Financial Statements

6. Pension Plans (continued)

Fair value and NAV measurements at December 31, 2023 and 2022 are as follows (in thousands):

	Fair Value Measurements		
	Level 1 Inputs	Level 2 Inputs	Total
2023			
Assets			
Equity securities:			
Commingled fund – equity	\$ 238,604	\$ 4,505	\$ 243,109
Debt securities:			
Commingled fund – fixed income	253,096	2,600	255,696
Cash and cash equivalents	5,454	–	5,454
Exchange traded funds	95,611	–	95,611
	<u>\$ 592,765</u>	<u>\$ 7,105</u>	<u>599,870</u>
Limited partnership interest measured at NAV			640
Total			<u>\$ 600,510</u>

	Fair Value Measurements		
	Level 1 Inputs	Level 2 Inputs	Total
2022			
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
	<u>\$ 519,493</u>	<u>\$ 5,999</u>	<u>519,492</u>
Limited partnership interest measured at NAV			4,684
Total			<u>\$ 524,176</u>

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Notes to Financial Statements

6. Pension Plans (continued)

The following table sets forth the plans' benefit costs, contributions, and benefits paid for the years ended December 31, 2023 and 2022 (in thousands):

	2023		2022	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Periodic benefit cost	\$ 16,680	\$ 2,116	\$ 5,320	\$ 544
Employer contributions	—	1,442	1,049	1,729
Benefits paid	18,773	5,717	38,487	7,839

The following table sets forth the change recognized in Surplus during 2023 (in thousands):

	2023	
	U.S.	Non-U.S.
Net gain (loss) arising during the year	\$ (556)	\$ 1,093
Effect of exchange rates on amounts included in Surplus	—	287
Amortization or curtailment recognition of prior service cost	—	115
Amortization or settlement recognition of net loss	2,888	450
Total change recognized in Surplus	\$ 2,332	\$ 1,945

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Notes to Financial Statements

6. Pension Plans (continued)

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
2024	\$ 27,833	\$ 6,746	\$ 34,579
2025	30,509	5,880	36,389
2026	31,851	6,482	38,333
2027	31,097	6,507	37,604
2028	30,070	6,917	36,987
Next five years	162,695	36,994	199,689

The Company expects to contribute \$1.3 million to the non-U.S. plans in 2024.

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. 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 plan.

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Notes to Financial Statements

7. Postretirement Benefits (continued)

The following table sets forth the plan's benefit obligation, fair value of plan assets, funded status, and accrued benefit cost at December 31, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Benefit obligation	\$ (68,075)	\$ (65,932)
Fair value of plan assets	<u>111,109</u>	<u>100,827</u>
Funded status	<u>\$ 43,034</u>	<u>\$ 34,895</u>
Amounts recognized in balance sheets consist of the following:		
Noncurrent assets	\$ 44,587	\$ 36,469
Current liabilities	(155)	(152)
Noncurrent liabilities	<u>(1,398)</u>	<u>(1,422)</u>
Net amount recognized	<u>\$ 43,034</u>	<u>\$ 34,895</u>
Amounts not yet reflected in net periodic cost and included in Surplus:		
Prior service credit	\$ 24,970	\$ 28,693
Accumulated loss	<u>(7,681)</u>	<u>(13,874)</u>
Recognized in Surplus	17,289	14,819
Cumulative net periodic cost in excess of employer contributions	<u>25,745</u>	<u>20,076</u>
Net amount recognized	<u>\$ 43,034</u>	<u>\$ 34,895</u>

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Notes to Financial Statements

7. Postretirement Benefits (continued)

Actuarial loss related to projected benefit obligations was \$2.5 million at December 31, 2023. The loss was primarily the result of the decrease in discount rates, census experience, and updated trend rate assumption partially offset by gains caused by per capita claims costs and other experience. 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 plan's weighted-average assumptions used to determine the benefit obligation as of December 31, 2023 and 2022:

	2023	2022
Discount rate	5.08%	5.43%
Expected long-term rate of return on plan assets	6.25	6.25
Rate of compensation increase	4.30	4.30

The following table sets forth the plan's weighted-average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2023 and 2022:

	2023	2022
Discount rate	5.43%	2.93%
Expected long-term rate of return on plan assets	6.25	6.25
Rate of compensation increase	3.33	3.33

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Notes to Financial Statements

7. Postretirement Benefits (continued)

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

	2023	2022	2021
Initial health care trend rate assumed	7.50%	6.60%	6.90%
Ultimate health care trend rate	4.50%	4.50%	4.50%
Year that the ultimate health care trend rate is reached	2034	2030	2030

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, 2023 and 2022:

	2023	2022
Equity securities	50%	50%
Limited partnership interest	28	28
Debt securities	19	20
Cash and cash equivalents	3	2

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Notes to Financial Statements

7. Postretirement Benefits (continued)

The asset mix at December 31, 2023 and 2022 approximates the targeted portfolio mix. The portfolio mix was revised in 2023.

Fair value measurements at December 31, 2023 and 2022 are as follows (in thousands):

	Level 1 Inputs	Level 2 Inputs	Total
2023			
Assets			
Debt securities:			
U.S. treasuries	\$ –	\$ 19,732	\$ 19,732
Corporate	–	830	830
Total debt	–	20,562	20,562
Equity securities – International stocks	11,254	–	11,254
Cash and cash equivalents	3,076	–	3,076
Exchange traded funds	44,609	–	44,609
	<u>\$ 58,939</u>	<u>\$ 20,562</u>	<u>79,501</u>
Limited partnership interest measured at NAV			31,608
Total			<u>\$ 111,109</u>
	Level 1 Inputs	Level 2 Inputs	Total
2022			
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
	<u>\$ 52,473</u>	<u>\$ 20,293</u>	<u>72,766</u>
Limited partnership interest measured at NAV			28,061
Total			<u>\$ 100,827</u>

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Notes to Financial Statements

7. Postretirement Benefits (continued)

The following table sets forth the plan's benefit income, contributions and benefits paid for the years ended December 31, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Benefit income	\$ (5,523)	\$ (6,187)
Employer contributions	146	104
Participant contributions	279	304
Benefits paid	4,339	3,918

The following table sets forth the change recognized in Surplus during 2023 (in thousands):

	<u>2023</u>
Net gain arising during the year	\$ 5,634
Amortization or curtailment recognition of prior service credit	(3,723)
Amortization or settlement recognition of net loss	559
Total change recognized in Surplus	<u>\$ 2,470</u>

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

2024	\$ 4,994
2025	4,864
2026	4,810
2027	5,000
2028	4,925
Next five years	24,166

The Company expects to contribute \$0.2 million in cash to the postretirement benefit plan in 2024.

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Notes to Financial Statements

8. Income Taxes

Total income tax expense for the years ended December 31, 2023 and 2022 was allocated as follows (in thousands):

	2023	2022
Income from operations	\$ 18,720	\$ 10,732
Tax effect of items through Surplus	1,645	(228)
	<u>\$ 20,365</u>	<u>\$ 10,504</u>

American Bureau of Shipping

Notes to Financial Statements

8. Income Taxes (continued)

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

	2023	2022
Current expense	\$ 17,235	\$ 9,610
Deferred expense	1,485	1,122
	<u>\$ 18,720</u>	<u>\$ 10,732</u>

The tax effects of temporary differences that give rise to the deferred tax balances at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 2,805	\$ 1,837
Accruals for pensions and postretirement benefits	391	298
Allowance for credit losses	1,191	507
Other accruals and credits, net	910	2,123
Total gross deferred tax assets	<u>5,297</u>	<u>4,765</u>
Valuation allowance	<u>(2,785)</u>	<u>(1,756)</u>
Total deferred tax assets	<u>2,512</u>	<u>3,009</u>
Deferred tax liabilities:		
Accruals for pensions and postretirement benefits	5,396	4,147
Withholding taxes on future remittances to Corporate	7,844	6,314
Long-term contracts	230	2,725
Other	721	1,063
Total deferred tax liabilities	<u>14,191</u>	<u>14,249</u>
Net deferred tax liabilities	<u>\$ (11,679)</u>	<u>\$ (11,240)</u>

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Notes to Financial Statements

8. Income Taxes (continued)

The tax effects of temporary differences that give rise to the deferred tax balances at December 31, 2023 and 2022 are as follows (in thousands):

	2023			2022		
	Income	Tax	Rate	Income	Tax	Rate
Revenue in excess of (less than) expense before income taxes	\$ 176,546			\$ (125,006)		
Statutory U.S. tax rate		\$ 37,075	21.0%		\$ (26,251)	21.0%
(Income) loss exempt from U.S. income taxes		(35,090)	(19.9)		29,135	(23.3)
Items disallowed for tax purposes		(48)	0.0		1,926	(1.5)
Items taxed at non-U.S. rates		2,616	1.5		1,357	(1.1)
Change in valuation allowance		1,030	0.6		164	(0.1)
Uncertain tax positions		268	0.2		(381)	0.3
Withholding taxes		7,683	4.4		3,401	(2.7)
Miscellaneous adjustments		5,186	2.9		1,381	(1.1)
Provision for income taxes	\$ 18,720		10.6%	\$ 10,732		(8.6)%

In 2023, the effective tax rate for the Company was 10.6% primarily due to income arising in tax exempt locations which are not subject to income tax. 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, 2023 was an increase of \$1.0 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, 2023, the Company had foreign net operating losses of \$10.5 million. The net operating losses will begin expiring in 2024.

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 2020-2023 in the U.S. and 2014-2023 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.

American Bureau of Shipping

Notes to Financial Statements

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 \$1.0 million for the year ended December 31, 2023. The Company recognized an decrease in income tax expense for interest and penalties of \$0.7 million for the year ended December 31, 2022. None of the tax audit adjustments, if assessed, are expected to be individually material to the Company's financial position, results of operations or cash flows.

In 2021 Pillar Two tax reform was endorsed by over 130 countries and jurisdictions, constituting the vast majority of the Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS). Pillar Two requires companies to pay a top-up tax for the difference between their effective tax rate per jurisdiction and a 15% minimum rate subject to certain exceptions. Certain jurisdictions that the Company operates in endorsed Pillar Two and are implementing conforming tax laws. The Company is assessing the potential impact, if any, of Pillar Two.

9. Revenue

Substantially all revenue reported on the Statements 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 years ended December 31, 2023 and December 31, 2022 (in thousands):

	2023	2022
Fixed price of a long-term nature	\$ 68,399	\$ 60,396
Fee schedule of a short-term nature	429,908	390,454
Time and materials and other contracts	19,330	19,065
Total revenue	<u>\$ 517,637</u>	<u>\$ 469,915</u>

American Bureau of Shipping

Notes to Financial Statements

9. Revenue (continued)

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 Americas and North Pacific regions. These contracts are billed on a milestone basis or monthly over the term of the contract.

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 Americas and North Pacific regions 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 Sheets. 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 Sheets.

American Bureau of Shipping

Notes to Financial Statements

10. Leases

The following tables present the financial impact of leases as of and for the years ended December 31, 2023, and December 31, 2022, along with other supplemental information about existing leases (in thousands):

	2023	2022
Components of lease expense:		
Finance lease cost:		
Amortization of right-of-use assets	\$ 1,726	\$ 1,205
Interest on lease liabilities	170	82
Operating lease cost	11,868	11,165
Short-term lease cost	2,393	2,147
Total lease cost	<u>\$ 16,157</u>	<u>\$ 14,599</u>
	2023	2022
Components of balance sheet:		
Operating leases:		
Operating lease assets	\$ 74,034	\$ 77,852
Operating lease liabilities – current ⁽¹⁾	10,173	9,184
Operating lease liabilities – noncurrent	94,267	100,370
Finance leases:		
Finance lease assets ⁽²⁾	\$ 4,664	\$ 3,686
Finance lease liabilities – current ⁽¹⁾	1,823	1,459
Finance lease liabilities – noncurrent ⁽²⁾	2,920	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 Sheets.

⁽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 Sheets.

American Bureau of Shipping

Notes to Financial Statements

10. Leases (continued)

	2023	2022
Other supplemental information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 13,161	\$ 12,374
Operating cash flows from finance leases	170	82
Financing cash flows from finance leases	1,690	1,196
Right-of-use assets obtained in exchange for new Lease obligations:		
Operating leases	5,031	3,035
Finance leases	2,719	2,293
Weighted-average remaining lease terms:		
Operating leases	12.05 years	13.03 years
Finance leases	2.86 years	2.87 years
Weighted-average discount rate for operating leases	2.60%	2.51%
Weighted-average discount rate for finance leases	4.62%	3.88%

The following table summarizes the maturity of operating and finance leases as of December 31, 2023 (in thousands):

	Operating Leases	Finance Leases
2024	\$ 13,127	\$ 2,050
2025	10,557	1,612
2026	9,377	1,120
2027	8,799	335
2028	8,557	—
Thereafter	72,478	—
Total lease payments	122,895	5,117
Less imputed interest	(18,454)	(375)
Total	\$ 104,441	\$ 4,742

American Bureau of Shipping

Notes to Financial Statements

11. Commitments and Contingencies

Letters of Credit

At December 31, 2023 and 2022, the Company had outstanding letters of credit of \$1.4 million.

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. On June 20, 2024 the credit facility was renewed for one year at \$50.0 million. Under the agreement with PNC Bank, ABS and ABSG Consulting Inc. guarantee each other's liability. At December 31, 2023, there were no borrowings outstanding under the revolving credit facility. At December 31, 2022, ABS Consulting Inc. had \$14.1 million outstanding under the revolving credit facility. The interest rate for any future borrowings will be based on the Secured Overnight Financing Rate (SOFR) plus the Benchmark Replacement.

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. The Company and its unconsolidated subsidiaries had \$0.4 million and \$2.1 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, 2023, 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.

American Bureau of Shipping

Notes to Financial Statements

11. Commitments and Contingencies (continued)

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. Final submissions on the merits of all issues have been made and a decision is likely subsequent to the next hearing in September 2024. 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.

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. At this time, submissions from all parties have been finalized and submitted and a decision is likely subsequent to the next hearing in September 2024. 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 consolidated 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 in the Revenue – affiliates and Direct operating expense – affiliates lines on the Statements of Revenue in excess of (less than) expense and in the Due from affiliates and Due to affiliates lines on the Balance Sheets. 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.

American Bureau of Shipping

Notes to Financial Statements

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 years ended December 31, 2023 and 2022, are as follows (in thousands):

	Direct Operating	General and Administrative	Total Expenses
2023			
Salaries and Benefits	\$ 203,637	\$ 66,871	\$ 270,508
Outside services	15,915	27,175	43,090
Travel and transportation	9,648	2,867	12,515
Systems and telecommunications	14,539	1,177	15,716
Facility and maintenance costs	11,134	5,764	16,898
Insurance and other	33,763	9,247	43,010
Depreciation and amortization	6,630	1,156	7,786
Direct operating expenses - affiliates	103,427	-	103,427
	398,693	114,257	512,950
Other components of pension expense	2,016	1,728	3,744
	\$ 400,709	\$ 115,985	\$ 516,694

American Bureau of Shipping

Notes to Financial Statements

13. Classification of Expenses (continued)

	Direct Operating	General and Administrative	Total Expenses
2022			
Salaries and Benefits	\$ 208,898	\$ 63,887	\$ 272,785
Outside services	14,187	25,442	39,629
Travel and transportation	8,050	1,969	10,019
Systems and telecommunications	11,714	1,289	13,003
Facility and maintenance costs	10,815	5,872	16,687
Insurance and other	35,463	11,467	46,930
Depreciation and amortization	6,695	1,705	8,400
Direct operating expenses - affiliates	87,521	-	87,521
	383,343	111,631	494,974
Other components of pension expense	(17,954)	(10,450)	(28,404)
	<u>\$ 365,389</u>	<u>\$ 101,181</u>	<u>\$ 466,570</u>

14. Investments in unconsolidated subsidiaries

The Company has unconsolidated subsidiaries of which it owns 100% of the economic interest and accounts for their ownership as equity method investments. At December 31, 2023 and 2022, the unconsolidated subsidiaries had total assets of \$796.7 million and \$769.0 million and liabilities of \$718.9 million and \$647.0 million, respectively. For the years ended December 31, 2023 and 2022, the unconsolidated subsidiaries had total revenues of \$444.3 million and \$391.6 million and total expenses of \$440.4 million and \$395.7 million, respectively. For the years ended December 31, 2023 and 2022 the Company received cash distributions of \$13.3 million and \$0.0 million, respectively.

15. Subsequent Events

The Company has evaluated all other subsequent events through August 19, 2024, 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, 2023

Cluster / Federal Program	Assistance Listing #	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number/ Other Identifier	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	\$ 377,262	-			\$ 377,262	\$ 241,934
Total Department of Commerce		\$ 377,262	-			\$ 377,262	\$ 241,934
Department of Energy							
Office of Nuclear Energy							
Nuclear Energy Research, Development and Demonstration	81.121	\$ 149,088	-			\$ 149,088	-
Advanced Research Projects Agency							
Advanced Research Projects Agency - Energy	81.135	-	10,208	University of Maine	UMS-1258	10,208	-
Advanced Research Projects Agency - Energy	81.135	-	19,078	WS Atkins Inc.	ABS-061720	19,078	-
Advanced Research Projects Agency - Energy	81.135	-	19,712	Principle Power Inc	145018	19,712	-
Advanced Research Projects Agency - Energy	81.135	-	45,910	FPS Engineering and Technology LLC	DE-AR0001302	45,910	-
Office of Energy Efficiency and Renewable Energy							
Renewable Energy Research and Development	81.087	-	99,200	Pacific Ocean Energy Trust (POET)	Master Network Facility Agreement (ABS)-Task Order 6a	99,200	-
Renewable Energy Research and Development	81.087	-	320	Pacific Ocean Energy Trust (POET)	Master Network Facility Agreement (ABS)-Task Order 6b	320	-
Renewable Energy Research and Development	81.087	-	101,542	Pacific Ocean Energy Trust (POET)	Master Network Facility Agreement (ABS)-Task Order 8a	101,542	-
Renewable Energy Research and Development	81.087	-	96,146	Pacific Ocean Energy Trust (POET)	Master Network Facility Agreement (ABS)-Task Order 8b	96,146	-
Renewable Energy Research and Development	81.087	-	6,600	University of Maine	UMS1277	6,600	-
Renewable Energy Research and Development	81.087	-	1,380	University of Maine	FOA-2236	1,380	-
Renewable Energy Research and Development	81.087	-	5,984	Principle Power Inc	154626	5,984	-
Total Department of Energy		\$ 149,088	\$ 406,080			\$ 555,168	
Department of Human and Health Services							
Center for Disease Control and Prevention (CDC)							
Occupational Safety and Health Program	93.262	\$ 1,786	-	-	-	\$ 1,786	-
Occupational Safety and Health Program	93.262	107,551	-	-	-	107,551	\$ 89,802
Occupational Safety and Health Program	93.262	59,208	-	-	-	59,208	3,410
Occupational Safety and Health Program	93.262	79,350	-	-	-	79,350	49,934
Total Department of Human and Health Services		\$ 247,895				\$ 247,895	\$ 143,146
Department of Interior							
Bureau of Safety and Environmental Enforcement							
Safety and Environmental Research and Data Collection for Offshore Energy and Mineral Activities	15.441	-	\$ 24,054	Texas A&M Engineering Experiment Station	M2304848	\$ 24,054	\$ 21,678
Total Department of Interior			\$ 24,054			\$ 24,054	\$ 21,678
Department of the Navy							
Department of the Navy							
Basic and Applied Scientific Research	12.300	-	\$ 17,568	Florida Institute for Human & Machine Cognition, Inc.	2023-015-01.01	\$ 17,568	-
Total Department of the Navy			\$ 17,568			\$ 17,568	
National Science Foundation (NSF)							
Engineering	47.041	-	\$ 8,777	University of Florida	2128895	\$ 8,777	-
Total Department of Natural Science Foundation			\$ 8,777			\$ 8,777	
Total Research and Development Cluster		\$ 774,245	\$ 456,479			\$ 1,230,724	\$ 406,758
Total Award Expenditures		\$ 774,245	\$ 456,479			\$ 1,230,724	\$ 406,758

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, 2023, 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

Except where the federal award contains an indirect rate restriction, American Bureau of Shipping has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The amount claimed as indirect cost recovery uses a sliding scale of indirect cost rate as negotiated and approved individually in each award.

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, 2023, and the related statement of revenue in excess (less than) expense and surplus, and statement 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 19, 2024.

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 19, 2024



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, 2023. 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, 2023.

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 detecting material 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 2023-001 and 2023-002. 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 19, 2024

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	___ <u>x</u> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	___ <u>x</u> none reported
Noncompliance material to financial statements noted?	___ yes	___ <u>x</u> no

Federal Awards

Internal control over major programs		
Material weakness(es) identified?	___ yes	___ <u>x</u> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	___ <u>x</u> 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)?	___ <u>x</u> 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 ___ <u>x</u> 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

2023-001 – Subrecipient Monitoring

Cluster: Research and Development

Agency: Department of Human and Health Services

Award Names: Safety and Health Risks in Energy Transition for the Commercial Fishing Industry

Award Numbers: U01OH012502

Assistance Listing Title: Center for Disease Control and Prevention (CDC)

Assistance Listing Number: 93.262

Award Year: FY 2023

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 total subrecipient 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 1 out of 4 subrecipients selected for testing.

Cause

The Company failed to ensure that their subrecipient monitoring process included obtaining and reviewing every subrecipient's annual Uniform Guidance report or annual audited financial statements during FY 2023.

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.

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Questioned Costs

None noted.

Recommendation

We recommend the Company follow their policy, which includes obtaining and reviewing Uniform Guidance reports (or audited financial statements to the extent Uniform Guidance reports are not available) for every subrecipient on an annual basis and ensure that it is completed for all applicable awards. 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. We also recommend a supervisory review over subrecipient monitoring to be included in the process to ensure it gets completed completely and accurately for all awards. This supervisory review should also be evidenced through documentation.

This is a repeat finding of 2022-001, which continued to remain open during FY2023. Refer to specific awards within finding 2022-001.

Management' Views and Corrective Action Plan

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

2023-002 – Budget to Actual Analysis

Cluster: Research and Development

Supporting Agency: Department of Commerce, Department of Energy, and Department of Human and Health Services

Award Names: Standards/Guidance for Rapid Qualification of Metal-Based Additive Manufacturing, Accelerating Commercial Maritime Demonstration Projects for Advanced Nuclear Reactor Technologies, Safety and Health Risks in Energy Transition for the Commercial Fishing Industry, The NASA Floater: 15MW Ultra-lightweight Concrete Hull with Sea-Water Ballast Tuned Mass Dampers, Scale model Experiments for Co-Designed FOWTs Supporting A High-Capacity (15 MW) Turbine, Demonstrating a Reduced-Footprint Synthetic Rope Mooring System that Minimizes Fishing Impacts and Costs for a 10MW+ Floating Wind Turbine

Award Numbers: 70NANB21H038, DE-NE0009226, U01OH012502, UMS-1258, ABS-061720, and FOA-2236

Assistance Listing Title: National Institute of Standards and Technology, Office of Nuclear Energy, Advanced Research Projects Agency, Office of Energy Efficiency and Renewable Energy, Center for Disease Control and Prevention (CDC)

Assistance Listing Number: 11.609, 81.121, 81.135, 81.087, 93.262

Award Year: FY 2023

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

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of Findings and Questioned Costs

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 6 quarters out of a population of 61 quarters 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 6 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 quarter 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 and was updated in Q4 2023, 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.

This is a repeat finding of 2022-002, which continued to remain open during FY2023. Refer to specific awards within finding 2022-002.

Management’ Views and Corrective Action Plan

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

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

Summary Schedule of Prior Audit Findings and Status

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.

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.

Status Update

For finding 2022-001 – Subrecipient Monitoring, ABS obtains Uniform Guidance reports for all entities subject to its requirements. Reports are pulled directly from the Federal Audit Clearinghouse website.

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

Additionally, subrecipient monitoring and risk assessment forms are complete for all subrecipients prior to award, and subrecipients acknowledge whether they are subject to single audit requirements. These forms also provide review of financial management systems, policy and procedures, record retention, and general company information. ABS additionally assesses risk for vendors through our Ethics and Compliance – Sentry program. This process screens and monitors all third-party suppliers of goods and services. For further ongoing support, subrecipient monitoring check sheets are complete on an annual basis, implemented late 2023.

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

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.

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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.

Status Update

For finding 2022-002 – Budget to Actual Analysis, ABS has developed a budget to actuals analysis template to provide project managers with a standard review process. The policy was updated in Q4 2023. These templates have been implemented as of 2024 and will be conducted on a fixed quarterly schedule. The project manager's digital signature acknowledges the budget is maintained within award requirements. Our Contracted Research and Development (CRAD) Process Instruction has been updated in our ETQ system and reflects all requirements above.



Management Views and Corrective Action Plan

Finding 2023-001 – Subrecipient Monitoring

Cluster: Research and Development

Agency: Department of Health and Human Services

Award Names: Safety and Health Risks in Energy Transition for the Commercial Fishing Industry

Award Numbers: U01OH012502

Assistance Listing Title: Center for Disease Control and Prevention (CDC)

Assistance Listing Number: 93.262

Award Year: FY 2023

To ensure compliance with 2 CFR 200.332 (d), ABS will extend its current policy to review agencies' annual audited financial statements when Uniform Guidance reports are not available. ABS will appoint a finance team member to review the Uniform Guidance report or financial statements and will offer the project management team feedback toward ensuring necessary monitoring actions are taken. ABS understands the associated funding risks and will begin implementing these processes while we draft and submit our policy update into our Quality Management system. We expect this to be corrected and implemented by December 31, 2024.

Finding 2023-002 – Budget to Actual Analysis

Cluster: Research and Development

Agency: Department of Commerce, Department of Energy, and Department of Health and Human Services

Award Names: Standards/Guidance for Rapid Qualification of Metal-Based Additive Manufacturing, Accelerating Commercial Maritime Demonstration Projects for Advanced Nuclear Reactor Technologies, Safety and Health Risks in Energy Transition for the Commercial Fishing Industry

Award Numbers: 70NANB21H038, DE-NE0009226, and U01OH012502

Assistance Listing Title: National Institute of Standards and Technology, Office of Nuclear Energy, Advanced Research Projects Agency, Office of Energy Efficiency and Renewable Energy, Center for Disease Control and Prevention (CDC)

Assistance Listing Number: 11.609, 81.121, 81.135, 81.087, 93.262

Award Year: FY 2023

In response to FY 2022 Single Audit, ABS updated its internal policy to establish and maintain effective controls over budget to actual expense reviews. Current ABS policy, which was implemented in 2024, requires grant project managers to review budget to actuals on at least a quarterly basis, and a budget spreadsheet will be maintained and signed as proof of verification. To ensure consistency and formality in carrying out this requirement, ABS has begun utilizing a standardized template to facilitate reviews and track completion by process owners.



Management Views and Corrective Action Plan

ABS Corrective Action Plan (CAP) Update

For finding 2022-001 – Subrecipient Monitoring, ABS obtains Uniform Guidance reports for all entities subject to its requirements. Reports are pulled directly from the Federal Audit Clearinghouse website. Additionally, subrecipient monitoring and risk assessment forms are complete for all subrecipients prior to award, and subrecipients acknowledge whether they are subject to single audit requirements. These forms also provide review of financial management systems, policy and procedures, record retention, and general company information. ABS additionally assesses risk for vendors through our Ethics and Compliance – Sentry program. This process screens and monitors all third-party suppliers of goods and services. For further ongoing support, subrecipient monitoring check sheets are complete on an annual basis.

For finding 2022-002 – Budget to Actual Analysis, ABS has developed a budget to actuals analysis template to provide project managers with a standard review process. These templates have been implemented as of 2024 and will be conducted on a fixed quarterly schedule. The project manager's digital signature acknowledges the budget is maintained within award requirements. Our Contracted Research and Development (CRAD) Process Instruction has been updated in our ETQ system and reflects all requirements above.

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

Domenic Carlucci
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