

**Bermuda Institute of  
Ocean Sciences (BIOS), Inc.**

Financial Statements and  
OMB Circular A-133 Financial Report  
Together With Independent Auditors' Report

December 31, 2012

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## **Independent Auditors' Report**

### **The Board of Trustees and Members Bermuda Institute of Ocean Sciences (BIOS), Inc.**

We have audited the accompanying financial statements of Bermuda Institute of Ocean Sciences (BIOS), Inc., which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**The Board of Trustees and Members  
Bermuda Institute of Ocean Sciences (BIOS), Inc.**

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bermuda Institute of Ocean Sciences (BIOS), Inc. as of December 31, 2012 and 2011, 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.

***Other Matters***

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2013 on our consideration of BIOS'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. The purpose of that report is 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 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 BIOS's internal control over financial reporting and compliance.

*O'Connor Davies, LLP*

New York, New York  
March 16, 2013

## Bermuda Institute of Ocean Sciences (BIOS), Inc.

### Statements of Financial Position

	December 31,	
	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 931,192	\$ 1,140,806
Grants and accounts receivable	850,804	1,395,088
Contributions receivable, net (Note 4)	250,689	648,369
Inventory and prepaid expenses	30,691	48,191
Investments (Note 5)	13,121,717	12,121,007
Property and equipment, net (Note 6)	<u>17,134,607</u>	<u>17,213,809</u>
	<u>\$ 32,319,700</u>	<u>\$ 32,567,270</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,277,153	\$ 1,502,125
Grants and other advances	615,617	631,580
Retention payable	16,183	51,231
Annuity payable	15,164	16,544
Loans payable (Note 9)	<u>5,032,629</u>	<u>5,570,036</u>
Total Liabilities	<u>6,956,746</u>	<u>7,771,516</u>
Net Assets		
Unrestricted	10,944,495	11,091,924
Temporarily restricted (Note 11)	4,745,294	4,057,065
Permanently restricted (Note 11)	<u>9,673,165</u>	<u>9,646,765</u>
Total Net Assets	<u>25,362,954</u>	<u>24,795,754</u>
	<u>\$ 32,319,700</u>	<u>\$ 32,567,270</u>

See notes to financial statements

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Statement of Activities  
Year Ended December 31, 2012  
(with summarized totals for the year ended December 31, 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUE AND OTHER SUPPORT</b>					
Contributions	\$ 958,627	\$ 1,652,528	\$ 26,400	\$ 2,637,555	\$ 4,995,813
Grants and contracts					
U.S. government and corporations	7,934,149	-	-	7,934,149	8,757,070
Bermuda government	476,590	-	-	476,590	419,089
Tuition, guest services and other income	2,107,076	-	-	2,107,076	2,089,332
Investment return	306,740	1,307,313	-	1,614,053	160,338
Net assets released from restrictions (Note 11)	2,271,612	(2,271,612)	-	-	-
Total Revenue and Other Support	<u>14,054,794</u>	<u>688,229</u>	<u>26,400</u>	<u>14,769,423</u>	<u>16,421,642</u>
<b>EXPENSES</b>					
Program Services					
Scientific research	9,853,055	-	-	9,853,055	10,747,733
Education	2,627,672	-	-	2,627,672	2,291,881
Guest and residential services	<u>522,281</u>	<u>-</u>	<u>-</u>	<u>522,281</u>	<u>287,389</u>
Total Program Services	13,003,008	-	-	13,003,008	13,327,003
Development and public relations	701,142	-	-	701,142	826,910
Management and general	<u>498,073</u>	<u>-</u>	<u>-</u>	<u>498,073</u>	<u>837,813</u>
Total Expenses	<u>14,202,223</u>	<u>-</u>	<u>-</u>	<u>14,202,223</u>	<u>14,991,726</u>
Change in Net Assets	(147,429)	688,229	26,400	567,200	1,429,916
<b>NET ASSETS</b>					
Beginning of year	<u>11,091,924</u>	<u>4,057,065</u>	<u>9,646,765</u>	<u>24,795,754</u>	<u>23,365,838</u>
End of year	<u>\$ 10,944,495</u>	<u>\$ 4,745,294</u>	<u>\$ 9,673,165</u>	<u>\$ 25,362,954</u>	<u>\$ 24,795,754</u>

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Statement of Activities  
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND OTHER SUPPORT</b>				
Contributions	\$ 685,919	\$ 2,282,994	\$ 2,026,900	\$ 4,995,813
Grants and contracts				
U.S. government and corporations	8,757,070	-	-	8,757,070
Bermuda government	419,089	-	-	419,089
Tuition, guest services and other income	2,089,332	-	-	2,089,332
Investment return	36,964	123,374	-	160,338
Net assets released from restrictions (Note 11)	<u>2,206,303</u>	<u>(2,206,303)</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>14,194,677</u>	<u>200,065</u>	<u>2,026,900</u>	<u>16,421,642</u>
<b>EXPENSES</b>				
Program Services				
Scientific research	10,747,733	-	-	10,747,733
Education	2,291,881	-	-	2,291,881
Guest and residential services	<u>287,389</u>	<u>-</u>	<u>-</u>	<u>287,389</u>
Total Program Services	13,327,003	-	-	13,327,003
Development and public relations	826,910	-	-	826,910
Management and general	<u>837,813</u>	<u>-</u>	<u>-</u>	<u>837,813</u>
Total Expenses	<u>14,991,726</u>	<u>-</u>	<u>-</u>	<u>14,991,726</u>
Change in Net Assets	(797,049)	200,065	2,026,900	1,429,916
<b>NET ASSETS</b>				
Beginning of year	<u>11,888,973</u>	<u>3,857,000</u>	<u>7,619,865</u>	<u>23,365,838</u>
End of year	<u>\$ 11,091,924</u>	<u>\$ 4,057,065</u>	<u>\$ 9,646,765</u>	<u>\$ 24,795,754</u>

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 567,200	\$ 1,429,916
Adjustments to reconcile change in net assets to net cash from operating activities		
Net depreciation (appreciation) in fair value of investments	(1,125,055)	254,067
Depreciation	1,070,029	1,058,690
Loss on disposal of property and equipment	107,028	-
Contributions, grants and contracts classified as financing activities	(483,781)	(2,319,409)
Change in discount of unconditional promises to give	(4,566)	(26,352)
Changes in operating assets and liabilities (Note 12)	686,667	(89,629)
Net Cash from Operating Activities	817,522	307,283
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	495,201	1,707,737
Purchases of investments	(370,856)	(3,556,214)
Expenditures for property and equipment	(1,097,855)	(1,608,450)
Net Cash from Investing Activities	(973,510)	(3,456,927)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	26,400	2,026,900
Grants and contracts used for fixed asset acquisition	457,381	292,509
New borrowings under loans payable	340,338	813,858
Repayment of loans payable	(877,745)	(692,975)
Net Cash from Financing Activities	(53,626)	2,440,292
Net Change in Cash and Cash Equivalents	(209,614)	(709,352)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	1,140,806	1,850,158
End of year	\$ 931,192	\$ 1,140,806

See notes to financial statements

## **Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

### **1. Organization**

Bermuda Institute of Ocean Sciences (BIOS), Inc., formerly The Bermuda Biological Station for Research, Inc., founded in 1903, was incorporated in the State of New York in 1926 as a U.S. not-for-profit research organization. BIOS is exempt from U.S. income taxes pursuant to Sections 501(c)(3) and 509(a) of the Internal Revenue Code and is a Bermuda Registered Charity.

BIOS is a world leader in oceanic and atmospheric science, research and education; a global center of excellence; and, employer of choice for ocean scientists, researchers and educators.

BIOS strives to maximize understanding of the oceans and atmosphere and their relationships with planetary health, human health and sustainable development. Furthermore, BIOS provides well-equipped facilities for scientists and students from Bermuda, the U.S. and around the world.

Gifts, grants and contracts received from the U.S. and Bermuda governments as well as various individual, corporate and foundation donors support BIOS. Additionally, BIOS charges fees for the use of its various scientific, marine and housing facilities. BIOS operates in Bermuda where its assets, except for its investments and certain cash balances, are located.

### **2. Summary of Significant Accounting Policies**

#### ***Use of Estimates***

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

#### ***Financial Statement Presentation***

BIOS is required to report information regarding its financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, and unrestricted. Gifts and bequests that create endowment funds to provide a permanent source of income are classified as permanently restricted net assets. Gifts with stipulations that they be used for a particular purpose or for a specified time period are classified as temporarily restricted assets until the purpose or stipulated time restriction is met. All other net assets are classified as unrestricted.

## Bermuda Institute of Ocean Sciences (BIOS), Inc.

Notes to Financial Statements  
December 31, 2012 and 2011

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

#### ***Foreign Currency***

BIOS's functional currency is the U.S. dollar. There are no foreign currency transaction gains or losses from transacting in the Bermuda dollar because it is on parity with the U.S. dollar.

#### ***Contributions***

Contributions, including unconditional promises to give, are recognized as revenue in the period received or pledged. Contributions of assets other than cash are recorded at their estimated fair value and are recorded as increases in unrestricted net assets unless the donor places restrictions on their use. Contributions due after one year are reported at their discounted net present value. Amortization of the discount is recorded annually as additional contribution revenue over the anticipated collection period of the pledge.

#### ***Cash Equivalents***

All highly liquid investments, with maturities of three months or less at the time of purchase are considered cash equivalents.

#### ***Allowance for Uncollectible Receivables***

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific known troubled accounts. Management believes all receivables are fully collectible, therefore, no allowance for doubtful accounts is recognized at year-end.

#### ***Inventory***

Inventory is reported at the lower of cost or market (first in, first out) and consists of gift shop merchandise, cafeteria, laboratory and SCUBA supplies held for resale.

#### ***Fair Value Measurements***

BIOS follows GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable and are used to the extent that observable inputs do not exist.

## **Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

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

#### ***Investment Valuation and Income Recognition***

Investments are carried at fair value. The fair value of the investment funds are reported at the net asset value as reported by management of the respective funds.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

#### ***Grant support and revenue recognition***

Grants at BIOS are either reimbursement of costs limited by the maximums stated in the grant or are fixed price contracts. Support under grants for reimbursement of costs is recognized in the same period and in an amount equivalent to the aggregate of the incurred underlying costs. Revenue from fixed price grants is recognized proportionately over the life of the grant.

#### ***Property and Equipment***

Purchases of property and equipment are recorded at cost. Gifts or contributions of property and equipment are recognized at fair value at the time received. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. When items are disposed, the cost and accumulated depreciation are eliminated from the records of account, and a gain or loss is reported in current income. Repair and maintenance charges that do not increase the lives of the assets are charged to income as incurred.

#### ***Annuity Payable***

The charitable gift annuity is subject to the restrictions of the gift instrument requiring BIOS to pay a stipulated amount to designated beneficiaries. Such payments terminate at the time specified by the donor. Contribution revenues are recognized at the date of receipt after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liability is adjusted for present value of payments made.

#### ***Accounting for Uncertainty in Income Taxes***

BIOS recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that BIOS had no uncertain income tax positions that require financial statement recognition or disclosure. BIOS is no longer subject to examination by the applicable taxing jurisdictions for periods prior to 2009.

## Bermuda Institute of Ocean Sciences (BIOS), Inc.

Notes to Financial Statements  
December 31, 2012 and 2011

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

#### ***Subsequent Events***

Management evaluated subsequent events for disclosure and/or recognition in the financial statements through March 16, 2013, the date financial statements were available for issuance. Management noted no matters requiring recognition or additional disclosure.

### 3. Concentrations of Financial Risk

Financial instruments that are exposed to concentrations of financial risk consist primarily of cash, managed investment funds, donated common stock and contributions receivable. Management believes the diversification and quality of managed investment funds minimizes risk concentration regarding investments other than fluctuations in the financial markets in general. At December 31, 2012 and 2011, contributions receivable from two donors totaled \$250,000 and \$564,000.

### 4. Contributions Receivable

Contributions receivable at December 31 are expected to be collected as follows:

	2012	2011
Amount expected to be collected in:		
One year or less	\$ 110,100	\$ 534,238
Years two through five	<u>150,000</u>	<u>151,983</u>
	260,100	686,221
Less:		
Reserve for doubtful collectibility	-	(23,875)
Discount (5% per annum) to present value	<u>(9,411)</u>	<u>(13,977)</u>
	<u>\$ 250,689</u>	<u>\$ 648,369</u>

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

**5. Investments**

BIOS's investments consist of funds managed by Commonfund, The Investment Fund for Foundations' ("TIFF") Investment Program and by The Vanguard Group, Inc. Following are the investments at December 31, grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis:

Description	Level 1	Level 2	Total
<b>2012</b>			
Vanguard Prime Money Market Fund	\$ 3,029	\$ -	\$ 3,029
Vanguard Long-Term Investment-Grade Fund Admiral Shares	2,267,573	-	2,267,573
TIFF Multi-Asset Fund	-	5,945,373	5,945,373
Commonfund:			
Institutional Multi-Strategy Equity Fund	-	3,944,286	3,944,286
Institutional Multi-Strategy Bond Fund	-	961,456	961,456
	<u>\$ 2,270,602</u>	<u>\$ 10,851,115</u>	<u>\$ 13,121,717</u>
<b>2011</b>			
Vanguard Prime Money Market Fund	\$ 3,028	\$ -	\$ 3,028
Vanguard Long-Term Investment-Grade Fund Admiral Shares	2,028,869	-	2,028,869
Bank of N.T. Butterfield - equity securities	19,792	-	19,792
TIFF Multi-Asset Fund	-	5,471,248	5,471,248
Commonfund:			
Institutional Multi-Strategy Equity Fund	-	3,570,871	3,570,871
Institutional Multi-Strategy Bond Fund	-	1,027,199	1,027,199
	<u>\$ 2,051,689</u>	<u>\$ 10,069,318</u>	<u>\$ 12,121,007</u>

## Bermuda Institute of Ocean Sciences (BIOS), Inc.

Notes to Financial Statements  
December 31, 2012 and 2011

### 6. Property and Equipment

Property and equipment, carried at cost, is comprised of the following at December 31:

	<u>Useful Lives</u>	<u>2012</u>	<u>2011</u>
Land and improvements		\$ 486,850	\$ 486,850
Buildings and improvements	20-40 years	16,403,517	15,912,945
Furniture, fixtures and equipment	5-15 years	4,175,457	4,007,933
RV HSBC Atlantic Explorer	25 years	7,717,428	7,416,279
Other fixed assets	10-50 years	<u>758,392</u>	<u>758,392</u>
		29,541,644	28,582,399
Less accumulated depreciation		<u>(12,407,037)</u>	<u>(11,368,590)</u>
		<u>\$ 17,134,607</u>	<u>\$ 17,213,809</u>

### 7. Sponsored Projects

Approximately 56% of revenues in each of 2012 and 2011 are awards for sponsored projects (governments and other sources). The awards generally provide for recovery of both direct and indirect costs. The indirect costs covered by the awards are determined as a negotiated or agreed-upon percentage of direct costs with certain exclusions.

### 8. Pension Plan

BIOS maintains a contributory pension plan for employees ages 23 and over who have worked at least 720 hours in any calendar year. Participation in the plan is mandatory for Bermudians and spouses of Bermudians until they are 65 years old. The plan is voluntary for all other employees. Each participating employee may contribute to the plan up to a maximum of 10% of their gross salary. Mandatory participants must contribute 5% or more. BIOS matches the employee contribution up to a maximum of 5% of gross salary in accordance with the plan documents and the Bermuda Occupational Pensions Act 1998. Pension expense for the years ended December 31, 2012 and 2011 approximated \$174,000 and \$169,000.

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

**9. Loans Payable**

Loans payable consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
HSBC, secured by a mortgage on real property, due on demand, payable in monthly installments of \$31,422 including interest at 1% above three-month LIBOR (1.3% and 1.6% at December 31, 2012 and 2011).	\$ 1,912,575	\$ 1,659,662
HSBC, secured by a mortgage on real property, due October 2018, payable in monthly installments of \$16,403 including interest at 1% above three-month LIBOR (1.3% and 1.6% at December 31, 2012 and 2011).	970,970	1,129,077
HSBC, secured by the Atlantic Explorer, payable in annual installments, including interest at three-month LIBOR (0.3% and 0.6% at December 31, 2012 and 2011), of \$364,388 through 2012 and approximately \$127,000 until its maturity date of October 2015.	370,819	731,692
Bank of NT Butterfield, for staff housing building, due August 2018, unsecured, payable in monthly installments of \$20,000 including interest at 1% above three-month LIBOR rate (1.3% and 1.6% at December 31, 2012 and 2011).	<u>1,778,265</u>	<u>2,049,605</u>
	<u>\$ 5,032,629</u>	<u>\$ 5,570,036</u>

Aggregate maturities of loans payable approximate \$2,739,000 in 2013, \$477,000 in 2014, \$476,000 in 2015, \$482,000 in 2016, \$489,000 in 2017 and \$369,000 thereafter. Interest expense was approximately \$78,000 and \$63,000 for years ended December 31, 2012 and 2011.

A key bank official is a member of the BIOS Board of Trustees.

## **Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

### **10. Endowment Funds**

Donor-restricted funds whose purpose is to provide long-term support for BIOS and its charitable programs are endowment funds. Net assets of endowment funds are classified as permanently restricted, temporarily restricted or unrestricted which classification is determined by the directions of donors, where applicable, and the provisions of the laws of the State of New York. Absent donor stipulations to the contrary, the provisions of New York State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift.

On September 17, 2010, New York State adopted its version of the Uniform Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA includes provisions that differ from previous law, including the elimination of the historic dollar value rule with respect to endowment spending, establishment of new standards governing the expenditure and modification of restrictions on endowment funds, and revision of the prudence standard for the management and investment of endowment funds.

#### ***Interpretation of Law***

BIOS interprets NYPMIFA as requiring the preservation of the fair value of the original gift as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, BIOS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. Management has reviewed all BIOS funds and determined that net asset reclassification was not necessary.

#### ***Investment Return Objectives***

BIOS has adopted investment and spending policies for the BIOS endowment fund (the Fund) with the core objective to provide a reliable source of long-term financial support. It is the desire of the trustees that the Fund achieves a balance of growth and stability and thereby, over the long run, earns a competitive rate available in the capital markets at the risk level prescribed for the Fund.

#### ***Investment Philosophy***

The Fund has a long-term investment horizon and the trustees believe that asset allocation is the major determinant of investment performance. The asset allocation plan is based on a number of factors, including – projected spending needs, maintenance of sufficient liquidity to meet spending payments, and return objectives and risk tolerances. The asset allocation plan provides for diversification of assets to maximize the investment return and manage the endowment investments consistent with market conditions. Investments are made through recognized third-party providers of multimanager strategies.

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

**10. Endowment Funds (continued)**

***Spending Policy***

It is BIOS's policy to annually distribute up to 5% of a three-year moving average of the Fund's market value as of June 30 of each year. This distribution will be sanctioned by the applicable laws of the state of New York. In 2012, the full 5% was eligible for distribution to support the operations of BIOS.

Cumulative investment returns in excess of the spending rate that are not donor-restricted are board designated unrestricted endowment funds. Temporarily restricted endowment funds represent cumulative investment returns which must be spent in accordance with the donors' intent. Permanently restricted endowments must be maintained in perpetuity.

***Activity Summary***

The following summarizes activity in endowment funds for years ended December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>2012</b>				
Balance at January 1, 2012	\$1,091,786	\$1,510,268	\$9,646,765	\$ 12,248,819
Contributions	-	-	26,400	26,400
Investment income	91,682	397,011	-	488,693
Capital appreciation	211,215	910,302	-	1,121,517
Appropriated for expenditure	<u>(106,297)</u>	<u>(360,303)</u>	-	<u>(466,600)</u>
Balance at December 31, 2012	<u>\$1,288,386</u>	<u>\$2,457,278</u>	<u>\$9,673,165</u>	<u>\$ 13,418,829</u>
<b>2011</b>				
Balance at January 1, 2011	\$1,165,125	\$1,736,185	\$7,619,865	\$ 10,521,175
Contributions	-	-	2,026,900	2,026,900
Investment income	45,188	169,794	-	214,982
Capital depreciation	(11,889)	(46,420)	-	(58,309)
Appropriated for expenditure	<u>(106,638)</u>	<u>(349,291)</u>	-	<u>(455,929)</u>
Balance at December 31, 2011	<u>\$1,091,786</u>	<u>\$1,510,268</u>	<u>\$9,646,765</u>	<u>\$ 12,248,819</u>

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

**11. Restrictions on the Use of Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31 are available for the purposes listed:

	<u>2012</u>	<u>2011</u>
Scientific research	\$ 2,880,292	\$ 2,446,158
Education	1,559,464	1,348,186
Laboratory building	164,948	124,715
Future periods and administrative	<u>140,590</u>	<u>138,006</u>
	<u>\$ 4,745,294</u>	<u>\$ 4,057,065</u>

***Net Assets Released from Restrictions***

Net assets released from restriction consist of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Scientific research	\$ 1,211,966	\$ 1,001,899
Education	937,892	785,551
Capital improvements	-	100,000
Laboratory building	21,754	21,832
General operations	<u>100,000</u>	<u>297,021</u>
	<u>\$ 2,271,612</u>	<u>\$ 2,206,303</u>

***Permanently Restricted Net Assets***

Investment return from permanently restricted net assets is available to support the indicated activities at December 31:

	<u>2012</u>	<u>2011</u>
Scientific research	\$ 4,925,108	\$ 4,924,808
Education	3,270,086	3,243,986
Laboratory building	350,000	350,000
General operations	<u>1,127,971</u>	<u>1,127,971</u>
	<u>\$ 9,673,165</u>	<u>\$ 9,646,765</u>

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

**12. Statement of Cash Flows**

	<u>2012</u>	<u>2011</u>
Changes in operating assets and liabilities:		
(Increase) decrease in		
Grants and accounts receivable	\$ 544,284	\$ (329,766)
Contributions receivable	402,246	436,713
Inventory and prepaid expenses	17,500	(14,550)
Increase (decrease) in		
Accounts payable and accrued expenses	(224,972)	51,081
Grants and other advances	(15,963)	(257,651)
Retention payable	(35,048)	25,924
Annuity payable	<u>(1,380)</u>	<u>(1,380)</u>
Changes in operating assets and liabilities	<u>\$ 686,667</u>	<u>\$ (89,629)</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 78,712	\$ 69,239
Noncash transactions		
Equipment and services donated to BIOS	\$ 91,694	\$ 82,827

\* \* \* \* \*

## **OMB Circular A-133 Schedules and Reports**

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2012

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Pass-through Identification Number</u>	<u>Federal Expenditures</u>
<b>Research and Development – Cluster:</b>				
<b>National Science Foundation:</b>				
<b>Geosciences</b>				
<b>Direct:</b>				
Ship Operations - Weatherbird II (Atlantic Explorer)	47.050	OCE-0505888	N/A	\$ 1,139,000
Ship Operations - R/V Atlantic Explorer	47.050	OCE-1212814	N/A	2,679,842
The Bermuda Atlantic Time Series Study (BATS): Year 21 - 25	47.050	OCE-0752366	N/A	1,144,397
Combining Flow Cytometry and Stable Isotope Techniques: A Method to Measure Phytoplankton- and Bacteria-Specific Nitrogen and Carbon Uptake	47.050	OCE-0752161	N/A	6,034
Collaborative Research: Prochlorococcus and Its Contribution to New Production in the Sargasso Sea	47.050	OCE-0927567	N/A	61,968
Collaborative Research: Testing Linkages Between Plankton Community Structure and Export of C, Po and Th in the Sub-Arctic NE Pacific: Field and Lab Studies	47.050	OCE-0927559	N/A	70,098
Collaborative Research: The Great Southern Coccolithophore Belt	47.050	OCE-0961414	N/A	57,270
Collaborative Research: Plankton Community Composition and Trophic Interactions as Modifiers of Carbon Export in the Sargasso Sea	47.050	OCE-1030149	N/A	84,707
Collaborative Research: Isotopic and Compositional Investigation of the Sources and Interactions of Reactive Nitrogen in the Marine Atmosphere at Bermuda	47.050	OCE-1044934	N/A	92,033
Dimensions: Collaborative Research: Biological Controls on the Ocean C:N:P ratios	47.050	OCE-1045966	N/A	45,610
Oceanographic Technical Services 2009-2011, RV Atlantic Explorer	47.050	OCE-0939341	N/A	77,470
Oceanographic Technical Services 2012-2016, RV Atlantic Explorer	47.050	OCE-1216322	N/A	319,214
Time Series Particle Flux Measurements in the Sargasso Sea	47.050	OCE-1234294	N/A	131,450
Operation of a Marine-Atmospheric Sampling Facility at Tudor Hill, Bermuda	47.050	OCE-1130395	N/A	62,788
The Panulirus Hydrographic Station - Years 59-64	47.050	OCE-1153693	N/A	120,379
U.S. GEOTRACES North Atlantic Section: The Chemical Speciation of Dissolved Iron and Copper	47.050	OCE-0927453	N/A	80,252
BEACON: Bermuda Ocean Acidification and Coral Reef Investigation	47.050	OCE-0928406	N/A	205,162
Time Series Particle Flux Measurements in the Sargasso Sea	47.050	OCE-0927098	N/A	466,753
REU Site: Student Research in Oceanography and Marine Sciences at BIOS	47.050	OCE-1156626	N/A	102,602

See independent auditors' report and notes to schedule of expenditures of federal awards.

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2012  
(Continued)

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Pass-through Identification Number</u>	<u>Federal Expenditures</u>
<b>Research and Development – Cluster:</b>				
<b>National Science Foundation (continued):</b>				
<b>Geosciences (continued)</b>				
<b>Direct (continued):</b>				
2010 Shipboard Scientific Support Equipment for R/V Atlantic Explorer	47.050	OCE-1012444	N/A	31,054
2011 Oceanographic Instrumentation: R/V Atlantic Explorer	47.050	OCE-1119773	N/A	18,508
2011 Shipboard Scientific Support Equipment: R/V Atlantic Explorer	47.050	OCE-1119817	N/A	171,504
2012 Oceanographic Instrumentation: R/V Atlantic Explorer	47.050	OCE-1216572	N/A	33,309
2012 Shipboard Scientific Support Equipment: R/V Atlantic Explorer	47.050	OCE-1216789	N/A	39,216
Inorganic Carbon Measurements on the 2010/2011 North Atlantic GEOTRACES Cruise	47.050	OCE-1132566	N/A	22,931
Ocean Acidification-Category 1: Collaborative Research: An Investigation of the Role of Nutrition in the Coral Calcification Response to Ocean Acidification	47.050	OCE-1041052	N/A	36,767
<b>Pass-through funds:</b>				
<i>Woods Hole Oceanographic Institution</i>				
Sources and Biogeochemical Cycling of Intact Membrane Lipids in the Upper Ocean	47.050	OCE-1031143	WHOI-A100739	31,032
<i>The Regents of the University of California, Santa Barbara</i>				
MO: collaborative Research: Transition in the Surface Layer and the Role of Vertically Stratified Microbial Communities in the Carbon Cycle- An Ocean Microbial Observatory Program	47.050	OCE-0801991	KK9155	63,201
<b>Polar Programs</b>				
Collaborative Research: Pacific-Arctic Carbon Synthesis - Transformations, Fluxes and Budgets	47.078	OCE-1107457	N/A	2,752
Collaborative Research: Impact of Sea Ice on Bottom-up and Top-down controls of Crustacean Zooplankton and the Mediation of Carbon and Energy Flow in the Eastern Bering Sea	47.078	OCE-1106910	N/A	<u>30,886</u>
<b>Total National Science Foundation</b>				<u>7,428,189</u>

See independent auditors' report and notes to schedule of expenditures of federal awards.

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2012  
(Continued)

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Pass-through Identification Number</u>	<u>Federal Expenditures</u>
<b>National Oceanic and Atmospheric Administration, Department of Commerce:</b>				
<b>Climate and Atmospheric Research</b>				
<b>Direct:</b>				
Ocean Carbon Measurements in Support of the Joint Russian-American Long-Term Census of the Arctic (RUSALCA) Research Program in the Bering and Chukchi Seas	11.431	NA08OAR4310605	N/A	45,729
Mg-calcite Mineral Dynamics in Natural Seawater Systems: Relevance to Oceanic Uptake of Anthropogenic CO2 and Ocean Acidification	11.431	NA10OAR4310094	N/A	105,973
<b>National Oceanic and Atmospheric Administration Cooperative Institutes</b>				
<b>Pass-through funds:</b>				
<i>The Trustees of Columbia University in the City of New York</i> Underway CO2 Measurements aboard the RVIB Palmer and Data Management of the Global VOS Program	11.432	NA08OAR4320754	Subaward No. 1 (GG001948)	<u>100,046</u>
<b>Total National Oceanic and Atmospheric Administration, Department of Commerce</b>				<u>251,748</u>
<b>National Aeronautics and Space Administration</b>				
<b>Direct:</b>				
IPA Lipschultz	43.000	NNG10JA02P	N/A	150,149
IPA Lipschultz	43.000	NNG08JA02P	N/A	45,941
NFA/Research Opportunities in Space and Earth Sciences - 2009	43.AAA	NNX10AG36G	N/A	92,295
<b>Pass-through funds:</b>				
<i>The Regents of The University of California, Santa Barbara</i> Bermuda Bio-Optics Project: Enhancement of Measurements for New Ocean Color Applications	43.001	NNX11AE99G	KK1161	118,672
<i>The Regents of The University of California, Santa Barbara</i> A Mechanistic Approach Towards the Remote Assessment of Carbon Export by Sinking Particles in the Open Ocean	43.001	NNX11AF63G	KK1157	<u>21,413</u>
<b>Total National Aeronautics and Space Administration</b>				<u>428,470</u>
<b>National Institutes of Health, Department of Health and Human Services</b>				
<b>Direct:</b>				
Characterization of Aging in Sea Urchin Species with Different Life Spans	93.866	1R21AG039761-01	N/A	<u>168,965</u>
<b>Total National Institutes of Health, Department of Health and Human Services</b>				<u>168,965</u>
<b>Total Expenditures of Federal Awards</b>				<b><u>\$ 8,277,372</u></b>

All expenditures listed in the Schedule of Expenditures of Federal Awards include only the Federal government's share.

See independent auditors' report and notes to schedule of expenditures of federal awards.

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2012

**1 Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of BIOS under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of BIOS, it is not intended to and does not present the financial position, changes in net assets or cash flows of BIOS.

**2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**3. Subrecipients**

Of the federal expenditures presented in the schedule, BIOS provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
47.050	Geosciences	\$ 509,324
11.431	Climate and Atmospheric Research	82,574
93.866	Aging Research	59,364
43.AAA	NRA/ Research Opportunities in Space and Earth Sciences	<u>52,882</u>
		<u>\$ 704,144</u>

**Report 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***

**Independent Auditors' Report**

**The Board of Trustees and Members  
Bermuda Institute of Ocean Sciences (BIOS), Inc.**

We have audited, in accordance with the 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 Bermuda Institute of Ocean Sciences (BIOS), Inc. which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered BIOS's internal control over financial reporting (internal control) to determine the 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 BIOS's internal control. Accordingly, we do not express an opinion on the effectiveness of BIOS'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 may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether BIOS'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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Connell Davies, LLP*

New York, New York  
March 16, 2013

**Report on Compliance For Each Major Federal Program and Report on Internal Control  
Over Compliance Required by OMB Circular A-133**

**Independent Auditors' Report**

**The Board of Trustees and Members  
Bermuda Institute of Ocean Sciences (BIOS), Inc.**

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

We have audited Bermuda Institute of Ocean Sciences (BIOS), Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of BIOS's major federal programs for the year ended December 31, 2012. BIOS's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of BIOS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BIOS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of BIOS's compliance.

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

In our opinion, BIOS complied, in all material respects, with the types of 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, 2012.

O'CONNOR DAVIES, LLP

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***Report on Internal Control Over Compliance***

Management of BIOS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered BIOS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BIOS's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*O'Connell Davies, LLP*

New York, New York  
March 16, 2012

**Bermuda Institute of Ocean Sciences (BIOS), Inc.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Identification of major program:

Bermuda Institute of Ocean Sciences (BIOS), Inc.'s major program is research and development. Accordingly, all grants listed on the schedule of expenditures of federal awards are considered a research and development major program cluster. BIOS has no other major programs.

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended December 31, 2012.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of non-compliance for the year ended December 31, 2012.

Section IV – Prior Year Audit Findings

There were no prior year audit findings.