

June 19, 2020

The Board of Directors  
Federated States of Micronesia Petroleum Corporation

Dear Members of the Board of Directors:

We have performed an audit of the consolidated financial statements of the Federated States of Micronesia Petroleum Corporation and Subsidiary (the Company), a component unit of the FSM National Government, as of December 31, 2019, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 19, 2020.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

This report is intended solely for the information and use of management, the Board of Directors, others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of the Company for their cooperation and assistance during the course of this engagement.

Very truly yours,

*Deloitte & Touche LLP*

cc: The Management of Federated States of Micronesia Petroleum Corporation

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated October 23, 2019. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on whether the consolidated statement of net position of the Company as of December 31, 2019, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the year ended December 31, 2019 (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), and perform specified procedures on the required supplementary information for the year ended December 31, 2019;
- To express an opinion on whether the supplementary information that accompanies the financial statements is presented fairly, in all material respects, in relation to the consolidated financial statements taken as a whole; and
- To report on the Company’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2019 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the consolidated financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the consolidated financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the consolidated financial statements prepared with management oversight and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company’s 2019 consolidated financial statements include management’s estimate of inventory obsolescence, which is based on management’s evaluation of the inventory’s net realizable value, and management’s estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended December 31, 2019, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

## AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Company's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2019 consolidated financial statements.

In addition, listed in Appendix B and Appendix C to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

## SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in Note 2 to the Company's 2019 consolidated financial statements. During the year ended December 31, 2019, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Company.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The implementation of this statement did not have a material effect on the consolidated financial statements.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The implementation of this statement did not have a material effect on the consolidated financial statements but resulted in additional disclosures.
- GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. As a result of the implementation, the Company re-evaluated the financial statement presentation of Vital Energy, Inc. (VEI), resulting a consolidated financial statements presentation with VEI reported as a subsidiary of the Company.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the consolidated financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the consolidated financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the consolidated financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the consolidated financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. With the exception of GASB Statement 90, Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

We have evaluated the significant qualitative aspects of the Company's accounting policies, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

## **OTHER INFORMATION IN THE ANNUAL REPORTS OF THE COMPANY**

When audited financial statements are included in documents containing other information, such as the Company's Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the consolidated financial statements audited by us. In the event that the Company issues an Annual Report or other documentation that includes the audited consolidated financial statements, we will be required to read the other information in the Company's 2019 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Company's 2019 consolidated financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2019.

## **SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.



## **OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Board of Directors.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Company's management about the representations embodied in the consolidated financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, also dated June 19, 2020, on the Company's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*. Although we have included management's written responses to our comments contained in that report, such responses have not been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also communicated to management, in a separate letter also dated June 19, 2020, certain control deficiencies and other matters that we identified during our audit.



June 19, 2020

Deloitte & Touche  
P.O. Box 753  
Kolonias, Pohnpei 96941

We are providing this letter in connection with your audits of the consolidated statements of net position of the Federated States of Micronesia (FSM) Petroleum Corporation and its subsidiary, Vital Energy, Inc. (VEI) (together, the "Company"), a component unit of the FSM National Government, as of December 31, 2019 and 2018, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows, and the related notes to the consolidated financial statements, for the years then ended, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the consolidated financial statements of the financial position, results of operations, and cash flows of the Company in accordance with GAAP.
- b. 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
  - To prevent and detect fraud.
- c. The review and approval of the consolidated financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the consolidated financial statements was a matter of convenience rather than one of necessity. We have reviewed the consolidated financial statement preparation assistance provided by you and acknowledge that the consolidated financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.



1. The consolidated financial statements referred to above are fairly presented in accordance with GAAP. In addition:
  - a. The consolidated financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - b. Majority equity interests in legally separate organizations are properly accounted for in accordance with GASB Statement No. 90, *Majority Equity Interests*.
  - c. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - d. Deposits and investment securities are properly classified in category of custodial credit risk.
  - e. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - f. Required supplementary information is measured and presented within prescribed guidelines.
  - g. Other supplementary information is measured and presented within prescribed guidelines.
  - h. Applicable laws and regulations are followed in adopting, approving and amending budgets.
  - i. The Company's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and the related net position is properly recognized under the policy.
  - j. The consolidated financial statements properly classify all funds and activities, including special and extraordinary items.
2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Company has made available to you:
  - a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Board meetings were held on the following dates:

|                        |                        |
|------------------------|------------------------|
| January 4, 2019        | November 25 - 27, 2019 |
| April 30 - May 2, 2019 | January 8 - 9, 2020    |
| July 24 - 25, 2019     |                        |
  - b. All financial records and related data for all financial transactions of the Company and for all funds administered by the Company. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Company and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the consolidated financial statements have been prepared.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There has been no:
  - a. Action taken by the Company management that contravenes the provisions of federal laws and FSM laws and regulations or of contracts and grants applicable to the Company.
  - b. Communication with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the consolidated financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. We believe the effects of the uncorrected financial statement misstatement detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the consolidated financial statements for the year ended December 31, 2018 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C
7. The Company has not performed a formal risk assessment, including the assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Company and do not believe that the consolidated financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
  - a. Management.
  - b. Employees who have significant roles in the Company's internal control.
  - c. Others, where the fraud could have a material effect on the consolidated financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's consolidated financial statements communicated by employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that we are aware of that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments* except as described in Note 10 to the consolidated financial statements.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of consolidated financial statement amounts.
13. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the Company each organization that meets the criteria established in GASB Codification Section 2100.
14. The Company has appropriately identified and disclosed all segments in accordance with GASB Codification Section 2500, *Segment Information*.



Except where otherwise stated below, matters less than \$200,000, collectively, are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the consolidated financial statements.

15. Except as listed in Appendix B and Appendix C, there are no transactions that have not been properly recorded and reflected in the consolidated financial statements.
16. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
17. Regarding related parties:
  - a. We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the consolidated financial statements.
18. In preparing the consolidated financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the consolidated financial statements for which known information available prior to the issuance of the consolidated financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the consolidated financial statements of a condition, situation, or set of circumstances that existed at the date of the consolidated financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the consolidated financial statements.
19. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the consolidated financial statements.
  - b. Known actual or possible litigation and claims whose effects should be considered when preparing the consolidated financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 10 to the consolidated financial statements.
20. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral except as disclosed in Notes 5 and 6 to the consolidated financial statements.
21. The Company has complied with all aspects of contractual agreements that may have an effect on the consolidated financial statements in the event of noncompliance.
22. The Company believes that it is not subject to 21 percent income tax assessed by the FSM National Government on major corporations and are in the process of obtaining legal opinion.
23. All VEI fixed assets acquired in 2019 were purchased in brand new condition and are eligible for bonus depreciation.

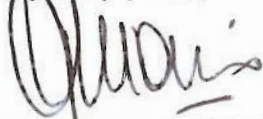
24. VEI is in compliance with all required tax filings and payments for our operations in Nauru.
25. We have made available to you all communications with tax authorities and/or communications with outside tax advisors.
26. No department or agency of the Company has reported a material instance of noncompliance to us.
27. The Company has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
28. Other than already described in Note 13 to the consolidated financial statements, no events have occurred after December 31, 2019 but before June 19, 2020, the date the consolidated financial statements were available to be issued that require consideration as adjustments to or disclosures in the Company's consolidated financial statements.
29. Regarding required supplementary information:
  - a. We confirm that we are responsible for the required supplementary information.
  - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
30. Regarding supplementary information:
  - a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GAAP.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
  - c. The methods of measurement and presentation of the supplementary information has not changed from those used in the prior period.
31. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the consolidated financial statements.
32. Receivables recorded in the consolidated financial statements represent valid claims or other charges arising on or before the date of the statements of net assets and have been appropriately reduced to their estimated net realizable value.
33. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Company and do not include any items consigned to it or any items billed to customers.
34. The construction-in-progress (CIP) projects of \$1,294,841 in Nauru which were charged to the through-put tax liability as of December 31, 2019 were valid Compliance and Integrity Projects at Nauru Facilities and were approved by the Government of Nauru (GON).
35. We believe that all expenditures that have been deferred to future periods are recoverable.



36. At December 31, 2019, construction in progress (CIP) include twenty three projects totaling \$1,114,000 which had no activity during the year. These projects are still valid and are expected to be resumed or completed during the year ended December 31, 2019.
37. The Company purchases commercial insurance to cover its potential risks from refueling operations, inventory and facilities. It also maintains workmen's compensation coverage. It is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.
38. During the year ended December 31, 2019, the Company implemented the following pronouncements:
- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The implementation of this statement did not have a material effect on the consolidated financial statements.
  - GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The implementation of this statement did not have a material effect on the consolidated financial statements but resulted in additional disclosures as presented in Note 6.
  - GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of consolidated financial statement information for certain component units. As a result of the implementation, the Company re-evaluated the financial statement presentation of VEI, resulting in a consolidated financial statement presentation with VEI reported as a subsidiary of the Company. As a result of the change, the 2018 financial statements have also been consolidated.
39. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the consolidated financial statements.
40. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the consolidated financial statements.
41. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the consolidated financial statements.

42. In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the consolidated financial statements.
43. In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. With the exception of GASB Statement No. 90, management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Very truly yours,



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Jared Morris  
Chief Executive Officer



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Johnny Adolph  
Chief Financial Officer



## APPENDIX A - POSTED ADJUSTMENTS AND FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

## Audit Adjustments and Reclassifications

## FSMPC

## Journal Entries - RJE

| #          | Name   | Debit          | Credit         |
|------------|--|----------------|----------------|
|            | <b>1 To reclassify current portion of long-term debt</b> |                |                |
| 4600-00-00 | LOAN FSMDB-CORP--  | 507,694        |                |
| 4600-00-01 | LOAN FSMDB-CORP--Current Portion                         |                | 507,694        |
|            |  | <u>507,694</u> | <u>507,694</u> |

To present current portion of long-term debt as of 12/31/2019

**2 To reclassify fuel in transit as AP fuel**

|            |                               |                  |                  |
|------------|-------------------------------|------------------|------------------|
| 4201-00-00 | FUEL TRANSIT LIABILITY        | 1,567,333        |                  |
| 4088-00-00 | ACCOUNTS PAYAB - MOGI -CORP-- |                  | 1,567,333        |
|            |                               | <u>1,567,333</u> | <u>1,567,333</u> |

To present fuel in transit as AP fuel as of 12/31/2019

## VEI

## Journal Entries - AJE

| #             | Name  | Debit            | Credit           |
|---------------|---|------------------|------------------|
|               | <b>1 AJE Adjustment to correct beginning RE</b> |                  |                  |
| 5550-00-00    | RETAINED EARNINGS                               | 372,487          |                  |
| 5200-00-00DT  | Paid In Capital (Nauru)                         |                  | 372,487          |
| 5550-00-00    | RETAINED EARNINGS                               | -                |                  |
| 1402-00-00-GU | Deferred Tax-Corp---                            | -                |                  |
| DT2015-1      | Translational Adjustment                        |                  | 28,607           |
| 5550-00-00    | RETAINED EARNINGS                               | 28,607           |                  |
| 5550-00-00    | RETAINED EARNINGS                               | 636,446          |                  |
| DT2015-1      | Translational Adjustment                        |                  | 636,446          |
| 5550-00-00    | RETAINED EARNINGS                               | -                |                  |
| DT5           | Income taxes payable                            | -                |                  |
|               |   | <u>1,037,540</u> | <u>1,037,540</u> |

Adjustment to correct beginning RE

**2 AJE To true-up intercompany balances between Guam and**

|            |                          |               |               |
|------------|--------------------------|---------------|---------------|
| 1125-00-00 | DUE FROM VITAL GUAM      | 40,492        |               |
| DT2015-1   | Translational Adjustment |               | 40,492        |
|            |                          | <u>40,492</u> | <u>40,492</u> |

To true-up intercompany balances between Guam and Nauru

**3 AJE To true-up long-term loan from FSMPC**

|               |                           |                |                |
|---------------|---------------------------|----------------|----------------|
| 4600-10-00    | LONG TERM LOAN FROM FSMPC |                | 315,742        |
| DT2015-1      | Translational Adjustment  | 509,720        |                |
| 4600-00-00-GU | LONG TERM LOAN-Corp-CORP  |                | 193,978        |
|               |                           | <u>509,720</u> | <u>509,720</u> |

To agree book balance to confirmation

**4 AJE To adjust income tax payable as of 12/31/2019**

|               |                                     |               |               |
|---------------|-------------------------------------|---------------|---------------|
| 1402-00-00-GU | Deferred Tax-Corp---                |               | 12,000        |
| DT6           | Income taxes provision - current    | 12,000        |               |
| DT4           | Deferred tax liability - noncurrent | -             |               |
| DT5           | Income taxes payable                | -             |               |
|               |                                     | <u>12,000</u> | <u>12,000</u> |

To adjust income tax payable as of 12/31/2019

|            |   |                  |                  |
|------------|---|------------------|------------------|
| 4042-10-00 | <b>5 AJE To reverse CIP pertaining to GON's integrity and</b> |                  |                  |
| 1900-10-00 | TAX PAYABLE - Thru Put - Nauru                                | 1,294,841        |                  |
|            | CIP - NAR   |                  | 1,294,841        |
|            |   | <u>1,294,841</u> | <u>1,294,841</u> |

To reverse CIP pertaining to GON's integrity and compliance project

|            |   |                |                |
|------------|---|----------------|----------------|
| 4061-10-00 | <b>6 AJE To adjust BPT as of 12/31/2019</b> |                |                |
| 8005-10-00 | BUSINESS PROFIT TAX PAYABLE - NAR           |                | 163,485        |
|            | BUSINESS PROFIT TAX - NAR                   | 163,485        |                |
|            |   | <u>163,485</u> | <u>163,485</u> |

To adjust BPT as of 12/31/2019

#### Journal Entries - RJE

| #               | Name  | Debit            | Credit           |
|-----------------|---|------------------|------------------|
|                 | <b>1 RJE To present current portion of long-term note payab</b> |                  |                  |
| 4110-00-00-GU   | Loan from WO-Corp-CORP  | 480,000          |                  |
| 4110-00-00-A-GU | Loan from WO-Corp-CORP - current portion                        |                  | 480,000          |
|                 |   | <u>480,000</u>   | <u>480,000</u>   |
|                 | To present current portion of long-term note payable            |                  |                  |
|                 | <b>2 RJE To present current portion of longterm debt payabl</b> |                  |                  |
| 4600-10-00      | LONG TERM LOAN FROM FSMPC                                       | 6,357,741        |                  |
| 4600-10-00-1    | LONG TERM LOAN FROM FSMPC - NONCURRENT                          |                  | 6,357,741        |
|                 |   | <u>6,357,741</u> | <u>6,357,741</u> |
|                 | To present current portion of long-term payable to FSMPC        |                  |                  |
|                 | <b>3 RJE To reclassify translational adjustment to equity</b>   |                  |                  |
| 7823-00-00      | Revaluation Gain (G/L Revalue)                                  | 270,205          |                  |
| 7824-00-00      | Revaluation Loss (G/L Revalue)                                  | 6,096            |                  |
| DT2015-1        | Translational Adjustment  |                  | 276,301          |
|                 |   | <u>276,301</u>   | <u>276,301</u>   |
|                 | To reclassify to translational adjustments to equity            |                  |                  |
|                 | <b>4 RJE To reclassify NUC sales to other income</b>            |                  |                  |
| 6000-10-00      | SALES ADO - NAR   | 334,780          |                  |
| 6250-10-00      | FEES & CHARGES REVENUE  |                  | 334,780          |
|                 |   | <u>334,780</u>   | <u>334,780</u>   |
|                 | To reclassify NUC sales to other income                         |                  |                  |

## APPENDIX B - UNPOSTED ADJUSTMENTS AND FINANCIAL STATEMENT RECLASSIFICATION ENTRIES

|   |                      | Balance Sheet  |                     |                      | Income Statement         |
|---|----------------------|----------------|---------------------|----------------------|--------------------------|
| Misstatement Description                              | Type of Misstatement | Assets Dr (Cr) | Liabilities Dr (Cr) | Net Position Dr (Cr) | Revenue Expenses Dr (Cr) |
| FSMPC   |                      |                |                     |                      |                          |
| 1. To correct accounts payable based on the final inv | Factual              | (76,676)       | 76,676              |                      |                          |
| 2. To expense non-capitalizeable CIPs                 | Factual              | (206,229)      |                     |                      | 206,229                  |
| 3. To record capitalizeable interest                  | Factual              | 420,918        |                     |                      | (420,918)                |
| VEI   |                      |                |                     |                      |                          |
| 1. To provide an allowance for deferred tax asset as  | Judgmental           | (121,000)      |                     |                      | 121,000                  |
| 2. To correct unrecorded liabilities as of 12/31/2019 | Factual              | 86,894         | (86,894)            |                      |                          |
|   |                      | 103,907        | (10,218)            | -                    | (93,689)                 |

| Entry Description                             | Assets  | Liabilities | Equity  | Income Statement |
|---|---------|-------------|---------|------------------|
|   | Dr (Cr) | Dr (Cr)     | Dr (Cr) | Dr (Cr)          |
| Dr. Business Profit Tax Payable               |         | 39,398      |         |                  |
| Cr. Business Profit Tax                       |         |             |         | (39,398)         |
| <i>To adjust BPT payable as of 12/31/2018</i> |         |             |         |                  |