FEDERATED STATES OF MICRONESIA
PETROLEUM CORPORATION AND SUBSIDIARY

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2020 AND 2019

FEDERATED STATES OF MICRONESIA
PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Years Ended December 31, 2020 and 2019
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia Petroleum Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Federated States of Micronesia (FSM) Petroleum Corporation and Subsidiary (the Company), a component unit of the FSM National Government, which comprise the consolidated statements of net position as of December 31, 2020 and 2019, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Deloitte.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FSM Petroleum Corporation and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 11 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information:

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 32 to 35 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. This information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit for the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the consolidated 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 August 24, 2021, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Deloitte & Touche LLP

August 24, 2021

FEDERATED STATES OF MICRONESIA
PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

ROLE AND FUNCTION

The primary long-term role and function of the Federated States of Micronesia Petroleum Corporation (FSMPC or "the Corporation") is to secure a stable supply of petroleum products to meet the nation's core energy needs in accordance with Public Law 15-08. In addition, and as a result of Public Law 18-68 entitled "The Coconut Tree Act", the Corporation transitioned the assets, staff and operations of the former FSM Coconut Development Authority (CDA) and has an additional mission to increase the economic value of the coconut tree and its products to the country and its farmers. These two missions are complementary in building resilience within the economy by addressing energy price stability and increasing household incomes to address the energy affordability challenges.

The Corporation remains the single largest supplier of energy in the FSM and continues to engage efficiently, responsibly, and profitably in the country to ensure that there are sufficient resources to maintain assets, train people, hold strategic oil inventories, and provide petroleum products in full, on-time, to international specifications, and to provide the necessary resources to develop and rehabilitate the coconut industry.

Vital Energy Incorporated (VEI), Guam, is an affiliate wholly owned by the FSMPC, and is the responsible entity for operations in Guam and Nauru. Opportunities to diversify into alternative energy technology to support the nations climate commitments, establish partnerships with development partners and technology suppliers, as well as expand into regional markets are investigated thoroughly.

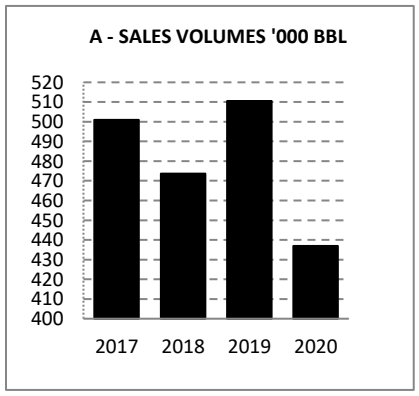
STRATEGIC OBJECTIVES

The Strategic Plan - Voyaging Together 2025 – completed its midterm review in 2020. Various strategy pivots and target restatements have been introduced to address rapid changes in business drivers and the shifting external forces acting on the business model. The balanced scorecard methodology of the Balanced Scorecard Institute (https://balancedscorecard.org) has been retained as the primary process for review of the seventeen strategic objectives of the Plan.

There are well-known, and even better documented risks, problems and issues that plague small, state-owned energy corporations. Enhancing the 'commercial viability' and building balance sheet resilience to shocks and perturbations remains the primary strategic objective into the next five (5) years. Commercial viability ensures that funds and resources are available for ongoing activities that deliver the missions defined within the Public Laws as well as meet the expectations of stakeholders.

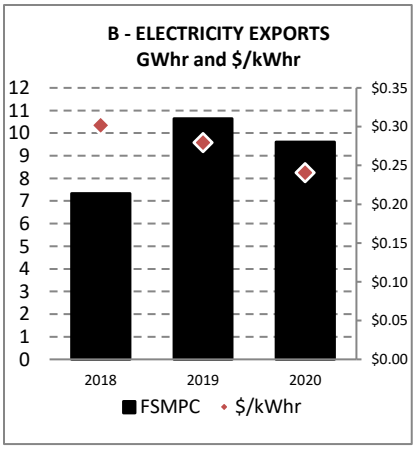
SUMMARY OF OPERATIONS

Fuel Supply, Storage and Distribution. The Corporation operates a total of eight fuel terminal facilities across the Federated States of Micronesia, Guam and Nauru, and services the international aviation, marine bunkering, and inland market segments in all these economies. Our petroleum operations throughout the FSM, Guam and Nauru are supported by fuel, lubricant, and technical service agreements with Mobil Oil Micronesia Incorporated (MOMI), Total Oil Asia Pacific (TOAP), and ExxonMobil Aviation (EMA). Throughout 2020, we maintained Winson Oil (HK) Limited and Pacific Bulk Fuels (NZ) Limited as product suppliers to the Corporation. There were no changes in primary product suppliers in 2020.



- An FSM Pricing Policy Framework (PPF) provides a mechanism to stabilize domestic prices and cushion the effect of international volatility. There are no cross subsidies within the PPF, and the prices reflect the costs of procuring, financing, storing, handling, and distribution of fuels in the jurisdictions that we operate.

- The Nauru Pricing Template (NPT) negotiated with the Government of Nauru provides the mechanism to earn a return-on-investment commensurate with the risks of operating in Nauru. The NPT has a similar stabilization mechanism for domestic prices and cushions the effect of international volatility.



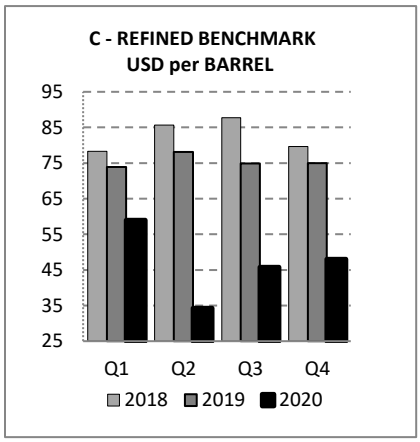
Power Generation. The Corporation owns and operates, under an independent power producer (IPP) model an oil-fired power plant that supplies between 7 and 11.0 GWh per annum of electricity to the Pohnpei Utilities Corporation (PUC) meeting approximately 25% of Pohnpei demand requirements. The average price of electricity to PUC for the year was US$0.24/kWh, reflecting lower international oil prices (Graph B). A second independent power plant is expected to be operational in Chuuk in 2021. The first of five (5) solar photovoltaic systems with battery energy storage systems (BESS) has been installed and commissioned in Pohnpei and is completing its system stability and durability testing. The solar PV BESS business models are expected to mature in 2021 and should see replication and upscaling in 2022.

- An Energy Pricing Template (EPT) sets prices for electricity in our power plants that export to the electricity grid. The EPT comprises industry standard mechanisms such as capacity charges, maintenance allowances, and net electrical energy output based on a guaranteed minimum energy efficiency.

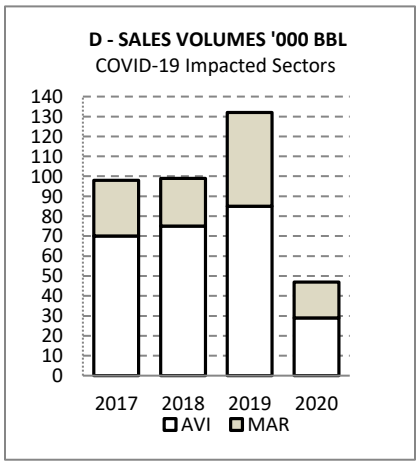
Manufacturing. The Corporation owns and operates a coconut tree product (CTP) processing facility in Pohnpei producing crude coconut oil, virgin coconut oils, soaps, and edible oils. A second integrated coconut processing facility is under construction in Chuuk; however, such has been placed on hold due to COVID-19 travel restrictions that prohibit the third phase of construction. COVID-19 also affected planned niche product launches in Guam and Hawaii as tourism arrivals and targeted markets weakened. Throughout 2020, efforts remained focused on production efficiency, processing capacity, and product research and development. A revised product launch strategy has been planned for 2021.

Out grower Cooperatives. The Corporation has designed, developed, and completed field testing of the Vital participatory guarantee scheme (VPGS). The VPGS provides a legal and commercial framework that enables farmers to pool together their production capacity to meet the quantity and quality demands of the market. Farmers can then engage fully in a modern economy through a formalized community enterprise that has confirmed supply quotas and price guarantees with the market. Since inception, a total of 137 community enterprises have been incorporated, with 8% proceeding to obtaining business licenses to support their trade in coconut tree products. A total of 1,124 farmers have been registered with the Corporation. This is arguably the single largest growth of private enterprises and private sector activity in the FSM in 2020. An ARC-GIS crop tracking tool and corresponding database has also been developed and field tested to aid in overall farm, plantation, and replantation management within the extant agroforestry.

Maritime. New assets were procured to support the construction activities for a new integrated coconut processing factory in the State of Chuuk. The Corporation has added into its operations a thirty (30) seater passenger ferry and an 80MT landing craft. The business formalized operating procedures, protocols and business processes for these new operations and activities. Throughout the year, the fleet successfully and safely conducted 375 voyages and moved approximately 2378MT of cargo. A total of 2080 passengers transfers were also successfully completed. It is expected that further business process strengthening in 2021 will enable these assets to be available for charter in 2022.



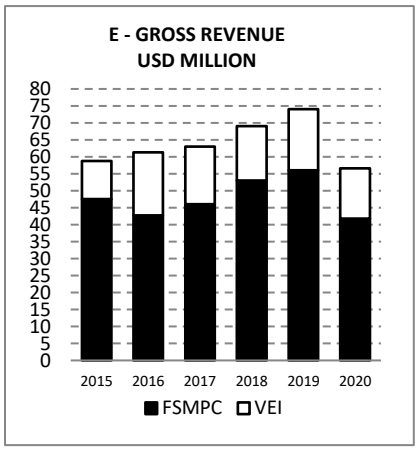
There are no cross subsidies between the PPF, NPT or EPT, and the prices in each operating unit reflect the costs of procuring, financing, storing, handling, and distribution of fuels in the States that we operate. The Corporation continues to benchmark domestic price competitiveness through comparison of pump prices of island neighbors. Throughout CY20, domestic prices in the FSM remained stable, and by and large slightly above the benchmark Guam pump prices and below most regional neighbors.



REVENUES

95% of company revenues remain petroleum fuels related. Revenues are directly linked to the international oil markets and the adjustment mechanisms in the Pricing Policy Framework (PPF), the Nauru Price Template (NPT), and the Energy Pricing Template (EPT) that accommodates international oil price increases or decreases.

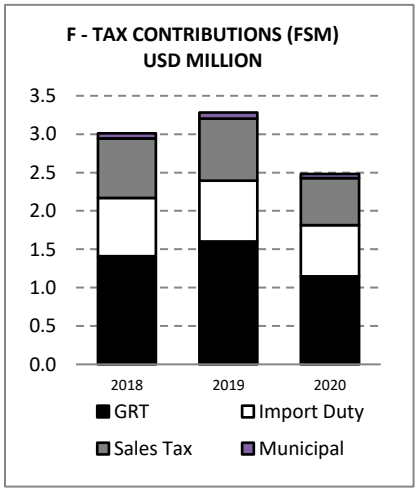
It was an extremely volatile year for international petroleum prices (Graph C) with quarterly deviations in the international refined benchmark as high as US$30/BBL. Oil prices fell to a record low of US$35 per BBL in Q2, less than 25% in the same quarter of the prior two years. Prices did not remain low for long and started their gradual climb in Q3 and Q4 to settle at around US$48 per BBL, though still lower than the start of the year.



The controls introduced by governments to dampen the COVID-19 spread resulted in complete demand destruction across sectors that were dependent on a travelling population. Domestic demand followed international trends closely with significant sales reductions observed in the marine and aviation sectors. Sales volumes in these sectors fell by approximately 85,000 BBL (64%) as compared to the same time last year (Graph D). The largest recorded fall of 66% in aviation, followed by 62% in marine.

The COVID-19 pandemic completely obliterated the prior year sales achievements in the marine markets that saw a significant increase in sales volumes of an additional one (1) million gallons in international bunkers in 2019.

As a result, total group revenues fell by US$18MM from US$74MM in 2019 to US$56.2MM in 2020 (Graph E). Business unit contributions of Kosrae 7%, Yap 9%, Chuuk 21%, Pohnpei (fuel & electricity) 48%, Guam and Nauru 24%. Automotive diesel oil remains the highest revenue component at 44%, followed by unleaded petrol (or gasoline) 33%, and home kerosene and Jet A1 of just 16%.



The combination of price reductions and lower sales volumes had a significant impact on the revenue and productivity indicators of the Corporation. There was a large reduction in the amount of gross revenue tax, sales taxes and import duties collected and paid in the FSM in 2020 of approximately US$800,000 (Graph F). The lower tax levels resulted in an increase in the number of state and tax and compliance audits as governments sought to understand the lower collections and ways of shoring up the government budget.

Non-fuel related revenues from power plant electricity sales, as well as coconut related products, remain at approximately 5% of total revenues mix.

Non-FSM related revenues remain at approximately 26% of total revenues mix.

RISK AND RISK MANAGEMENT

The Corporation defines risk as "the effect of uncertainty on objectives". Risk is a level of uncertainty that creates economic opportunity. Risk can also result in loss. Overseeing how risks are chosen and handled by the company is therefore essential in stewarding long term value creation.

The Corporation's risk management system is designed to meet the requirements of the ISO Annex SL, and the principles and process of ISO31000:2009, the international standard for Risk Management. The *2020 Enterprise Risk Management Architecture* summaries the roles and responsibilities of staff and decision-making bodies across the organization for oversight, risk management, and managing risks, and the *2020 Risk Assessment Matrix* provides clarity on the risk appetite in the business.

The Board effectuates its risk oversight role primarily through regular and special meetings of the Board and Board committees. In certain cases, risk management issues are specifically addressed in presentations and discussions. Responsibility for day-to-day risk management relating to business management and operational risks resides with the Management Team and Staff. Management effectuates its risk management role by working with the Board to agree risk principles, framework and processes that are comprehensive and appropriate for the business, and then applies this consistently across all business activities.

A key guidance issued by the Board is the *Statement of General Business Principles (SGBP)*. The SGBP defines how we engage with stakeholders and the economy at large. This was again revised in 2020. Management seeks formal reassurance from each staff member that they operate within these principles annually. The Board also confirms their commitment to the SGBP annually. There were no reported breaches of these principles in 2020.

The Board and Committees regularly require senior management and external advisors to report to the Board and the Committees on a variety of risk categories including, but not limited to, governance risks, board approval risks, critical enterprise risks, business management risks, and emerging and non-traditional risks. The Board and Committees met eleven (11) times throughout the year and deliberated on financial stress test models; forecasts under various future-state scenarios; succession for unplanned loss of key individuals; investment risks; and business model risks.

Board oversight includes (without limitation) the following: (i) requesting and reviewing reports on the operations of the corporation; (ii) reviewing compliance reports and approving compliance policies and procedures; (iii) meeting with management to consider areas of risk and to seek assurances that adequate resources are available to address risks; (iv) meeting with service providers, including advisors, to review investment performance; and (v) meeting with the Chief Finance Officer and independent registered public accounting firm, when required, to discuss internal controls and financial reporting matters, among other things.

The Board and Management are aligned and committed to maintaining vigorous risk management principles and processes; however, it is recognized that not all risks that may affect the Corporation can be identified, that it may not be practical or cost effective to eliminate or mitigate certain risks, that it is necessary to bear certain risks (such as continued hydrocarbon related business activities) while decarbonization and transformation strategies are implemented, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness.

In addition to the risks highlighted in the last audit, two additional risks have been identified in 2020. These are described below:

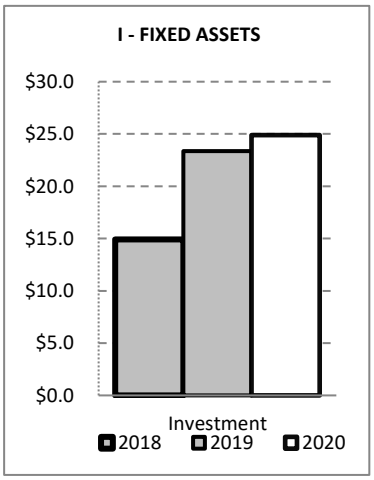
- *COVID-19 Controls*: The most significant disruption that will have long term lasting impacts on our business has been travel restrictions. This has not only seen a financial impact due to lower sales volumes, but also non-financial impacts as business leaders, advisors, and auditors are not able to travel freely to operating locations to assure themselves of the condition of assets, to complete asset upgrades, verify compliance against key business processes, and ensure that the desired operating culture(s) exist within the teams responsible for critical service and delivery processes. Digital workplace strategies and alternatives have been employed immediately, where possible; however, significant challenges remain for some engineering activities in the business.

- *Shifting 'emotional climate':* Humans have an amazing ability to think about the future, and individuals will react differently to a threat event. The pandemic has prompted new thought processes and personal priorities, worry chains, and reactions across the business. Our operations have a significant exposure to high frequency operational risks and there is a heavy reliance on people to do the right thing at the right time to manage known hazards i.e. storage and handling of hazardous, flammable, and combustible liquids. There is a greater propensity for human error given the higher level of worry, uncertainty and distractions brought about by COVID-19, amplified by the inability of senior management to travel to locations to address these concerns through face-to-face engagements practices common pre-COVID.

These two new risks can act in a contagion effect with the *Aging petroleum distribution infrastructure* risks disclosed in 2019. In conjunction with the COVID-19 travel controls, treatment plans for this risk are now more complexity and uncertain, with a longer time horizon for major repairs and upgrades.

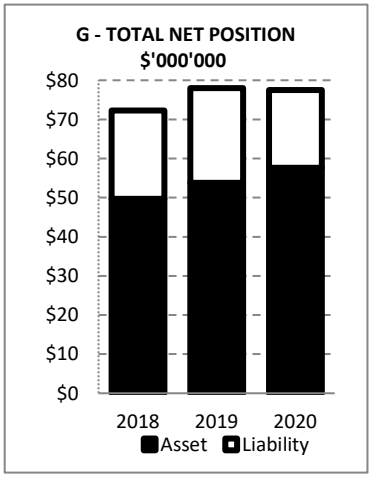
Financial Condition

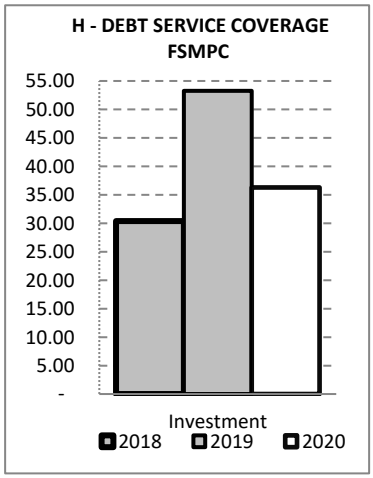
Pricing practices did not change throughout 2020. The PPF, NPT, and EPT maintained scheduled price adjustments in accordance with various price instruments for contract customers such as utilities, airlines, and a quarterly price change for retail service stations. The loss of sales impacted gross operating profit by approximately -$US1.4M.



The Corporation was successful in containing its operating expenses. Positive movements in the strength of the Australian dollar saw foreign exchange gains on its Nauru assets, overall minimizing the negative impact on the total net position (Graph G). Financial strength indicators remain close to pre-COVID-19 levels, supported by an almost complete stoppage of capital improvement upgrade projects at the end of Q1 (Graph H and I). It is expected that the full impact of the COVID-19 pandemic will be seen in the business in 2021.

The Board and Management continue to investigate options to outsource activities, enter into equipment leasing arrangements, utilize joint ventures to meet much of capital requirements of the business, as well as to transfer risks to entities that are more equipped to manage them. The Investment Appraisal Framework adopted by the Board in 2015 remains in place. The appraisal framework provides clear guidelines for Management for all investments made by the Corporation.





FEDERATED STATES OF MICRONESIA
PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

The following table summarizes the Corporation's consolidated financial position and results of operations as of and for the years ended December 31, 2020, 2019, and 2018.

Assets:	***2020***	***2019***	***2018***
Capital assets, net	$33,680,003	$30,513,897	$22,269,110
Cash	27,388,331	26,152,108	26,135,647
Inventory, net	9,073,655	12,023,399	15,602,384
Investments	2,775,035	2,524,009	2,131,619
Receivables and other current assets	4,685,415	6,898,329	6,334,213
Total Assets	**$77,602,439**	**$78,111,742**	**$72,472,973**

Liabilities and Net Position	***2020***	***2019***	***2018***
Current liabilities	$8,630,945	$14,115,482	$12,550,823
Noncurrent liabilities	11,324,781	10,159,997	10,159,402
Total Liabilities	**19,955,726**	**24,275,479**	**22,710,225**
Net investment in capital assets	24,238,639	23,354,838	14,922,657
Unrestricted	33,408,074	30,481,425	34,840,091
Total Net Position	**57,646,713**	**53,836,263**	**49,762,748**
Total Liabilities and Net Position	***$77,602,439***	**$78,111,742**	**$72,472,973**

Revenues, Expenses and Changes in Net Position:			
Operating revenues	$56,296,595	$74,282,250	$68,609,799
Cost of goods sold	(35,894,537)	(52,453,205)	(49,789,519)
Gross profit	20,402,058	21,829,045	18,820,280
Operating expenses	(17,069,852)	(17,701,800)	(16,537,026)
Nonoperating (expenses) revenue	478,244	(53,730)	(1,426,777)
Change in Net Position	**$ 3,810,450**	**$ 4,073,515**	**$ 856,477**

Major changes in profit and loss and statement of net position component for CY20 are result of:

a) The Corporation increased its one-year term Line of Credit with Bank of Guam (BOG) from US$10M to US$11M. The short-term notes with banks remained at a zero balance in CY2020 as a result of prudent cash management. The Corporation continues to invest its operating surplus into capital expenditure to reduce operating risks and strengthen oil distribution infrastructure, into strategic oil inventory to increase the energy security of the nation, and to execution of its strategy (VT2025) for the long-term sustainability of the Corporation.

b) The operating expenses for 2020 fell short of expectations and realized a reduction of only 4%. This is directly attributed to the support required for the various strategic planning initiatives implemented during the year. This is evident from the increased scope of activities as described in the Summary of Operations.

c) The total amount received from sales of petroleum products exceeded the amount paid to vendors and employees for goods and services. The net cash provided by operating activities in 2019 was $11,887,258 as compared to $6,200,570 in 2020.

d) A total of $11,870,797 in 2019 and $4,964,347 in 2020 was used for capital and related investing activities mainly for the purchase of capital assets. The Corporation's total investments in capital assets, inclusive of construction in progress as of December 31, 2019 and 2020 were $23,354,838 and $24,238,639, respectively.

CAPITAL ASSETS AND DEBT MANAGEMENT

Capital Assets and Long-Term Debt: At the end of CY2020, the Corporation had $24 million invested in capital assets. This represents an increase in net capital assets (including additions and deletions) of $800K over the previous year. For additional information about the Corporation's capital assets, refer to Note 3 to the financial statements. The Corporation had long-term debt of US$8.3 million outstanding at December 31, 2020, an increase of US$900k from US$7.4 million outstanding at December 31, 2019. In CY2020, the Corporation incurred an additional US$3 million in bank debt to finance the coconut processing facility. For additional information about the Corporation's long-term debt, refer to Note 6 to the financial statements.

ECONOMIC OUTLOOK

Two main forms of energy are supplied in the FSM: fossil fuels by FSM Petroleum Corporation and electricity by four State owned power utilities, namely: Pohnpei Utility Corporation (PUC), Kosrae Utilities Authority (KUA), Yap State Public Services Corporation (YSPSC) and Chuuk Public Utility Corporation (CPUC). It was estimated in 2010 that around 55% of households are connected to the electricity network[1]. This has remained largely unchanged throughout 2020 as energy efficiency and renewable energy projects under the 2018 FSM Energy Master Plan remain in the pipeline, yet to materialize as projects on the ground, and unlikely to do so in the immediate future given the coronavirus pandemic.

The coronavirus pandemic caused some economic disruption as households, governments, and businesses adapted to mandatory measures to limit the potential of a spread of the virus in the country. The impact was focused on sectors of the economy, such as travel, hospitality, and construction. Domestic petroleum demand – with the exception of international marine and aviation transport related activities – remained relatively stable throughout 2020. Anecdotal evidence points to a domestic economy supported by a combination of remittance from diaspora, as well as local economic stimulus packages offered by the National Government, and lower energy costs throughout most of the year. The fact that the FSM remained COVID-19 free meant that apart from lower levels of international and intra-state travel, life and daily activities remained largely normal.

While the Coconut for Life (C4L) program continues to show promising results, the prior year month-on-month improvement in the consistency, quantity, and quality of coconut tree products supplied to the Pohnpei plant faltered mid-year. The lower levels of trade with participating farmers coincided with the first stimulus packages released by governments. This impacted our targets for increased coconut production by smallholder farmers, and a plan to boost exports of value-added products manufactured at the Pohnpei facility. Domestic sales of niche coconut tree products were also impacted by a complete destruction of the tourism related markets. We anticipate that this is short-term in nature, and that this should return to normalcy at the end of 2021 and continue to grow from 2022.

Maintaining and enhancing commercial viability remains challenging given the current external environment. Technological advancement, external interventions that fund a rapid transition to a low carbon economy, and the ever-growing threat of extreme weather events that require both capital reserves and strong insurance programs for business continuity, recovery, and reinstatement of critical infrastructure that may be damaged are pressures that need to be continuously monitored and prepared for.

[1] Expression of Interest to Participate in SREP, Micronesia Climate Investment Funds: https://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/federated_states_of_micronesia_eoi_0.pdf

Over the course of the coming year, we anticipate that vaccines will be developed and become readily available, and greatly reduce the number of COVID-19 cases globally. As a result, we anticipate the easing of travel restriction in 2021, and enable the multiple government and private sector infrastructure projects that are currently stalled to progress. We anticipate a return to pre-pandemic levels in end-2021.

Management's Discussion and Analysis for the year ended December 31, 2019 is set forth in the report on the audit of FSMPC's financial statements, which is dated June 19, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and may be obtained from the contact shown below.

CONTACT

Questions associated with the above Management's Discussion and Analysis may be sent by post, addressed to Mr. Johnny Adolph, Chief Financial Officer, P.O. Box 1762, Kolonia, Pohnpei, FSM 96941 or via email to petrocorp@fsmpc.com.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidated Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
Current assets:		
Cash and cash equivalents	$ 27,388,331	$ 26,152,108
Time certificates of deposit	401,396	400,480
Trade receivables	1,688,782	2,859,622
Other receivables	107,323	197,523
Inventory, net	9,073,655	12,023,399
Prepaid expenses	1,255,400	1,897,560
Investments	2,775,035	2,524,009
Total current assets	42,689,922	46,054,701
Prepaid expenses, net of current portion	542,505	751,966
Other noncurrent asset	690,009	791,178
Capital assets:		
Nondepreciable capital assets	8,715,643	15,235,168
Other capital assets, net of accumulated depreciation	24,964,360	15,278,729
	$ 77,602,439	$ 78,111,742

LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	$ 1,625,673	$ 987,694
Accounts payable - fuel	2,008,484	7,414,817
Accounts payable - other	920,998	1,291,364
Accrued liabilities and others	4,075,790	4,421,607
Total current liabilities	8,630,945	14,115,482
Long-term debt, net of current portion	8,295,691	7,371,365
Due to States and the FSM National Government	1,747,177	1,747,383
Other noncurrent liability	1,281,913	1,041,249
Total liabilities	19,955,726	24,275,479
Commitments and contingencies		
Net position:		
Net investment in capital assets	24,238,639	23,354,838
Unrestricted	33,408,074	30,481,425
Total net position	57,646,713	53,836,263
	$ 77,602,439	$ 78,111,742

See accompanying notes to consolidated financial statements.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidated Statements of Revenue, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenues:		
Sales and service income	$ 56,291,761	$ 74,258,448
Other	4,834	23,802
	56,296,595	74,282,250
Cost of goods sold	35,894,537	52,453,205
Gross profit	20,402,058	21,829,045
Operating expenses:		
Salaries and benefits	4,284,776	3,737,596
Depreciation and amortization	2,918,419	2,632,139
Rent	1,815,894	1,754,273
Taxes	1,433,266	1,888,392
Repairs and maintenance	1,246,566	1,182,160
Professional fees	1,225,032	1,732,996
Insurance	1,007,277	950,507
Contracted services	472,994	462,959
Communications	436,339	516,437
Office supplies	416,668	263,446
Staff travel, training and development	414,116	831,397
Corporate governance, travel and entertainment	311,771	570,574
Utilities	272,405	278,719
Fuel	128,445	166,552
Bank charges	118,870	182,178
Miscellaneous	567,014	551,475
Total operating expenses	17,069,852	17,701,800
Operating income	3,332,206	4,127,245
Nonoperating revenues (expenses) :		
Foreign exchange gains (losses), net	667,393	(121,530)
Investment income, net	251,026	392,390
Other income	1,036	1,407
Interest expense, net	(441,211)	(325,997)
Total nonoperating revenues (expenses), net	478,244	(53,730)
Change in net position	3,810,450	4,073,515
Net position at beginning of year	53,836,263	49,762,748
Net position at end of year	$ 57,646,713	$ 53,836,263

See accompanying notes to consolidated financial statements.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	$ 57,468,471	$ 73,643,198
Cash paid to suppliers for goods and services	(46,983,125)	(58,018,344)
Cash paid to employees for services	(4,284,776)	(3,737,596)
Net cash provided by operating activities	6,200,570	11,887,258
Cash flows from capital and related financing activities:		
Interest paid on long-term debt	(483,980)	(420,918)
Proceeds from long-term debt	3,000,000	-
Repayment of long-term debt	(1,437,695)	(667,394)
Acquisition of capital assets	(6,084,525)	(10,876,926)
Net cash used for capital and related financing activities	(5,006,200)	(11,965,238)
Cash flows from investing activities:		
Increase in time certificates of deposit	(916)	(480)
Interest received	42,769	94,921
Net cash provided by investing activities	41,853	94,441
Net change in cash	1,236,223	16,461
Cash and cash equivalents at beginning of year	26,152,108	26,135,647
Cash and cash equivalents at end of year	$ 27,388,331	$ 26,152,108
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 3,332,206	$ 4,127,245
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,918,419	2,632,139
Foreign exchange gains (losses)	667,393	(121,530)
Other income	1,036	1,407
Decrease (increase) in assets:		
Trade receivables	1,170,840	(640,459)
Other receivables	90,200	(109,432)
Inventory	2,949,744	3,578,985
Prepaid expenses	851,621	276,487
Other assets	101,169	(90,232)
(Decrease) increase in liabilities:		
Accounts payable	(5,776,699)	1,655,584
Accrued liabilities and others	(105,359)	577,064
Net cash provided by operating activities	$ 6,200,570	$ 11,887,258

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

Federated States of Micronesia Petroleum Corporation (FSMPC or the Company) is a component unit of the Federated States of Micronesia (FSM) National Government (FSMNG). FSMPC was created under Public Law 15-08, as passed by the FSM Congress and which was signed into law on September 11, 2007, for the purpose of providing oil and gas distribution for the entire FSM.

FSMPC is governed by a seven-member Board of Directors appointed as follows:

- 1 member appointed by the President with the advice and consent of the FSM Congress to represent the FSMNG.
- 4 members appointed by each State governor to represent each of the States.
- 2 members from the private sector, appointed by the President with the advice and consent of the FSM Congress.

Coconut Development Unit (CDU) was established through Public Law No. 18-68 enacted on June 16, 2014, which dissolved the FSM Coconut Development Authority (CDA) and transferred the responsibility of coconut development to FSMPC. Effective January 1, 2015, CDU started operations and was created as a division of FSMPC; therefore, its financial position and activities are included in FSMPC's financial statements.

Vital Energy, Inc. (VEI) was incorporated on February 10, 2012 in Guam for the purpose of carrying on the operation of importation and sale of petroleum products, and operation, management and maintenance of petroleum storage terminals, international marine bunkering services, operation of road and aviation bridging tankers, and aviation refueling operations. On May 22, 2015, VEI established Vital Energy, Inc. (Nauru) (the "Nauru Branch"), a foreign branch operation in the Republic of Nauru for the purpose of providing fuel supply and distribution in Nauru under an agreement with the Government of Nauru (GON). VEI's main operations are in Nauru during the years ended December 31, 2020 and 2019.

FSMPC's consolidated financial statements are incorporated into the financial statements of the FSM National Government as a component unit.

Basis of Accounting

The accounts of FSMPC are organized as a discretely presented component unit - proprietary fund of the FSM National Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to a private business. This accounting is appropriate when costs of providing goods or services to the general public are to be financed primarily through user charges or where the periodic determination of net income is appropriate for accountability purposes. The accrual basis of accounting is utilized by proprietary funds. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time the liabilities are incurred.

FSMPC utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(1) Organization and Basis of Presentation, Continued

Basis of Accounting, Continued

The Statement of Net Position presents all of the FSMPC's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt.

- Restricted - restricted assets reduced by liabilities and deferred inflows of resources related to those assets that are subject to externally imposed stipulations.

- Unrestricted - the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use for the same purposes, it is FSMPC's policy to use unrestricted resources first, then restricted resources as they are needed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating revenues and expenses generally result directly from the operation and maintenance of the Company. Non-operating revenues and expenses result from capital and related financing activities as well as certain other non-recurring income and expense items.

(2) Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of FSMPC and VEI. All significant intercompany transactions and balances have been eliminated in consolidation.

B. Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Company does not have a deposit policy for custodial credit risk.

(2) Summary of Significant Accounting Policies, Continued

B. Cash and Cash Equivalents and Time Certificates of Deposit, Continued

For purposes of the consolidated statements of net position and of cash flows, cash and cash equivalents represent cash on hand, cash in bank accounts and time certificates of deposit with original maturity term up to ninety days. Time certificates of deposit with original maturity term over ninety days are separately classified. As of December 31, 2020 and 2019, total carrying amounts of cash and cash equivalents and time certificates of deposit were $21,415,685 and $18,191,731 respectively, and the corresponding bank balances were $21,374,764 and $18,487,162, respectively, which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2020 and 2019, bank deposits in the amount of $500,000 were subject to FDIC insurance. Bank balances in excess of FDIC insurance are not collateralized.

Additionally, as of December 31, 2020 and 2019, cash and cash equivalents include deposits in AUD denominated accounts with Bendigo Adelaide Bank Limited (Bendigo), an authorized deposit-taking institution (ADI) subject to the Australian Government Financial Claims Scheme (FCS) of $6,374,042 and $8,360,857, respectively. FCS provides guarantee on deposits up to a limit of AUD$250,000 for each account holder, which was extended to branches of Bendigo in Nauru. As of December 31, 2020 and 2019, bank deposits of approximately $193,000 and $176,000, respectively, were subject to FCS guarantee. Balances in excess of FCS guarantee are not collateralized.

C. Investments

Investments held by the Company consist of money market funds, fixed income securities, exchange-traded funds, and common stock. Investments and related investment earnings or loss are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date of which the fair value of an asset or liability is determined.

As of December 31, 2020 and 2019, investments at fair value are as follows:

	2020	2019
Fixed income securities:		
Domestic fixed income	$ 582,604	$ 524,016
International fixed income	-	208,123
	582,604	732,139
Other investments:		
Common equities	1,160,106	1,075,347
Exchange traded funds	991,301	663,159
Money market funds	41,024	53,364
	2,192,431	1,791,870
	$ 2,775,035	$ 2,524,009

(2) Summary of Significant Accounting Policies, Continued

C. Investments, Continued

As of December 31, 2020, the Company's fixed income securities had the following maturities:

Investment Type	Fair value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Corporate bonds	$ 314,145	$ -	$ -	$ 259,907	$ 54,238
U.S. Government Agency Bonds	268,459	-	113,588	104,136	50,735
	$ 582,604	$ -	$ 113,588	$ 364,043	$ 104,973

As of December 31, 2019, the Company's fixed income securities had the following maturities:

Investment Type	Fair value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
International bonds	$ 208,123	$ 208,123	$ -	$ -	$ -
Corporate bonds	211,177	-	-	194,568	16,609
U.S. Government Agency Bonds	312,839	-	89,141	165,404	58,294
	$ 732,139	$ 208,123	$ 89,141	$ 359,972	$ 74,903

The Company's exposure to credit risk at December 31, 2020 and 2019, was as follows:

Moody's Rating	2020	2019
AAA	$ 285,332	$ 312,839
A2	57,117	65,430
A3	73,473	64,401
BAA1	37,263	16,609
BAA2	91,191	48,795
BAA3	38,228	15,942
Not rated	-	208,123
	$ 582,604	$ 732,139

The Company categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(2) Summary of Significant Accounting Policies, Continued

C. Investments, Continued

The Company has the following recurring fair value measurements as of December 31, 2020 and 2019:

		Fair Value Measurements Using		
	December 31, 2020	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 582,604	$ -	$ 582,604	$ -
Equity securities	1,160,106	1,160,106	-	-
Exchange-traded funds	991,301	991,301	-	-
Total investments by fair value level	2,734,011	$ 2,151,407	$ 582,604	$ -
Investments measured at amortized cost:				
Money market funds	41,024			
	$ 2,775,035			

		Fair Value Measurements Using		
	December 31, 2019	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 732,139	$ -	$ 732,139	$ -
Equity securities	1,075,347	1,075,347	-	-
Exchange-traded funds	663,159	663,159	-	-
Total investments by fair value level	2,470,645	$ 1,738,506	$ 732,139	$ -
Investments measured at amortized cost:				
Money market funds	53,364			
	$ 2,524,009			

D. Accounts Receivable

Accounts receivable are due from businesses and individuals located primarily in the FSM and Nauru and are interest free and uncollateralized, except those from utility companies. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb potential losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Bad debts are written-off against the allowance based on the specific identification method. No allowance for doubtful accounts for both December 31, 2020 and 2019.

(2) Summary of Significant Accounting Policies, Continued

E. Inventory

Inventory on hand is substantially carried at the lower of cost (moving average cost) or market value. Inventory in transit is recorded at invoiced cost.

At December 31, 2020 and 2019, inventory consists of the following:

	2020	2019
Inventory on hand:		
Fuel	$ 7,176,937	$ 9,106,288
Lubricants	398,819	380,122
Chemicals	42,090	44,607
Others	1,506,396	975,636
	9,124,242	10,506,653
Inventory in transit - fuel	-	1,567,333
	9,124,242	12,073,986
Less allowance for obsolescence	(50,587)	(50,587)
	$ 9,073,655	$ 12,023,399

F. Prepaid Expenses

Advance payments relating to goods and services not yet received are recorded as prepaid expenses. Prepayments that are expected to be utilized beyond one year, mainly relating to prepaid land leases (see Note 11), are presented as noncurrent assets.

G. Property, Plant and Equipment

The Company capitalizes individual items with estimated useful lives of more than one year without regard to a capitalization threshold. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

Buildings	15 years
Leasehold improvements	11 years
Motor vehicles	5 years
Plant and equipment	3 to 15 years
Furniture and fixtures	4 to 7 years
Office equipment	4 to 8 years
Machinery and equipment	4 to 7 years
Boats and vessels	5 to 10 years

H. Capitalized Interest

Interest cost for assets that require time to bring them to the condition and location necessary for their intended use is capitalized as part of the asset cost until such time as the assets are placed in service. The Company did not capitalize interest for the years ended December 31, 2020 and 2019.

(2) Summary of Significant Accounting Policies, Continued

I. Taxes

FSMPC is responsible for gross receipt taxes, sales taxes and import taxes on its operations in the FSM.

VEI is taxed and files its income tax return in Guam. The Guam income tax code is similar to that of the United States of America. The Company also pays a Business Profits Tax (BPT) in Nauru under the Republic of Nauru Business Tax Act (the "Act"). BPT is calculated as 20% of taxable income at June 30, 2018, and increased to 25% at June 30, 2019, as defined in the Act, for non-resident companies conducting business in Nauru through Permanent establishment. BPT is taken as a foreign tax credit (FTC) on the Guam income tax return, with certain limitations. BPT and provisions for Guam income taxes are presented as a component of taxes in the consolidated statements of revenues, expenses and changes in net position.

For VEI's income tax returns on Guam, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. At December 31, 2020, the majority of VEI's deferred income tax assets relate to FTC carryovers of approximately $102,000 and $19,000, respectively, expiring through 2029 and 2030, respectively, and are included as a component of other noncurrent assets in the accompanying consolidated statements of net position.

J Revenue Recognition

The Company's revenues are derived mainly from sale of fuel. Fuel sales are recognized when charged to customers' charge accounts and when merchandise is delivered to customers and title is passed and collectability is reasonably assured.

K. New Accounting Standards

During the year ended December 31, 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, 91, 92 and 93 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 exception of GASB Statement No. 90, which was implemented during the year ended December 31, 2019, in accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending December 31, 2021.

(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management has yet to determine whether the implementation of this statement will have a material effect on the consolidated financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending December 31, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending December 31, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending December 31, 2022.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending December 31, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending December 31, 2022.

(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending December 31, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending December 31, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending December 31, 2022.

L. Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Capital Assets

Capital asset activities for the years ended December 31, 2020 and 2019 are as follows:

	Balance at January 1, 2020	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2020
Buildings	$ 2,040,980	$ 609,700	$ -	$ 2,650,680
Leasehold improvements	26,191	-	-	26,191
Motor vehicles	2,071,240	102,540	-	2,173,780
Plant and equipment	14,948,014	8,939,090	(6,064)	23,881,040
Furniture and fixtures	395,803	118,554	(2,035)	512,322
Office equipment	8,162,879	227,182	(12,276)	8,377,785
Machinery and equipment	1,940,550	1,484,302	(6,388)	3,418,464
Boats and vessels	1,134,419	1,122,682	-	2,257,101
	30,720,076	12,604,050	(26,763)	43,297,363
Less accumulated depreciation	(15,441,347)	(2,918,419)	26,763	(18,333,003)
	15,278,729	9,685,631	-	24,964,360
Construction in progress	15,235,168	5,891,658	(12,411,183)	8,715,643
	$ 30,513,897	$ 15,577,289	$ (12,411,183)	$ 33,680,003

	Balance at January 1, 2019	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2019
Buildings	$ 1,141,431	$ 899,549	$ -	$ 2,040,980
Leasehold improvements	26,191	-	-	26,191
Motor vehicles	1,782,612	288,628	-	2,071,240
Plant and equipment	14,008,111	939,903	-	14,948,014
Furniture and fixtures	377,275	18,528	-	395,803
Office equipment	7,642,620	520,259	-	8,162,879
Machinery and equipment	1,314,418	626,132	-	1,940,550
Boats and vessels	-	1,134,419	-	1,134,419
	26,292,658	4,427,418	-	30,720,076
Less accumulated depreciation	(12,809,208)	(2,632,139)	-	(15,441,347)
	13,483,450	1,795,279	-	15,278,729
Construction in progress	8,785,660	9,416,562	(2,967,054)	15,235,168
	$ 22,269,110	$ 11,211,841	$ (2,967,054)	$ 30,513,897

(4) Due to States and the FSM National Government

In 2008, the FSMNG was extended a ¥200,000,000 grant by the Government of Japan ("the Grant"). The Grant and accrued interest shall be used by the FSMNG properly and exclusively for the purchase of products enumerated in a list to be mutually agreed upon between the two governments. The Grant shall be received by the FSMNG in Yen currency, shall be used as described above within a period of twelve months and any excess amounts shall be refunded to the Government of Japan thereafter. The FSMNG is required to deposit in Micronesian currency (US dollars) all the proceeds from the sale and lease of the products purchased referred to above. The amount of the proceeds to be deposited shall not be less than half of the total yen disbursement paid with respect to the purchase of the products. The deposit shall be made within the period of three years from the date of entry into force of the understanding between the two governments. The deposited fund shall be utilized for economic and social development purposes in the FSM.

(4) Due to States and the FSM National Government, Continued

In 2009, FSMPC signed a memorandum of agreement with the FSMNG that the Grant be utilized for the supply of petroleum fuels to FSMPC to assist in the implementation of a number of initiatives aimed at mitigating the social and economic difficulties caused by volatile and sustained high oil prices. The Grant was paid directly by the Government of Japan through an independent procurement agent, Crown Agents, to FSMPC's supplier of fuel instead of to the FSMNG. FSMPC received the equivalent gallons of fuel from the supplier and this is now maintained as strategic inventory in each State. As of December 31, 2020 and 2019, FSMPC recognized a liability to the States and the FSMNG of $1,247,177 and $1,247,383, respectively.

At December 31, 2020 and 2019, the remaining $500,000 represents a non-interest bearing advance payable to the FSMNG. There is no specific repayment terms and management has classified the advance as long-term since it has no expectation that such will have to be repaid before December 31, 2021.

(5) Short-Term Borrowings

As of December 31, 2020 and 2019, the Company has a bank standby letter of credit (LC) of $3,000,000, expiring on September 13, 2021 and September 13, 2020, respectively, in favor of Mobile Oil Guam in relation to its fuel purchase agreement. Additionally, the Company also has a standby LC of $6,034,500 for the coconut production facility contractor, expiring on September 28, 2021.

Additionally, as of December 31, 2020 and 2019, the Company has bank line of credit (LOC) facility of $11,000,000 for working capital and support LC's, expiring on February 11, 2021.

The LOCs and the related long-term obligations are secured and collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

Borrowings against the LOCs bear interest at the bank's effective reference rate plus 0.75%, with minimum rate of 5.75% per annum, with interest payable monthly and principal due within 180 days. No borrowings are outstanding against the LOCs at December 31, 2020 and 2019.

(6) Long-term Debt

Long-term debt consists of the following at December 31, 2020 and 2019:

	2020	2019
A $5,000,000 bank note from the Bank of Guam (BOG), dated December 2017, for capital asset projects. The loan bore interest fixed at 5.75% per annum and was payable in monthly installments of $55,214 beginning January 20, 2018. In June 27, 2019, an amendment included deferment of principal payments from June 2019 to June 2020, changes in interest rate to variable rate at bank reference rate plus 0.75%, with minimum rate of 5.75% (effective rate of 5.75% at December 31, 2020 and 2019) and monthly installments of $61,865 through December 2027. The loan is collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.	$ 4,173,133	$ 4,418,874

(6) Long-term Debt, Continued

	2020	2019
A $3,000,000 bank note from the FSM Development Bank (FSMDB), dated August 2017, a component unit of the FSM National Government, for capital asset projects. The loan bears interest fixed at 5% per annum and is payable in quarterly installments of $170,461 beginning August 31, 2017 to September 25, 2022. On May 1, 2018, FSMDB approved FSMPC's request for deferment of principal payment from June 2018 to June 2019. On June 24, 2019, FSMDB approved another principal payment deferment up to June 2020. The loan is collateralized by the Company's inventories and related petroleum products.	2,465,547	2,740,185
A $3,000,000 bank note from the Bank of FSM (BFSM) drawn in March 2020, to finance earthwork/civil site preparation portion for Integrated Coconut Processing Facility. The loan bears variable interest at bank reference rate (effective 3.25% at December 31, 2020) and is payable in monthly installments of $32,558 beginning March 2020 to April 25, 2025. The loan is collateralized by future buildings, equipment, furniture and fixtures, inventory, vehicle and accounts receivables.	2,802,684	-
A $2,400,000 non-interest bearing, uncollateralized advance from VEI's business partner to fund capital project expenditures incurred on behalf of the GON under the Agreement (see Note 9). The advance is payable in equal quarterly installments of $120,000, beginning on September 5, 2017.	480,000	1,200,000
Total long-term debt	9,921,364	8,359,059
Net of current portion	1,625,673	987,694
	$ 8,295,691	$ 7,371,365

At December 31, 2020, future minimum loan repayments are as follows:

Year Ending December 31,	Principal	Interest	Total
2021	$ 1,625,673	$ 342,659	$ 1,968,332
2022	1,695,385	282,980	1,978,365
2023	1,528,742	219,985	1,748,727
2024	1,614,620	154,066	1,768,686
2025	2,171,325	111,808	2,283,133
2026-2027	1,285,619	73,313	1,358,932
	$ 9,921,364	$ 1,184,811	$ 11,106,175

(6) Long-term Debt, Continued

Debt Covenants

The BOG loan includes covenants relating to timely submission of audited financial and other information as the lender may reasonably request. The Company is also covenanted to, at all times, permit lender through its agents and representatives to visit and inspect properties; maintain and keep in full force and effect its existence, rights and franchise and comply with all laws applicable to the Company; pay or cause to be paid all taxes, assessments and other governmental charges levied upon any of the Company's properties, obtain hazard and liability insurance and other covenants.

The FSMDB loan requires the Company to purchase credit life insurance for its Chief Executive Officer for the coverage of the entire loan, assigning the lender as first beneficiary. The Company is also required to maintain insurance for on security for the loan and to maintain aggregate loan value of at least 120% of loan amount.

The BFSM loan requires the loan to be secured by the highest security interest possible over all existing and future accounts receivables, inventory, equipment, furniture and fixture and buildings comprising the entire interest of the Company.

VEI's note payable to its business partner requires, as a security of repayment, an irrevocable stand by letter of credit, which is acceptable by the lender's bank in an amount not less than the loan and the lender as beneficiary.

Events of default – the debt agreements specify number of events of default and related remedies. Generally, in the event for default, the lenders reserve the right to accelerate the loan maturities in order to protect their interest or demand immediate settlement. The lenders collateral position must be a first lien on the Company's assets.

Management believes that the Company is in compliance with all covenants as of and for the years ended December 31, 2020 and 2019, and no event of default has been declared by the lenders.

Changes in long-term debt for the years ended December 31, 2020 and 2019 are as follows:

	Balance at January 1, 2020	Additions	Repayments	Balance at December 31, 2020	Due Within One Year
Long-term debt	$ 8,359,059	$ 3,000,000	$ (1,437,695)	$ 9,921,364	$ 1,625,673

	Balance at January 1, 2019	Additions	Repayments	Balance at December 31, 2019	Due Within One Year
Long-term debt	$ 9,026,453	$ -	$ (667,394)	$ 8,359,059	$ 987,694

(7) Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for the years ended December 31, 2020 and 2019 are as follows:

	Balance at January 1, 2020	Additions	Repayments	Balance at December 31, 2020	Due Within One Year
Due to States and the FSM National Government	$ 1,747,383	$ -	$ (206)	$ 1,747,177	$ -
Other noncurrent liability	1,041,249	3,556,937	(3,316,273)	1,281,913	-
	$ 2,788,632	$ 3,556,937	$ (3,316,479)	$ 3,029,090	$ -

	Balance at January 1, 2019	Additions	Repayments	Balance at December 31, 2019	Due Within One Year
Due to States and the FSM National Government	$ 1,747,383	$ -	$ -	$ 1,747,383	$ -
Other noncurrent liability	682,141	4,590,693	(4,231,585)	1,041,249	-
	$ 2,429,524	$ 4,590,693	$ (4,231,585)	$ 2,788,632	$ -

(8) Risk Management

Insurance Risk

FSMPC 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.

VEI purchases commercial insurance to cover potential risks from managing, operating and maintaining the Government of Nauru bulk fuel facilities. VEI 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.

Foreign Currency Risk

VEI's transactions through its Nauru branch are settled in a foreign currency. VEI is exposed to the risk of unfavorable changes in the exchange rate that may occur.

(9) Concentration Risk and Significant Customers

The Company's revenue from three major customers approximated 29% and 27% of the Company's consolidated revenues for the years ended December 31, 2020 and 2019, respectively. Receivables from the three major customers totaled $839,606 and $1,382,364 as of December 31, 2020 and 2019, respectively, which are secured with deposits maintained with the Company included as a component of accrued liablities and others in the accompanying statements of net position.

FSMPC and VEI purchased substantially all fuel from two suppliers in 2020 and 2019.

(9) Concentration Risk and Significant Customers, Continued

Government of Nauru (GON)

Effective June 1, 2015, VEI entered into a Petroleum Supply and Facility Management Agreement (the Agreement) with the GON for a period of five years, with an option to extend for another five years. The Company was appointed to perform: (a) procure the supply of fuel and delivery to the facilities, (b) operate and maintain the facilities for the receipt, storage and distribution of products, (c) sell and distribute products to meet all inland demand, and (d) provide expert advice, technical assistance and other services as GON may reasonably require in related to the matters of the agreement. The Company uses nine tankers in GON's facilities at the storage terminal located in Aiwo District, Republic of Nauru.

The Agreement allows VEI to charge prices based on Nauru Price Template (NPT). For the years ended December 31, 2020 and 2019, Vital recorded fuel sales of $14.6 million and $17.2 million, respectively. As of December 31, 2020 and 2019, Vital recorded mooring fees liability of $0 and $82,969, respectively, and throughput fee liability of $1,281,913 and $958,280, respectively, for the purpose of funding the facilities' mooring system repairs and improvements and Compliance and Integrity Projects, which are included in the other noncurrent liability account in the accompanying consolidated statements of net position.

In April 2020, as per agreement with GON, the Company requested for another 5-year extension under existing terms and conditions. GON provided a favorable reply with the request; however, in November 2020, GON cancelled the above agreement and issued a request for tender to provide supply and tank farm management services. The Company submitted a proposal and the result of the bid is still in progress.

(10) Retirement Plan

The Company's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Company matches 100% of the participants' contributions up to a maximum of 15% of the participant's annual salary, if the participant contributes 3% or more of his or her annual salary. Participation is optional. Vesting of the Company's contributions occurs over a six-year period. The Company's Human Resources Manager is the designated Plan administrator. Contributions to the Plan during the years ended December 31, 2020 and 2019 were $230,226 and $210,728, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Company. As December 31, 2020 and 2019, plan assets were $2,796,840 and $2,196,249, respectively.

(11) Commitments and Contingencies

Leases

FSMPC leases land, warehouse, airport facilities and other such space through various leases expiring through 2038. Certain lease agreements contain options to renew with rent escalations. Three lease agreements require additional lease payments contingent on the level of gallons sold by the Company from that leased facility. In 2019, an additional lease agreement was entered into by the Company for land situated on Tonoas Island, Chuuk State, for the new CDU project site. The agreements have an initial term of twenty-years, with certain options to renew, and require an initial seven-year prepayment. At December 31, 2020 and 2019, unamortized balance of prepayments totaling $754,437 and $963,898, respectively, of which $211,932 is presented as current in the accompanying consolidated statements of net position.

(11) Commitments and Contingencies, Continued

Leases, Continued

In connection with VEI's exclusive right to access, use and occupy the GON bulk fuel facilities, VEI is required to pay annual rent fee of $529,168 over the 5-year term of the agreement from June 1, 2015 to May 31, 2020. Since the agreement with GON is under negotiation, the Company is contracted to pay $352,779 until the expiration of the hand over period of the new contract in August 31, 2021.

Future minimum lease payments are as follows, including the subsequent renewal of GON lease:

Year Ending December 31,	
2021	$ 864,000
2022	448,000
2023	331,000
2024	167,000
2025	401,000
2026-2030	1,680,000
2031-2035	1,150,000
2036-2038	322,000
	$ 5,363,000

Sales

The Company has entered into agreements to sell fuel at an agreed pricing method. The agreements are for one year and automatically renew at the end of their respective terms every 30 days unless terminated by either party.

Litigation

The Company is a defendant in several legal actions. The ultimate outcome is presently undeterminable; however, Company management is of the opinion that resolution of these matters will not have a material effect on the accompanying consolidated financial statements.

Joint Venture

On April 24, 2018, the Company and SB Energy Corporation signed an indicative term sheet for a Joint Venture (JV) relating to a project to construct and operate a solar facility and energy storage system in State of Chuuk in the FSM. During 2020, JV agreement was cancelled and no transactions have been recorded in the accompanying consolidated financial statements.

(12) Related Parties

FSMPC sells fuel to the four utility companies in the FSM namely: Pohnpei Utilities Corporation, Chuuk Public Utility Corporation, Kosrae Utility Authority, and Yap State Public Service Corporation. Total fuel sales of $13.4 million and $17.0 million were generated from the four utility companies for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, FSMPC has total receivables of $1.3 million and $1.4 million, respectively, from the four utility companies. In addition, as of December 31, 2020 and 2019, FSMPC has accrued liabilities in the form of letters of credit to the Pohnpei Utilities Corporation and Chuuk Public Utility Corporation totaling $1,037,343 and $1,330,800, respectively, in connection with fuel purchases price variances, which are included as a component of accrued liabilities and others in the accompanying consolidated statements of net position.

(12) Related Parties, Continued

FSMPC also sells power generated to the Pohnpei Utilities Corporation (PUC) under a Power Purchase Agreement (PPA). The PPA has an initial term of thirty-six months, which expired in June 2017. Under the PPA, FSMPC is responsible to acquire, install and operate a 2.0 MW diesel generator, and PUC is committed to purchase available capacity up to the contract capacity, which means an average of 1,600 kW in any given month throughout the PPA term. The PPA is operating in the holdover status as the parties negotiate for renewal or termination. Total revenues under the PPA approximated $2.27 million and $2.93 million for the years ended December 31, 2020 and 2019, respectively.

(13) Condensed Financial Information for Discretely Presented Component Units

The condensed financial information for Vital Energy, Inc. is presented below as of and for the years ended December 31, 2020 and 2019:

	2020	2019
Assets:		
Cash, receivables and other assets	$ 11,326,614	$ 13,924,061
Capital assets, net	245,293	257,889
Total assets	11,571,907	14,181,950
Liabilities:		
Accounts payable and other current liabilities	1,263,043	1,188,165
Due to primary government	5,389,859	8,932,300
Long-term liabilities	1,761,913	2,241,249
Total liabilities	8,414,815	12,361,714
Net position:		
Net investment in capital assets	245,293	257,889
Unrestricted	2,911,799	1,562,347
	$ 3,157,092	$ 1,820,236
Gross profit	$ 3,431,793	$ 3,424,377
Operating expenses:		
Depreciation	79,677	73,911
Other operating expenses	2,692,001	2,949,620
Operating income	660,115	400,846
Nonoperating revenues (expenses)	676,741	(77,118)
Change in net position	1,336,856	323,728
Beginning net position	1,820,236	1,496,508
Ending net position	$ 3,157,092	$ 1,820,236

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidating Statement of Net Position
December 31, 2020

ASSETS	FSMPC	Vital	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	$ 20,720,689	$ 6,667,642	$ -	$ 27,388,331
Time certificates of deposit	-	401,396	-	401,396
Trade receivables	1,508,907	179,875	-	1,688,782
Due from component unit	2,904,773	-	(2,904,773)	-
Other receivables	107,323	-	-	107,323
Inventory, net	5,280,294	3,793,361	-	9,073,655
Prepaid expenses	1,092,060	163,340	-	1,255,400
Investments	2,775,035	-	-	2,775,035
Total current assets	34,389,081	11,205,614	(2,904,773)	42,689,922
Prepaid expenses, net of current portion	542,505	-	-	542,505
Due from component unit, net of current portion	2,485,086	-	(2,485,086)	-
Other noncurrent asset	569,009	121,000	-	690,009
Capital assets:				
Nondepreciable capital assets	8,715,643	-	-	8,715,643
Other capital assets, net of accumulated depreciation	24,719,067	245,293	-	24,964,360
	$ 71,420,391	$ 11,571,907	$ (5,389,859)	$ 77,602,439
LIABILITIES AND NET POSITION				
Current liabilities:				
Current portion of long-term debt	$ 1,385,673	$ 240,000	$ -	$ 1,625,673
Accounts payable - fuel	2,008,484	-	-	2,008,484
Accounts payable - other	805,000	115,998	-	920,998
Due to primary government	-	2,904,773	(2,904,773)	-
Accrued liabilities and others	2,928,745	1,147,045	-	4,075,790
Total current liabilities	7,127,902	4,407,816	(2,904,773)	8,630,945
Long-term debt, net of current portion	8,055,691	240,000	-	8,295,691
Due to primary government, net of current portion	-	2,485,086	(2,485,086)	-
Due to States and the FSM National Government	1,747,177	-	-	1,747,177
Other noncurrent liability	-	1,281,913	-	1,281,913
Total liabilities	16,930,770	8,414,815	(5,389,859)	19,955,726
Commitments and contingencies				
Net position:				
Net investment in capital assets	23,993,346	245,293	-	24,238,639
Unrestricted	30,496,275	2,911,799	-	33,408,074
Total net position	54,489,621	3,157,092	-	57,646,713
	$ 71,420,391	$ 11,571,907	$ (5,389,859)	$ 77,602,439

See accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidating Statement of Revenue, Expenses, and Changes in Net Position
Year Ended December 31, 2020

	FSMPC	Vital	Eliminations	Consolidated
Operating revenues:				
Sales and service income	$ 41,394,307	$ 14,897,454	$ -	$ 56,291,761
Other	430,261	-	(425,427)	4,834
	41,824,568	14,897,454	(425,427)	56,296,595
Cost of goods sold	24,428,876	11,465,661	-	35,894,537
Gross profit	17,395,692	3,431,793	(425,427)	20,402,058
Operating expenses:				
Salaries and benefits	3,988,899	295,877	-	4,284,776
Depreciation and amortization	2,838,742	79,677	-	2,918,419
Rent	1,336,370	479,524	-	1,815,894
Taxes	1,146,152	287,114	-	1,433,266
Professional fees	1,094,474	130,558	-	1,225,032
Repairs and maintenance	1,150,475	96,091	-	1,246,566
Insurance	603,557	403,720	-	1,007,277
Contracted services	363,948	109,046	-	472,994
Communications	352,229	84,110	-	436,339
Staff travel, training and development	413,176	940	-	414,116
Office supplies	377,240	39,428	-	416,668
Corporate governance, travel and entertainment	136,219	175,552	-	311,771
Utilities	228,589	43,816	-	272,405
Fuel	101,969	26,476	-	128,445
Bank charges	90,259	28,611	-	118,870
Corporate office shared services	-	425,427	(425,427)	-
Miscellaneous	501,303	65,711	-	567,014
Total operating expenses	14,723,601	2,771,678	(425,427)	17,069,852
Operating income	2,672,091	660,115	-	3,332,206
Nonoperating (expenses) revenues:				
Foreign exchange gains, net	-	667,393	-	667,393
Investment income	251,026	-	-	251,026
Other income	-	1,036	-	1,036
Interest (expense) income, net	(449,523)	8,312	-	(441,211)
Total nonoperating (expenses) revenues, net	(198,497)	676,741	-	478,244
Change in net position	2,473,594	1,336,856	-	3,810,450
Net position at beginning of year	52,016,027	1,820,236	-	53,836,263
Net position at end of year	$ 54,489,621	$ 3,157,092	$ -	$ 57,646,713

See accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidating Statement of Net Position
December 31, 2019

ASSETS	FSMPC	Vital	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	$ 17,718,648	$ 8,433,460	$ -	$ 26,152,108
Time certificates of deposit	-	400,480	-	400,480
Trade receivables	2,236,702	622,920	-	2,859,622
Due from component unit	2,574,559	-	(2,574,559)	-
Other receivables	197,523	-	-	197,523
Inventory, net	7,823,665	4,199,734	-	12,023,399
Prepaid expenses	1,751,093	146,467	-	1,897,560
Investments	2,524,009	-	-	2,524,009
Total current assets	34,826,199	13,803,061	(2,574,559)	46,054,701
Prepaid expenses, net of current portion	751,966	-	-	751,966
Due from component unit, net of current portion	6,357,741	-	(6,357,741)	-
Other noncurrent asset	670,178	121,000	-	791,178
Capital assets:				
Nondepreciable capital assets	15,235,168	-	-	15,235,168
Other capital assets, net of accumulated depreciation	15,020,840	257,889	-	15,278,729
	$ 72,862,092	$ 14,181,950	$ (8,932,300)	$ 78,111,742
LIABILITIES AND NET POSITION				
Current liabilities:				
Current portion of long-term debt	$ 507,694	$ 480,000	$ -	$ 987,694
Accounts payable - fuel	7,414,817	-	-	7,414,817
Accounts payable - other	1,222,169	69,195	-	1,291,364
Due to primary government	-	2,574,559	(2,574,559)	-
Accrued liabilities and others	3,302,637	1,118,970	-	4,421,607
Total current liabilities	12,447,317	4,242,724	(2,574,559)	14,115,482
Long-term debt, net of current portion	6,651,365	720,000	-	7,371,365
Due to primary government, net of current portion	-	6,357,741	(6,357,741)	-
Due to States and the FSM National Government	1,747,383	-	-	1,747,383
Other noncurrent liability	-	1,041,249	-	1,041,249
Total liabilities	20,846,065	12,361,714	(8,932,300)	24,275,479
Commitments and contingencies				
Net position:				
Net investment in capital assets	23,096,949	257,889	-	23,354,838
Unrestricted	28,919,078	1,562,347	-	30,481,425
Total net position	52,016,027	1,820,236	-	53,836,263
	$ 72,862,092	$ 14,181,950	$ (8,932,300)	$ 78,111,742

See accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Consolidating Statement of Revenue, Expenses, and Changes in Net Position
Year Ended December 31, 2019

	FSMPC	Vital	Eliminations	Consolidated
Operating revenues:				
Sales and service income	$ 56,137,885	$ 18,120,563	$ -	$ 74,258,448
Other	454,786	-	(430,984)	23,802
	56,592,671	18,120,563	(430,984)	74,282,250
Cost of goods sold	37,757,019	14,696,186	-	52,453,205
Gross profit	18,835,652	3,424,377	(430,984)	21,829,045
Operating expenses:				
Salaries and benefits	3,450,452	287,144	-	3,737,596
Depreciation and amortization	2,558,228	73,911	-	2,632,139
Taxes	1,602,392	286,000	-	1,888,392
Rent	1,273,303	480,970	-	1,754,273
Professional fees	1,544,610	188,386	-	1,732,996
Repairs and maintenance	1,035,557	146,603	-	1,182,160
Insurance	372,374	578,133	-	950,507
Staff travel, training and development	831,397	-	-	831,397
Corporate governance, travel and entertainment	467,595	102,979	-	570,574
Communications	391,389	125,048	-	516,437
Contracted services	347,644	115,315	-	462,959
Utilities	238,144	40,575	-	278,719
Office supplies	234,846	28,600	-	263,446
Bank charges	146,774	35,404	-	182,178
Fuel	121,834	44,718	-	166,552
Corporate office shared services	-	430,984	(430,984)	-
Miscellaneous	492,714	58,761	-	551,475
Total operating expenses	15,109,253	3,023,531	(430,984)	17,701,800
Operating income	3,726,399	400,846	-	4,127,245
Nonoperating revenues (expenses) :				
Foreign exchange losses, net	-	(121,530)	-	(121,530)
Investment income	392,390	-	-	392,390
Other income	-	1,407	-	1,407
Interest (expense) income, net	(369,002)	43,005	-	(325,997)
Total nonoperating revenues (expenses), net	23,388	(77,118)	-	(53,730)
Change in net position	3,749,787	323,728	-	4,073,515
Net position at beginning of year	48,266,240	1,496,508	-	49,762,748
Net position at end of year	$ 52,016,027	$ 1,820,236	$ -	$ 53,836,263

See accompanying Independent Auditors' Report.

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Federated States of Micronesia Petroleum Corporation:

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 consolidated financial statements of the Federated States of Micronesia Petroleum Corporation and Subsidiary (the Company), which comprise the consolidated statement of net position as of December 31, 2020, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 24, 2021.

Internal Control Over Financial Reporting

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

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

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.

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Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

August 24, 2021

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Unresolved Prior Year Findings
December 31, 2020

There are no unresolved audit findings from prior year audits of the Company.