FEDERATED STATES OF MICRONESIA
PETROLEUM CORPORATION AND SUBSIDIARY

(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Years Ended December 31, 2021 and 2020
Table of Contents

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Federated States of Micronesia Petroleum Corporation:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FSM Petroleum Corporation and Subsidiary as of December 31, 2021 and 2020, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 13 be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, 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.

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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 34 to 37 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of 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, the Other Supplementary 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 December 2, 2022, 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.

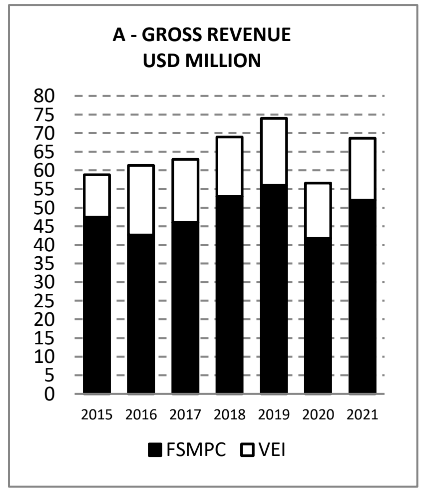
Deloitte & Touche LLP

December 2, 2022

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 because of Public Law 18-68 entitled "The Coconut Tree Act", it 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, in two priority development sectors, are complementary in building resilience, by addressing energy price stability and increasing household incomes to address the energy affordability challenges.

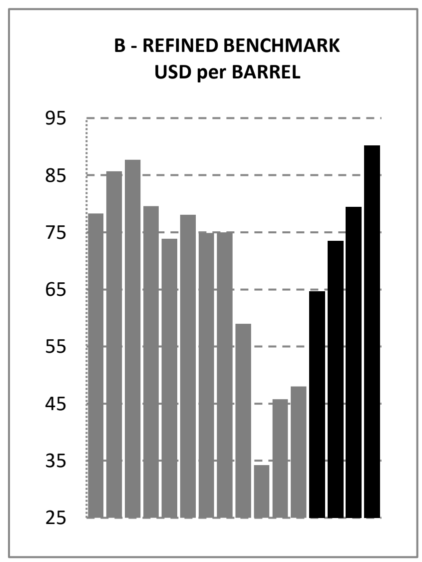
The Corporation remains the single largest supplier of energy in the FSM and continues to engage efficiently, responsibly, and profitably in the country to ensure that there are sufficient resources to maintain assets, train people, hold strategic oil inventories, and provide petroleum products in full, 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 on Guam and Nauru. Opportunities to diversify into alternative energy technology to support the nation's 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 a midterm review in 2020. Various strategy pivots have been introduced to address rapid changes in the shifting external forces and drivers acting on the business model. The 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. The COVID-19 pandemic and the related travel restrictions impacted our operational efficiency, and supply chain disruptions dampened overall progress on a number of strategic initiatives throughout the year. New challenges emerged, and existing ones were exacerbated.



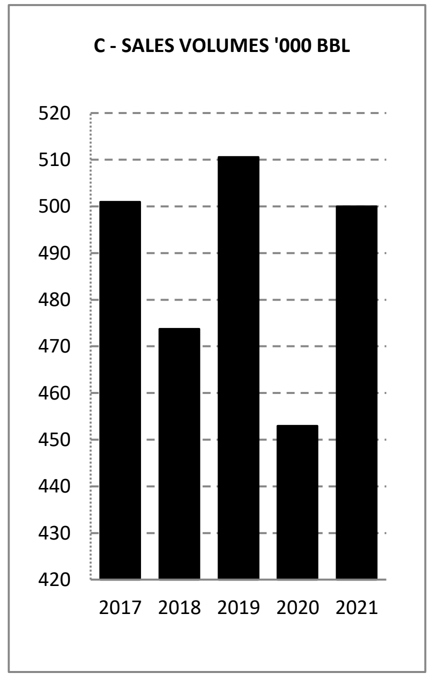
The business model is under threat from multiple externalities. FSMPC continues to face the well-known, and well documented risks, problems and issues that plague small, state-owned energy corporations, as well as the challenges introduced by the transition towards a low carbon economy, and the increasing competitiveness of distributed generation alternatives. The Board and Management consider the energy transition an opportunity rather than a risk.

Enhancing 'commercial viability' has been pivoted to 'Enhancing Corporate Resilience', with a focus on strengthening the balance sheet resilience to shocks and perturbations. Commercial viability remains an enabler to resilience, as this 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

Operations during COVID-19. Throughout 2021, our operations were fortunate to be in locations that remained 'COVID-19 free', and except for a lack of international travel, life was normal or perhaps enhanced by various domestic preparedness and assistance programs.

The FSM and Nauru benefited significantly from donor and internal programs to mitigate the health issues and the economic costs of COVID-19. This, coupled with the flow on effect of lower oil prices of 2019 saw a recovery in some domestic activities, and fuel consumption as compared to 2020 (Graph C).



Mitigation and preparedness programs were everywhere through 2021. US health programs provided the major source of funds to mitigate the potential impact of a COVID-19 outbreak in the FSM. The FSM also benefited from the *US CARES Act: Federal Pandemic Unemployment Compensation (FPUC)* and the *Pandemic Unemployment Assistance (PUA)*.

The ADB was a major contributor through grants under the *COVID-19 Pandemic Relief Option (CPRO)* to the FSM ($14 million) and in Nauru ($1 million). The FSM Congress also initiated a tourism sector mitigation relief fund.

The private sector represents approximately 20 - 30 % of GDP. In most states that we operate, this activity focuses mainly on retailing. This was positively impacted by the inflow of funding and aid, as well as a better community understanding of the appropriate response and preparedness for COVID-19.

Fuel Supply, Storage and Distribution. The Corporation operates a total of eight fuel terminals 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 2021, we maintained *Pacific Bulk Fuels (NZ)* Limited as a product supplier to the Corporation.

Our affiliate, Vital Energy (Guam) Inc. was successful in re-securing the supply and terminal operations contract with the Government of the Republic of Nauru for a further five (5) years following an international competitive bidding process. As a direct result, we ceased business relationships with *Winson Oil (HK) Limited,* and new supply arrangements with *Union Petrochemical (HK) Co.* for product supplies and *Shell Services International* for technical services for aviation operations.

The Company's pricing practices in 2021 are defined as follows:

- The *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.

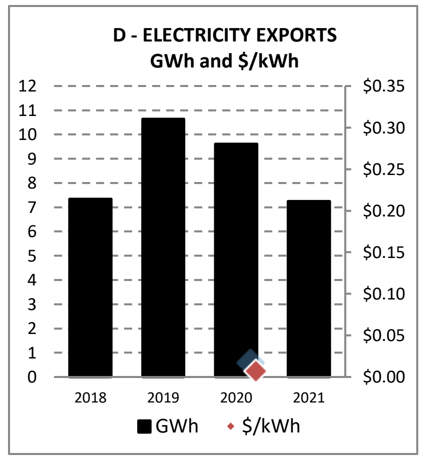
- The *Nauru Pricing Template (NPT)* negotiated with the Government of Nauru provides the mechanism to earn a return-on-investment commensurate with the risks of operating in Nauru. The NPT has a similar stabilization mechanism for domestic prices and cushions the effect of international volatility. A new Supply and Terminal Operating Agreement and NPT2 – second version - was negotiated as part of the international competitive bidding process and will be used from 2022 through to 2026.

SUMMARY OF OPERATIONS, CONTINUED

- 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. There are two EPTs, one with the Pohnpei Utilities Corporation (PUC) and a second with the Chuuk Power Utility Corporation (CPUC).

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, or generation of electricity in the States that we operate. The Corporation continues to benchmark domestic price competitiveness through comparison of pump prices of island neighbors.

Throughout CY21, domestic prices in the FSM remained stable, and by and large slightly below the benchmark Guam pump prices and below most regional neighbors. This is often observed in rising oil price markets as our domestic prices are slow to rise and equally as slow to fall.



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 GWh per annum of electricity to PUC meeting up to 25% of Pohnpei demand requirements.

The total GWh produced by the IPP arrangement has reduced each year throughout the COVID-19 as businesses changed their operating practices to deal with the change in customer and consumer base.

While the retailing sector thrived, the closure of many hotels and the significantly reduced operating hours of many restaurants, resulted in an overall reduction in energy demand in each state. The average price of electricity to PUC for the year was US$0.26/kWh (Graph D), reflecting higher international oil prices (Graph B) and lower overall plant utilization.

A second smaller independent power plant is under final commissioning in the State of Chuuk and is expected to be operational in January 2022. This oil-fired power plant, situated on the island of Duplon, will operate under an IPP model and has a total maximum production of 1.5GWh. It is a major accomplishment to get this IPP operationalized given the supply chain challenges of 2021. The project, once commissioned, will be a significant contributor to the country's SDG#7 and National Energy Policy (NEP) targets seeing approximately 120 homes wired ready and connected to the grid.

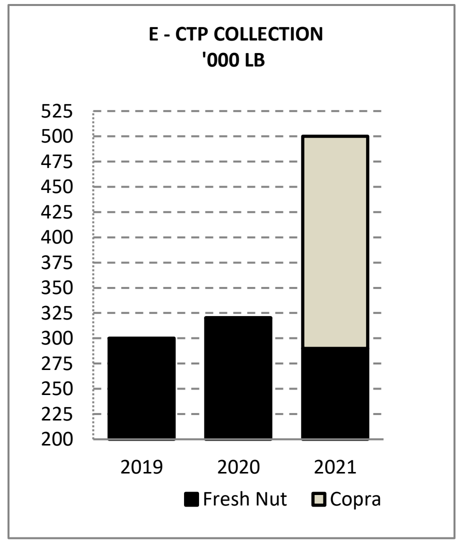
The first of five (5) hybrid solar photovoltaic systems with battery energy storage systems (BESS) in Pohnpei has completed its system stability and durability testing. The rollout of solar PV BESS business models are delayed and now expected in 2023/24.

Manufacturing and Exports. 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, this project remains on hold due to the COVID-19 travel restrictions that prohibit the movement of people essential for the third phase of construction. The project is likely to remain on hold while travel restrictions remain in place in the State of Chuuk, or in the source markets for technology and construction expertise. COVID-19 continues to affect niche product launches in Guam and Hawaii as tourism arrivals and targeted markets are yet to recover. Throughout 2021, efforts remained focused on production efficiency, processing capacity, and product research and development.

SUMMARY OF OPERATIONS, CONTINUED

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 buy quotas and price guarantees.

In 2021, there was continued growth in the number of out-grower cooperatives, with an additional 50 new community enterprises registered (up from 137 in 2020), and an additional 321 farmers (up from 1,124 in 2020).

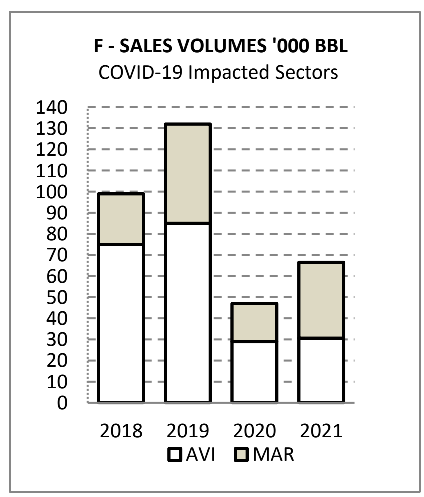


CY21 saw a decrease in the amount of fresh coconut supplied from farmers in Pohnpei, but the return of supply from the island communities of Yap, with an increase in copra collection (Graph E). Since the launch of the VPGS initiative, the Corporation has purchased over 1.3M pounds of coconut tree products from its registered farmers.

In February 2021, Vital entered into an agreement with the UNCTAD-International Trade Centre (ITC) to facilitate and design a coconut national export strategy termed CocoNES. This will be the first sectoral strategy and is expected to be completed in 2022. A Presidential Order was signed by His Excellency, David W. Panuelo, putting into place the organizational framework of private/public stakeholders from across the FSM to support the design process.

Maritime. The Corporation has added into its operations a forty-four (44) seater passenger ferry, an 80MT landing craft and two 3MT workboats. Operations in 2021 was significantly impacted due to lower project related activities in the State of Chuuk. In addition, travel restrictions completely stopped the ability to change out crew as scheduled, and for much of the year the vessels were not mission ready due to insufficient qualified crew levels. In Pohnpei, the workboat continued to operate throughout the fringing islands. Throughout the year, the fleet successfully and safely conducted 201 voyages, down from 375 in the prior year. A significant reduction in payloads with approximately 181MT of cargo and 638 passenger transfers.

REVENUES



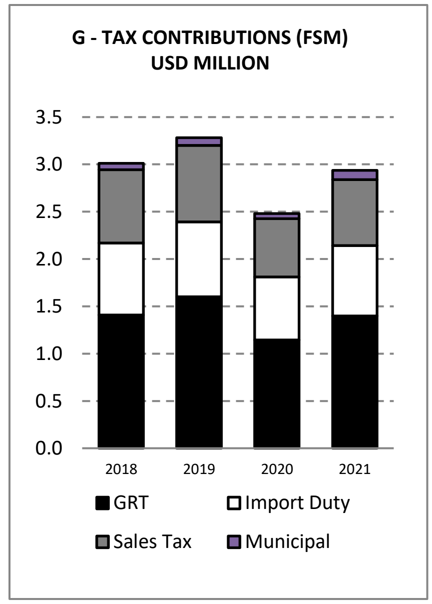
95% of company revenues remain petroleum fuels related. Revenues are directly linked to the international oil markets and the adjustment mechanisms in the PPF, the NPT, and the EPT that accommodates the pass through of international oil price increases or decreases.

It was a predictable year for international petroleum prices (Graph B), as we saw the market correct for the supply and demand imbalances of 2020. From a record low of US$35 per BBL in 2020-Q2, they started a gradual climb to settle at around US$85 per BBL, higher than pre-COVID levels.

REVENUES, CONTINUED

Travel controls continued to dampen international travel, and while the product sales to this class of market remained stagnant, domestic demand in other areas recovered significantly, largely bolstered by the pandemic assistance grants injected into the economy.

International marine sales recovered by approximately 20,000 BBL (100%) as compared to the same time last year (Graph F) as the FSM registered fishing fleet started to support the local economy by diverting some of their fuel requirements to domestic purchases, major port upgrade project in Nauru progressed significantly contributing another 10,000 BBL, and domestic marine and retail activities saw another 20,000 BBL (Graph F).



As a result of increased sales and increased oil prices, the total group revenues grew by US$11.2MM from US$56.3MM to US$67.5MM (Graph A). Business unit contributions of Kosrae 8%, Yap 9%, Chuuk 21%, Pohnpei (fuel & electricity) 40%, Guam and Nauru 22%. Automotive diesel oil remains the highest revenue component at 53%, followed by unleaded petrol (or gasoline) 39%, and home kerosene and Jet A1 of 8%.

The combination of price increases and a recovery of some sales volumes had seen an increase in the amount of gross revenue tax, sales taxes and import duties collected and paid in the FSM in 2021 of approximately US$460,000 (Graph G).

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

Non-FSM related revenues remain at approximately 26% of total revenue 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* summarizes 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. All extant risk related Programs report directly to the CEO, such programs including SAFER, Quality Management, Emergency Preparedness, Asset Integrity and Incident Investigation.

RISK AND RISK MANAGEMENT, CONTINUED

A key guidance issued by the Board is the *Statement of General Business Principles* (SGBP) and the *Ethics Statement*. The SGBP and the *Ethics Statement* defines how we engage with stakeholders and the economy at large. This was reviewed in 2021. 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 2021.

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 has transitioned to an entirely virtual online meeting arrangement. The Board met eight (8) times throughout the year, slightly less than the prior year, as they had a better understanding of the pandemic and its impacts on the company. Financial stress test models; forecasts under various future-state scenarios; succession for unplanned loss of key individuals; investment risks; and business model risks continued to dominate discussions.
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 Financial Officer and the independent 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. There have been no additional risks identified in the last operating period. Of the two (2) risks highlighted in the last audit, one has been re-classified as an issue – i.e. a risk that has happened as described below:

- *ISSUE: COVID-19 Controls*: Now creating significant disruptions in the business. The non-financial impacts as business leaders, advisors, engineers and auditors not able to travel freely to 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 are now hitting home. Digital strategies have been employed for diagnostics and assessments, but often people need to travel to implement the corrective actions identified. The low, slow processing capacity of onshore quarantine facilities, and the long list of waiting returning residents has exacerbated the issue.

The other risk highlighted in the last audit remains as described below:

- *RISK: Shifting 'emotional climate':* The pandemic continues to prompt new thought processes and personal priorities, worry chains, and reactions amongst our people and their families. 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. The constant COVID-19 'threat' in a COVID-19 free location is exhausting and distracting, and therefore there is a greater propensity for human error, amplified by the inability of senior management to travel to locations to address these concerns through face-to-face engagements practices common pre-COVID.

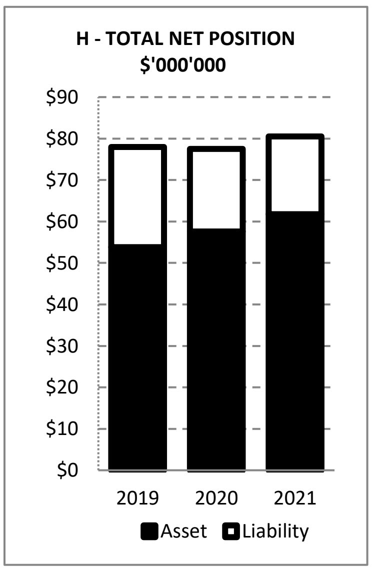
These two new risks can act in a contagion effect with the *Aging petroleum distribution infrastructure* risks disclosed in 2019. Treatment plans for this risk are now more complex, with extended time horizons that are now being further affected by supply chain issues.

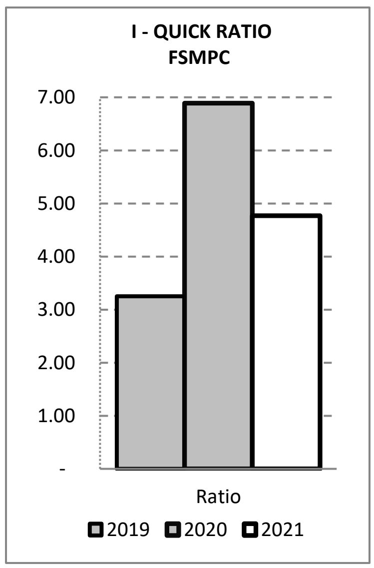
FINANCIAL CONDITION

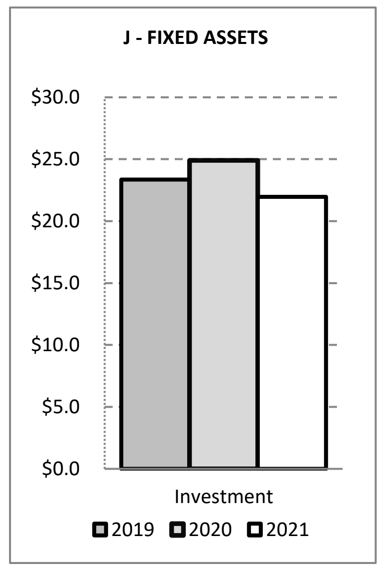
Pricing practices did not change throughout 2021. The PPF, NPT, and EPT maintained scheduled price adjustments in accordance with various price instruments for contract customers such as utilities, airlines, and a quarterly price change for retail service stations.

The Corporation was somewhat successful in containing its operating expenses. The USD continued to strengthen over the AUD that saw unrealized foreign exchange losses on its Nauru assets; however, the Corporation was the recipient of a non-project fuel supply stabilization grant aid from the Government of Japan, which minimized the overall impact on total net position (Graph H). Financial strength indicators track closely to pre-COVID-19 levels.

In 2021, capital investment activities were lower than depreciation because of the extreme difficulties encountered with capital improvement upgrade projects throughout the year (Graphs I and J).







The Board and Management continue to investigate options to outsource activities, enter equipment leasing arrangements, utilize joint ventures to meet much of the 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. The following tables summarize the Corporation's consolidated financial position and results of operations as of and for the years ended December 31, 2021, 2020, and 2019.

FINANCIAL CONDITION, CONTINUED

A summary of the Corporation's Statements of Net Position is presented below:

Summary Statements of Net Position
As of December 31

	2021	2020	$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	$ 50,285,584	$ 43,922,436	$ 6,363,148	14.5%	$ 47,597,845
Capital assets	31,483,722	33,680,003	(2,196,281)	(6.5)%	30,513,897
Total assets	81,769,306	77,602,439	4,166,867	5.4%	78,111,742
Liabilities:					
Current and other liabilities	11,939,458	10,034,362	1,905,096	19.0%	15,916,420
Long-term debt	8,063,209	9,921,364	(1,858,155)	(18.7)%	8,359,059
Total liabilities	20,002,667	19,955,726	46,941	0.2%	24,275,479
Net position:					
Net investment in capital assets	23,420,513	24,238,639	(818,126)	(3.4)%	23,354,838
Unrestricted	38,346,126	33,408,074	4,938,052	14.8%	30,481,425
Total net position	$ 61,766,639	$ 57,646,713	$ 4,119,926	7.1%	$ 53,836,263

A summary of the Corporation's Statements of Revenues, Expenses, and Changes in Net Position is presented below:

Summary Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31

	2021	2020	$ Change 2021-2020	% Change 2021-2020	2019
Operating revenues:					
Sales, service and other	$ 67,546,797	$ 56,296,595	$ 11,250,202	20.0%	$ 74,282,250
Cost of goods sold	(45,523,561)	(35,894,537)	(9,629,024)	26.8%	(52,453,205)
Gross profit	22,023,236	20,402,058	1,621,178	7.9%	21,829,045
Operating expenses	(17,882,976)	(17,069,852)	(813,124)	4.8%	(17,701,800)
Operating income	4,140,260	3,332,206	808,054	24.2%	4,127,245
Nonoperating revenues (expenses):					
Grant and subsidies	653,384	-	653,384		-
Forex (losses) gains, net	(686,024)	667,393	(1,353,417)	(202.8)%	(121,530)
Other, net	12,306	(189,149)	201,455	(106.5)%	67,800
	(20,334)	478,244	(498,578)	(104.3)%	(53,730)
Change in net position	$ 4,119,926	$ 3,810,450	$ 309,476	8.1%	$ 4,073,515

FINANCIAL CONDITION, CONTINUED

Major changes in profit and loss and statement of net position component for CY21 are the 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 CY2021 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) Expenses for 2021 has started a return to pre-Covid levels as the business adjusted and incorporated new ways to proceed with its operational activities. 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 above.

c) The total amount received from sales of petroleum products exceeded the amount paid to vendors and employees for goods and services. Net cash provided by operating activities in 2021 was $3,830,541 as compared to $6,200,570 in 2020.

d) The total amount used for capital and related financing activities in 2021 was $3,377,490 as compared to $5,006,200 in 2020. Such activities included the purchase of capital assets and the principal and interest payments on long-term debt. The Corporation's total investment in capital assets, inclusive of construction in progress, and net of related debt as of December 31, 2021 and 2020 was $23,420,513 and $24,238,639, respectively.

Management's Discussion and Analysis for the year ended December 31, 2020 is set forth in the report on the audit of FSMPC's financial statements, which is dated August 24, 2021. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and may be obtained from the contact shown below.

CAPITAL ASSETS AND DEBT MANAGEMENT

At the end of CY2021, the Corporation had $31.5M invested in capital assets. This represents a decrease in the net capital assets (including additions and deletions) of $2.2M over the previous year. For additional information about the Corporation's capital assets, refer to Note 3 to the accompanying financial statements.

The Corporation had long-term debt of $8.1M outstanding as of December 31, 2021, a decrease of $1.8M from $9.1M outstanding as of December 31, 2020. In CY2021, the Corporation retired a long-term loan from a business partner, continued to meet its debt servicing arrangements, and did not take on any additional debt. For additional information about the Corporation's long-term debt, refer to Note 6 to the accompanying financial statements.

ECONOMIC OUTLOOK

Two main forms of energy are supplied in the FSM: fossil fuels by FSMPC 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 2021 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 controls and increasing supply chain challenges.

The coronavirus pandemic is showing some signs of control, with vaccines and travel protocols now established to enable the movement of essential skilled personnel although such is limited by the processing capacity of their quarantine centers. The FSM remained COVID-19 free throughout CY21; however, community spread subsequently occurred firstly in the State of Kosrae and the State of Pohnpei in July 2022 followed by the State of Yap and the State of Chuuk in August 2022 and September 2022, respectively. The impact of the community spread was short-lived and with a relaxing of border control restrictions, the movement of people and therefore the opening of travel related sectors is gradually allowing residents to return and visitors to enter.

Coconut for Life (C4L) continues to show promising results. The consistency, quantity, and quality of fresh coconut tree products supplied from Pohnpei plant has not recovered to pre-COVID levels despite an increase in the number of registered farmers and PGS. Lower levels of trade with participating farmers in Pohnpei that was recorded with the first stimulus packages in 2020, compounded with additional packages being released throughout the states. 2021 collections were bolstered by copra supply from farmers in the outer islands of Yap State. The company has yet to increase the purchase price for coconut tree products, as we continue to anticipate that this is short-term in nature, and through its hasn't returned to normalcy at the end of 2021 like planned, will continue to monitor in 2022.

The Corporation has noticed a higher outward migration over the last reporting period. Employees, farmers and families from FSM states have moved to the mainland US, that is fueled by their tight labor market and growing employment opportunities. This is likely to remain a significant pull for able bodied, qualified Micronesians seeking better opportunities. This will undoubtedly continue to contribute to a talent crunch when seeking local resources to support new business activities as we mature our maritime services, renewable energy offerings, manufacturing and export activities in coming years.

Maintaining and enhancing commercial resilience will continue to remain the challenge for most organizations moving into the next decade. The brain-drain and the low growth rates will challenge unit costs of operations. Technological advancement, external interventions that fund a rapid transition to a low carbon economy, and the ever-growing threat of extreme weather events require both capital reserves and strong insurance programs. Insurance providers and their standard offer within Micronesia are limited, and likely to remain so into the future.

CONTACT

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

[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

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

Consolidated Statements of Net Position
December 31, 2021 and 2020

ASSETS	2021	2020
Current assets:		
Cash and cash equivalents	$ 28,529,971	$ 27,388,331
Time certificates of deposit	401,396	401,396
Trade receivables	2,377,208	1,688,782
Other receivables	115,320	107,323
Inventory, net	12,952,192	9,073,655
Prepaid expenses	1,768,185	1,255,400
Investments	3,158,734	2,775,035
Total current assets	49,303,006	42,689,922
Prepaid expenses, net of current portion	333,292	542,505
Other noncurrent asset	649,286	690,009
Capital assets:		
Nondepreciable capital assets	9,522,342	8,715,643
Other capital assets, net of accumulated depreciation	21,961,380	24,964,360
	$ 81,769,306	$ 77,602,439
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	$ 1,415,010	$ 1,625,673
Accounts payable - fuel	5,299,622	2,008,484
Accounts payable - other	575,492	920,998
Accrued liabilities and others	4,023,650	4,075,790
Total current liabilities	11,313,774	8,630,945
Long-term debt, net of current portion	6,648,199	8,295,691
Due to States and the FSM National Government	1,747,383	1,747,177
Other noncurrent liability	293,311	1,281,913
Total liabilities	20,002,667	19,955,726
Commitments and contingencies		
Net position:		
Net investment in capital assets	23,420,513	24,238,639
Unrestricted	38,346,126	33,408,074
Total net position	61,766,639	57,646,713
	$ 81,769,306	$ 77,602,439

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Revenue, Expenses, and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Sales and service income	$ 67,545,805	$ 56,291,761
Other	992	4,834
	67,546,797	56,296,595
Cost of goods sold	45,523,561	35,894,537
Gross profit	22,023,236	20,402,058
Operating expenses:		
Salaries and benefits	4,384,671	4,284,776
Depreciation and amortization	3,308,593	2,918,419
Rent	1,707,062	1,815,894
Taxes	1,706,790	1,433,266
Repairs and maintenance	1,372,907	1,246,566
Professional fees	1,368,006	1,225,032
Insurance	885,743	1,007,277
Communications	526,456	436,339
Contracted services	460,030	472,994
Staff travel, training and development	445,952	414,116
Office supplies	348,113	416,668
Corporate governance, travel and entertainment	257,844	311,771
Utilities	245,202	272,405
Fuel	134,656	128,445
Bank charges	113,717	118,870
Miscellaneous	617,234	567,014
Total operating expenses	17,882,976	17,069,852
Operating income	4,140,260	3,332,206
Nonoperating revenues (expenses) :		
Grants and subsidies	653,384	-
Foreign exchange (losses) gains , net	(686,024)	667,393
Investment income, net	383,699	251,026
Other income	425	1,036
Interest expense, net	(371,818)	(441,211)
Total nonoperating (expenses) revenues, net	(20,334)	478,244
Change in net position	4,119,926	3,810,450
Net position at beginning of year	57,646,713	53,836,263
Net position at end of year	$ 61,766,639	$ 57,646,713

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	$ 66,858,796	$ 57,468,471
Cash paid to suppliers for goods and services	(58,643,584)	(46,983,125)
Cash paid to employees for services	(4,384,671)	(4,284,776)
Net cash provided by operating activities	3,830,541	6,200,570
Cash flows from noncapital financing activities:		
Proceeds from grants and subsidies	653,384	-
Cash flows from capital and related financing activities:		
Interest paid on long-term debt	(407,023)	(483,980)
Proceeds from long-term debt	-	3,000,000
Repayment of long-term debt	(1,858,155)	(1,437,695)
Acquisition of capital assets	(1,112,312)	(6,084,525)
Net cash used for capital and related financing activities	(3,377,490)	(5,006,200)
Cash flows from investing activities:		
Increase in time certificates of deposit	-	(916)
Interest received	35,205	42,769
Net cash provided by investing activities	35,205	41,853
Net change in cash	1,141,640	1,236,223
Cash and cash equivalents at beginning of year	27,388,331	26,152,108
Cash and cash equivalents at end of year	$ 28,529,971	$ 27,388,331
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 4,140,260	$ 3,332,206
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,308,593	2,918,419
Foreign exchange (losses) gains	(686,024)	667,393
Other income	425	1,036
(Increase) decreasein assets:		
Trade receivables	(688,426)	1,170,840
Other receivables	(7,997)	90,200
Inventory	(3,878,537)	2,949,744
Prepaid expenses	(303,572)	851,621
Other assets	40,723	101,169
Increase (decrease) in liabilities:		
Accounts payable	2,945,632	(5,776,699)
Accrued liabilities and others	(1,040,536)	(105,359)
Net cash provided by operating activities	$ 3,830,541	$ 6,200,570

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, 2021 and 2020.

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, 2021 and 2020, total carrying amounts of cash and cash equivalents and time certificates of deposit were $25,978,170 and $21,415,685 respectively, and the corresponding bank balances were $25,983,641 and $21,374,764, respectively, which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2021 and 2020, 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, 2021 and 2020, 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 $2,953,197 and $6,374,042, 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, 2021 and 2020, bank deposits of approximately $182,000 and $193,000, 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, 2021 and 2020, investments at fair value are as follows:

	2021	2020
Fixed income securities:		
Domestic fixed income	$ 557,533	$ 582,604
Other investments:		
Common equities	2,349,965	1,160,106
Exchange traded funds	189,638	991,301
Money market funds	61,598	41,024
	2,601,201	2,192,431
	$ 3,158,734	$ 2,775,035

(2) Summary of Significant Accounting Policies, Continued

C. Investments, Continued

As of December 31, 2021, 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	$ 295,467	$ -	$ 38,974	$ 189,246	$ 67,247
U.S. Government Agency Bonds	262,066	-	99,449	110,658	51,959
	$ 557,533	$ -	$ 138,423	$ 299,904	$ 119,206

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

The Company's exposure to credit risk as of December 31, 2021 and 2020, was as follows:

Moody's Rating	2021	2020
AAA	$ 277,707	$ 285,332
A	85,804	-
A2	-	57,117
A3	-	73,473
BAA	194,022	-
BAA1	-	37,263
BAA2	-	91,191
BAA3	-	38,228
	$ 557,533	$ 582,604

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, 2021 and 2020:

		Fair Value Measurements Using		
	December 31, 2021	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	$ 557,533	$ -	$ 557,533	$ -
Equity securities	2,349,965	2,349,965	-	-
Exchange-traded funds	189,638	189,638	-	-
Total investments by fair value level	3,097,136	$ 2,539,603	$ 557,533	$ -
Investments measured at amortized cost:				
Money market funds	61,598			
	$ 3,158,734			

		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			

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, 2021 and 2020.

(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, 2021 and 2020, inventory consists of the following:

	2021	2020
Inventory on hand:		
Fuel	$ 10,648,573	$ 7,176,937
Engineering parts	1,286,415	1,074,137
Lubricants	445,640	398,819
Chemicals	30,536	42,090
Others	591,615	432,259
	13,002,779	9,124,242
Less allowance for obsolescence	(50,587)	(50,587)
	$ 12,952,192	$ 9,073,655

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

(2) Summary of Significant Accounting Policies, Continued

H. 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 as of 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. No income tax expense was recognized for 2021 and 2020 due to the recognition of FTC.

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. As of December 31, 2021, 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.

I. 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.

J. New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended December 31, 2021, FSMPC implemented the following pronouncements:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending December 31, 2022.

The implementation of these statements did not have a material effect on the accompanying consolidated financial statements.

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 believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for the fiscal year ending December 31, 2022.

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 the fiscal year ending December 31, 2023.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending December 31, 2022.

(2) Summary of Significant Accounting Policies, Continued

J. 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 the 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 the 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 the fiscal year ending December 31, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for the fiscal year ending December 31, 2022.

K. 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, 2021 and 2020 are as follows:

	Balance at January 1, 2021	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2021
Buildings	$ 2,650,680	$ 49,664	$ -	$ 2,700,344
Leasehold improvements	26,191	-	-	26,191
Motor vehicles	2,173,780	20,470	(160,595)	2,033,655
Plant and equipment	23,881,040	13,925	(8,100)	23,886,865
Furniture and fixtures	512,322	64,494	(26,080)	550,736
Office equipment	8,377,785	94,390	(2,748)	8,469,427
Machinery and equipment	3,418,464	43,075	(585)	3,460,954
Boats and vessels	2,257,101	19,595	-	2,276,696
	43,297,363	305,613	(198,108)	43,404,868
Less accumulated depreciation	(18,333,003)	(3,308,593)	198,108	(21,443,488)
	24,964,360	(3,002,980)	-	21,961,380
Construction in progress	8,715,643	1,106,087	(299,388)	9,522,342
	$ 33,680,003	$ (1,896,893)	$ (299,388)	$ 31,483,722

	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

(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, 2021 and 2020, FSMPC recognized a liability to the States and the FSMNG of $1,247,383 and $1,247,177, respectively.

As of December 31, 2021 and 2020, 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, 2022.

(5) Short-Term Borrowings

As of December 31, 2021 and 2020, the Company has a bank standby letter of credit (LC) of $3,000,000, expiring on September 13, 2022 and September 13, 2021, respectively, in favor of Mobil Oil Guam in relation to its fuel purchase agreement. Additionally, the Company has a standby LC of $4,396,900 for the coconut production facility contractor, expiring on December 30, 2022.

Additionally, as of December 31, 2021 and 2020, the Company has bank line of credit (LOC) facility of $11,000,000 for working capital and support LC's, expiring on March 31, 2022. The facility was subsequently renewed to mature on April 20, 2024.

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 as of December 31, 2021 and 2020.

(6) Long-term Debt

Long-term debt consists of the following as of December 31, 2021 and 2020:

	2021	2020
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. On 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% as of December 31, 2021 and 2020) 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.	$ 3,659,221	$ 4,173,133

(6) Long-term Debt, Continued

	2021	2020
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. Maturity date has been extended through December 2024. The loan is collateralized by the Company's inventories and related petroleum products.	1,872,444	2,465,547
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% as of December 31, 2021 and 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.	2,531,543	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
Total long-term debt	8,063,209	9,921,364
Net of current portion	1,415,010	1,625,673
	$ 6,648,199	$ 8,295,691

As of December 31, 2021, future minimum loan repayments are as follows:

Year Ending December 31,	Principal	Interest	Total
2022	$ 1,415,010	$ 399,906	$ 1,814,916
2023	1,491,295	219,985	1,711,280
2024	1,556,428	154,066	1,710,494
2025	2,316,343	122,440	2,438,783
2026	685,344	57,032	742,376
2027	598,789	57,032	655,821
	$ 8,063,209	$ 1,010,461	$ 9,073,670

(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.

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, 2021 and 2020, and no event of default has been declared by the lenders.

Changes in long-term debt for the years ended December 31, 2021 and 2020 are as follows:

	Balance at January 1 2021	Additions	Repayments	Balance at December 31 2021	Due Within One Year
Long-term debt	$ 9,921,364	$ -	$ (1,858,155)	$ 8,063,209	$ 1,415,010

	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

(7) Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for the years ended December 31, 2021 and 2020 are as follows:

	Balance at January 1 2021	Additions	Repayments	Balance at December 31 2021	Due Within One Year
Due to States and the FSM National Government	$ 1,747,177	$ 206	$ -	$ 1,747,383	$ -
Other noncurrent liability	1,281,913	2,977,281	(3,965,883)	293,311	-
	$ 3,209,090	$ 2,977,487	$ (3,965,883)	$ 2,040,694	$ -

	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	$ -

(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 27% and 29% of the Company's consolidated revenues for the years ended December 31, 2021 and 2020, respectively. Receivables from the three major customers totaled $917,875 and $839,606 as of December 31, 2021 and 2020, respectively, which are secured with deposits maintained with the Company included as a component of accrued liabilities and others in the accompanying statements of net position.

FSMPC and VEI purchased substantially all fuel from two suppliers in 2021 and 2020. VEI's Fuel Supply Contract expired on May 31, 2021. VEI entered into Fuel Supply Contract with another supplier effective November 8, 2021 and which expire on October 31, 2026.

(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.

Upon expiration on May 31, 2020, the Agreement remained in holdover status. The parties entered into a new agreement ("New Agreement") effective December 3, 2021 and expires December 3, 2026. The New Agreement contains similar terms and conditions.

The Agreement and the New Agreement allows VEI to charge prices based on Nauru Price Template (NPT). For the years ended December 31, 2021 and 2020, Vital recorded fuel sales of $16.2 million and $14.6 million, respectively. As of December 31, 2021 and 2020, Vital recorded throughput and rehabilitation fee liability of $$293,311 and $1,281,913, respectively, for the purpose of funding the facilities' mooring system repairs and improvements and Compliance and Integrity Projects, which is included in the other noncurrent liability account in the accompanying consolidated statements of net position.

(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 designated as the Plan administrator. Contributions to the Plan during the years ended December 31, 2021 and 2020 were $225,810 and $215,484, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Company. As of December 31, 2021 and 2020, plan assets were $3,522,535 and $2,796,840, 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. As of December 31, 2021 and 2020, unamortized balance of prepayments totaling $545,224 and $754,437, 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 the VEI's exclusive right to access, use and occupy the GON bulk fuel facilities, the VEI is required to pay a rental fee of $529,168 per annum over the 5-year term of the agreement from June 1, 2015 to May 31, 2020, which remained in holdover status until the executive of the new agreement in December 2021 (see Note 9). Beginning January 2022, rental fee is waived and replaced by land use levy built on NPT until the expiration of the new agreement in December 2026.

Future minimum lease payments are as follows:

Year Ending December 31,	
2022	$ 448,000
2023	331,000
2024	167,000
2025	401,000
2026	439,000
2027-2031	1,473,000
2032-2036	1,130,000
2037-2038	110,000
	$ 4,499,000

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.

(12) Related Parties

FSMPC sells fuel to the four utility companies in the FSM namely: Pohnpei Utilities Corporation (PUC), Chuuk Public Utility Corporation (CPUC), Kosrae Utility Authority, and Yap State Public Service Corporation. Total fuel sales of $16.5 million and $13.4 million were generated from the four utility companies for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, FSMPC has total receivables of $1.6 million and $1.3 million, respectively, from the four utility companies. In addition, as of December 31, 2021 and 2020, FSMPC has accrued liabilities in the form of letters of credit to PUC and CPUC totaling $1,037,343, 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.

As of December 31, 2021 and 2020, trade receivables includes balances due from the components of FSM National and State Governments totaling $392,460 and $216,046, respectively.

(12) Related Parties, Continued

FSMPC also sells power generated to 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 $2.02 million and $2.27 million for the years ended December 31, 2021 and 2020, respectively.

(13) Grants and Subsidies

During the year ended December 31, 2021, FSMPC received $653,384 from the FSMNG Department of Foreign Affairs under a non-project grant aid by the Government of Japan, which purpose was for the stability of fuel supplies in the FSM.

(14) 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, 2021 and 2020:

	2021	2020
Assets:		
Cash, receivables and other assets	$ 8,609,059	$ 11,326,614
Capital assets, net	164,362	245,293
Total assets	8,773,421	11,571,907
Liabilities:		
Accounts payable and other current liabilities	990,893	1,263,043
Due to primary government	4,262,078	5,389,859
Long-term liabilities	293,311	1,761,913
Total liabilities	5,546,282	8,414,815
Net position:		
Net investment in capital assets	164,362	245,293
Unrestricted	3,062,777	2,911,799
	$ 3,227,139	$ 3,157,092
Gross profit	$ 3,475,321	$ 3,431,793
Operating expenses:		
Depreciation	82,162	79,677
Other operating expenses	2,639,127	2,692,001
Operating income	754,032	660,115
Nonoperating (expenses) revenues	(683,985)	676,741
Change in net position	70,047	1,336,856
Beginning net position	3,157,092	1,820,236
Ending net position	$ 3,227,139	$ 3,157,092

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

Consolidating Statement of Net Position
December 31, 2021

ASSETS		FSMPC		Vital		Eliminations		Consolidated
Current assets:								
Cash and cash equivalents	$	25,344,940	$	3,185,031	$	-	$	28,529,971
Time certificates of deposit		-		401,396		-		401,396
Trade receivables		2,313,432		63,776		-		2,377,208
Due from component unit		2,273,950		-		(2,273,950)		-
Other receivables		115,320		-		-		115,320
Inventory, net		8,183,414		4,768,778		-		12,952,192
Prepaid expenses		1,699,107		69,078		-		1,768,185
Investments		3,158,734		-		-		3,158,734
Total current assets		43,088,897		8,488,059		(2,273,950)		49,303,006
Prepaid expenses, net of current portion		333,292		-				333,292
Due from component unit, net of current portion		1,988,128		-		(1,988,128)		-
Other noncurrent asset		528,286		121,000		-		649,286
Capital assets:								
Nondepreciable capital assets		9,522,342		-		-		9,522,342
Other capital assets, net of accumulated depreciation		21,797,018		164,362		-		21,961,380
	$	77,257,963	$	8,773,421	$	(4,262,078)	$	81,769,306
LIABILITIES AND NET POSITION								
Current liabilities:								
Current portion of long-term debt	$	1,415,010	$	-	$	-	$	1,415,010
Accounts payable - fuel		5,299,622		-		-		5,299,622
Accounts payable - other		498,625		76,867		-		575,492
Due to primary government		-		2,273,950		(2,273,950)		-
Accrued liabilities and others		3,109,624		914,026		-		4,023,650
Total current liabilities		10,322,881		3,264,843		(2,273,950)		11,313,774
Long-term debt, net of current portion		6,648,199		-				6,648,199
Due to primary government, net of current portion		-		1,988,128		(1,988,128)		-
Due to States and the FSM National Government		1,747,383		-		-		1,747,383
Other noncurrent liability				293,311		-		293,311
Total liabilities		18,718,463		5,546,282		(4,262,078)		20,002,667
Commitments and contingencies								
Net position:								
Net investment in capital assets		23,256,151		164,362		-		23,420,513
Unrestricted		35,283,349		3,062,777		-		38,346,126
Total net position		58,539,500		3,227,139		-		61,766,639
	$	77,257,963	$	8,773,421	$	(4,262,078)	$	81,769,306

See accompanying Independent Auditor's Report.

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

Consolidating Statement of Revenue, Expenses, and Changes in Net Position
Year Ended December 31, 2021

	FSMPC	Vital	Eliminations	Consolidated
Operating revenues:				
Sales and service income	$ 50,949,168	$ 16,596,637	$ -	$ 67,545,805
Other	434,693	-	(433,701)	992
	51,383,861	16,596,637	(433,701)	67,546,797
Cost of goods sold	32,402,245	13,121,316	-	45,523,561
Gross profit	18,981,616	3,475,321	(433,701)	22,023,236
Operating expenses:				
Salaries and benefits	4,089,301	295,370	-	4,384,671
Depreciation and amortization	3,226,431	82,162	-	3,308,593
Rent	1,172,520	534,542	-	1,707,062
Taxes	1,430,547	276,243	-	1,706,790
Repairs and maintenance	1,266,825	106,082	-	1,372,907
Professional fees	1,157,005	211,001	-	1,368,006
Insurance	481,373	404,370	-	885,743
Communications	437,583	88,873	-	526,456
Contracted services	357,977	102,053	-	460,030
Staff travel, training and development	445,952	-	-	445,952
Office supplies	320,010	28,103	-	348,113
Corporate governance, travel and entertainment	249,204	8,640	-	257,844
Utilities	199,281	45,921	-	245,202
Fuel	108,535	26,121	-	134,656
Bank charges	92,632	21,085	-	113,717
Corporate office shared services	-	433,701	(433,701)	-
Miscellaneous	560,212	57,022	-	617,234
Total operating expenses	15,595,388	2,721,289	(433,701)	17,882,976
Operating income	3,386,228	754,032	-	4,140,260
Nonoperating (expenses) revenues:				
Grants and subsidies	653,384	-	-	653,384
Foreign exchange loss, net	-	(686,024)	-	(686,024)
Investment income	383,699	-	-	383,699
Other income	-	425	-	425
Interest (expense) income, net	(373,432)	1,614	-	(371,818)
Total nonoperating revenues (expenses), net	663,651	(683,985)	-	(20,334)
Change in net position	4,049,879	70,047	-	4,119,926
Net position at beginning of year	54,489,621	3,157,092		57,646,713
Net position at end of year	$ 58,539,500	$ 3,227,139	$ -	$ 61,766,639

See accompanying Independent Auditor's Report.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA 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 Auditor's Report.

FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION AND SUBSIDIARY
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA 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 Auditor's Report.

Deloitte.

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INDEPENDENT AUDITOR'S 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, 2021, 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 December 2, 2022.

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.

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*.

Deloitte.

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

December 2, 2022

Unresolved Prior Year Findings
December 31, 2021

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