FEDERATED STATES OF MICRONESIA PETROLEUM CORPORATION

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2013 AND 2012

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

Years Ended December 31, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia Petroleum Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Petroleum Corporation (the Corporation), and its discretely presented component unit, collectively a component unit of the FSM National Government, which comprise the respective statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation and its discretely presented component unit as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 30, 2014

STRATEGIC OBJECTIVES

The primary long term role and function of the Federated States of Micronesia Petroleum Corporation (FSMPC) is to secure a stable supply of petroleum products to meet the nations core energy needs. The Company engages efficiently, responsibly and profitably in the sector. This ensures that there are sufficient resources to maintain assets, train people, hold strategic oil inventories, and provide petroleum products in full, on-time, and to international specifications.

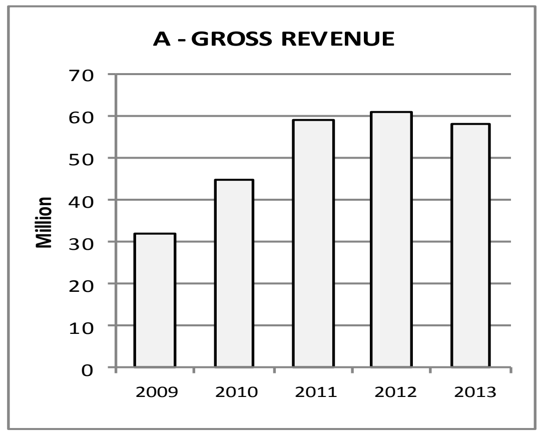
The Company is the largest supplier of energy in the FSM and constantly evaluates opportunities to expand vertically into markets which use and supply modern energy services, as well as laterally into alternative energy technologies with an aim of improving the energy security of the nation.

SUMMARY OF OPERATIONS

Locations

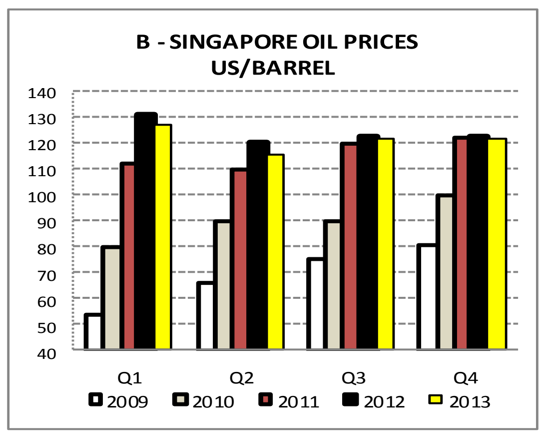
In the FSM, the Company operates a total of six fuel terminal facilities in the States of Yap, Chuuk, Kosrae, and Pohnpei, and services the international aviation, marine bunkering, and inland market segments.

In February 2012, Vital Energy (Guam) Incorporated was established. In June, it was successful in securing a terminal operations and management contract with the Guam Power Authority (GPA). Across the seven fuel facilities, we now store, handle and deliver over 2.3 million barrels of petroleum products per annum.

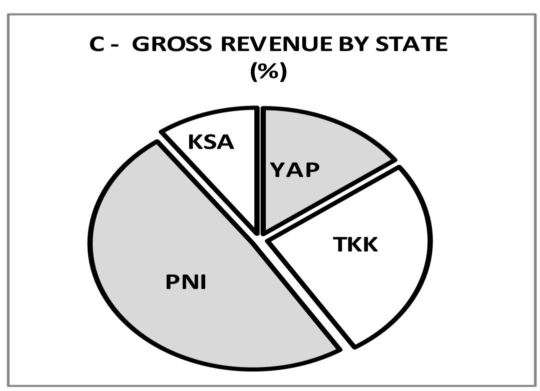


Revenues

Gross revenues for CY13 were $58.7 million, reflecting a decrease of $2.8 million over the prior year (refer A). The decrease in Revenue is attributed equally to decreased sales volumes, as well as lower input oil prices in 2013. International oil prices started in at a quarter one peak of $127/bbl and a quarterly low of $116/bbl. The international quarterly average for 2013 is $122/bbl. On average, Singapore oil prices in 2013 were $3/bbl lower than 2012 (graph B).



Gross revenue contributions by State (refer C) were Kosrae 10%, Yap 15%, Chuuk 26% and Pohnpei 49%, with a product mix of automotive diesel oil 51%, unleaded petrol (or gasoline)



37%, home kerosene and Jet A1 of 10%, and other revenues of 2%. This has remained consistent with prior years.

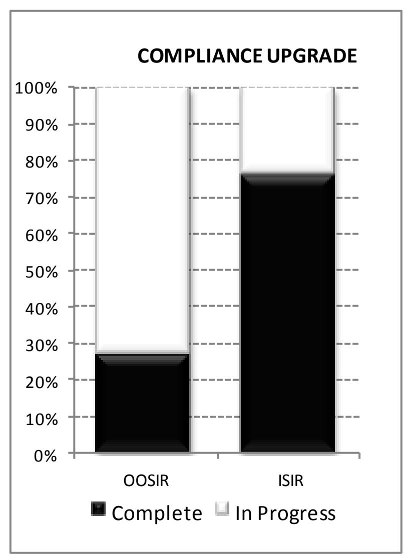
Our petroleum businesses throughout the FSM and Guam are supported by fuel, lubricant and technical service agreements with Mobil Oil Micronesia Incorporated (MOMI), Total Oil Asia Pacific (TOAP), and ExxonMobil Aviation (EMA).

Business Planning

The business continues to conduct itself in accordance with the standards set out in the Statement of General Business Principles (SGBP). Management seeks formal reassurance from each Staff member that they operate within these principles annually. The Board confirm their commitment to the SGBP annually.

The Company maintains an annual business plan that sits firmly within a five year development window defined by our Strategic Plan that is aligned with National and State energy policies that are in effect. This year, our Vital Guam subsidiary has completed twenty (20) months of successful operation. Structured cost reduction programs, coupled with targeted growth opportunities, will see this business mature in 2014 and contribute a steady cash flow to the overall business.

In 2013, the Company embarked on a Value-for-Money (VFM) procurement policy and process. This was applied in the first instant to the purchase of fuel and lubricants as this represents in excess of 80% of all goods and services procurement within the Company, and will exceed $200MM over the next five (5) years. An international tender process was used to secure the supply and pricing arrangements for the Nation from 2013 through 2018 and it is expected to deliver in excess of $7MM in savings over the term of the contract. Mobil Oil Guam Incorporated (MOGI) was successful in retaining their supply to the Nation amongst an aggressive international field of over four (4) suppliers and were successful in signing a new 2013 Fuel Supply Agreement (FSA) with the Company.



The Company is expected to progressively apply the VFM tender approach to other significant areas of procurement within the business over the next three (3) years.

Risk Management

Risks continue to be managed proactively. A Board Committee on Risk and Audit has been established with a defined Charter, and a quarterly meeting schedule. The Committee on Risk and Audit are accountable for the review and progress of all remedial action plans across the business. Resource allocation continues to be heavily weighted towards risk mitigation. The three areas that are currently a priority for the corporation are i) competent people, ii) asset rehabilitation, and iii) credible scenario planning and preparedness.

The risk management system is compliant with the ISO31000:2009 international standard for Risk Management. The Company has also adopted the most recent American Petroleum Institute Standard 653 (API653) for maintenance of oil storage tanks, and the Joint Implementation Group (JIG) standard for international airports.

Competent People:

> Corporate Practices and Procedures (CPP's) have been developed and rolled out for all critical operations within the business. In all, three hundred (300) critical processes and procedures have been documented, and mapped to individual positions within the Company. A Learning Management System has been launched that monitors the competency gap for individuals, business units, and the overall company. Succession Plans for key individuals are reviewed by a Board Committee on Governance, and reported to the second Board Meeting of each year.

Asset Rehabilitation:

> We have commenced our compliance program in 2010 to upgrade facilities to comply with these most recent versions of the standard. The program has completed 30% of the mandatory out-of-service inspection and repairs (OOSIR), 75% of the in-service inspection (ISI). A significant number of OOSIR are to be completed in 2014.
>
> In 2013, the primary focus was on the rehabilitation of the Yap perimeter seawall that was damaged in 2004 by typhoon Sudal. The completion of the seawall in Yap has significantly reduced the overall risk profile of our operations and closed out a primary deliverable for the State of Yap in supporting the establishment of FSMPC.

Credible Scenarios, Planning and Preparedness.

> A number of potential risk events exist across the Company. A small program that ensures operational integrity, emergency response capability, and our preparedness for various risk events are reviewed quarterly.

Domestic Pricing

The 2009 Pricing Policy Framework (PPF) continues to be used by the Corporation. It provides a mechanism to stabilize domestic prices and to cushion the effect of international volatility. There are no cross subsidies within the PPF, and the prices in each State reflect the costs of procuring, financing, storing, handling and distribution of fuels in that State.

The Company continues to benchmark domestic price competitiveness through comparison of pump prices of island neighbors. Throughout CY13, domestic prices compared favorably with Guam, with the observable pump price difference continue to be maintained at less than $0.20 per gallon. This is down from a high of $1.40/gallon in 2008. The PPF has maintained a monthly price change contract with customers such as utilities and airlines, and quarterly price changes with service stations. This strategy has provided stable energy prices for homes, businesses, and governments.

Changes are expected in the PPF in 2014 as a result of the favorable terms negotiated in the 2013 Fuel Supply Agreement, the substantive completion of many capital improvement projects, and the anticipated retirement of the long term purchase loan with the Bank of Guam.

Financial Condition

The Company continues to invest all operating surplus into the retirement of long term notes and capital improvement projects that are for mandatory compliance, reduction of operating risk, improvement of profitability, driving operational efficiency or strategic in nature. There is work underway to further align our investment decisions with the intent and direction of the 2012 FSM Energy Policy.

There is a noticeable improvement in the condition and asset value of our oil distribution infrastructure as well as the levels of strategic oil inventory that maintains the current energy security of the Nation and the current policies have also positively impacted our debt-to-equity ratio, decreasing from a high of 75% in 2009 to the targeted 22% in 2013. This is evidenced by the growth in inventory value, as well as in fixed assets in the business. We are now able to attract competitive long term financing, manage oil price volatility, and continue to invest in strategic onshore inventory.

The following table summarizes the Company financial position for calendar year 2013, 2012, and 2011 respectively.

Assets:	**2013**	**2012**	**2011**
Property, Plant and Equipment	$ 15,725,689	$ 12,117,382	$ 8,707,118
Cash & Cash Equivalents	8,253,522	8,236,760	6,716,621
Inventory on Hand	8,052,909	4,731,901	7,956,135
Receivables & other Current Assets	4,499,999	5,464,968	3,070,753
Total Assets	$ 36,532,119	$ 30,551,011	$ 26,450,627
Current Liabilities	$ 5,725,434	$ 2,923,823	$ 2,636,275
Notes Payable – Long Term	2,320,659	3,646,672	4,071,272
Net Position	28,486,026	23,980,516	19,743,080
Total Liabilities & Net Position	$ 36,532,119	$ 30,551,011	$ 26,450,627

Revenues, Expenses and Changes in Net Position:	**2013**	**2012**	**2011**
Operating Revenues	$ 58,768,879	$ 61,575,499	$ 59,207,576
COGS	(46,500,495)	(49,649,654)	(47,881,765)
Gross Profit	12,268,384	11,925,845	11,325,811
Operating Expenses	(7,768,950)	(7,380,238)	(7,004,256)
Non-Operating Revenues (Expenses), net	6,076	(308,171)	(99,066)
Change in Net Position	$ 4,505,510	$ 4,237,436	$ 4,222,481

Major changes in the balance sheet components for CY13 are a result of:

a) the Company maintained one-year term Line of Credits with Bank of Guam (BOG) for $10,000,000. The Short Term Note with banks remained at a zero balance in CY2013 as a result of prudent cash management, and continue to invest its operating surplus into retirement of long term notes, in capital expenditure to reduce operating risks and strengthen oil distribution infrastructure, and into strategic oil inventory to increase the energy security of the Nation.

b) at the end of December 31, 2013, the Company's Long Term Notes with Bank of Guam for the initial acquisition of fixed assets from Mobil Oil Micronesia Inc. was amounted to:

   i. $703,962 of which $667,352 was classified as current portion of the Note. The principal amount paid during CY2013 was $1,102,821 whereas interest paid amounted to $88,771.

c) the total amount received from sales of petroleum products exceeded the amount paid to Vendors and Employees for goods and services. The net cash provided by operating activities in 2013 was $5,657,548 as compared to $6,949,990 for the 12 months of operation in CY2012. For additional information concerning debt, please refer to the notes to the financial statements.

d) $4,449,194 was used for capital and related investing activities for the purchase of Property, Plant and Equipment. The Corporation's total investments in Property, Plant and Equipment, inclusive of construction in-progress for 2013 and 2012 were $15,725,689 and $12,117,382 net of accumulated depreciation of $3,769,516 and $2,833,782, respectively. For additional information concerning capital assets, please refer to the notes to the financial statements.

ECONOMIC OUTLOOK

The most significant pending impact on the economy in coming years remain the pending National and state tax reforms across the FSM, and the annual Compact decrement. In CY13, little progress was observed on the implementation of a new tax regime within the FSM. Tax reforms are essential for FSM's preparations for financial independence in light of the end of the financial assistance package under the Compact of Free Association. The Company remains concerned over the lack of investment incentives for energy efficiency, renewable energy, or harnessing domestic energy sources within the new tax laws. These are an essential enabler that will accelerate achievement of National Energy Policy targets, as well as mitigate the impact of the inevitable increases in taxes on petroleum fuels.

The annual Compact decrement is evident within our petroleum business. Despite domestic energy prices being stable and lower in CY13 as compared to CY12, domestic sales volumes continue a slow and gradual decline. This hints at either reducing or stressed household budgets, and few new economic activities. This current trend underpins the importance of the Company strategy to diversify its operations and revenue sources outside of the FSM and COFA impacted countries.

Our analysis of the energy sector suggests that more competitive fuel pricing under the 2013 FSA, coupled with increased investment into energy efficiency at wholesale level - power generation and distribution systems – will reduce current headline electricity tariffs up to twenty-five percent (25%). This will provide much needed relief to homes, businesses and governments. However, competitive domestic energy prices in themselves do not spur new economic activities.

The Company has investigated the potential of the coconut industry to make a meaningful and lasting impact on the economy. In 2013, a Rapid Coconut Resource Assessment was completed and confirmed a total sustainable harvest of coconut across the FSM of 100,000 coconuts a day. Effectively managed, collected and processed, this translates to a domestic resource that could contribute in excess of $3MM per annum in new economic activities, and create in excess of four hundred (400) new jobs in the formal and informal sectors. From both an export view – virgin coconut oils – to an import substitution – biodiesel, and coconut biomass electricity production –properly managed, this industry will make significant impact on the overall health of the FSM economy.

Economic development opportunities in the tourism, agriculture, energy and fisheries sector are abundant. The current challenge is that due to a lack-of-scale and the diseconomy-of-isolation, the transaction costs that are necessary to convert the 'potential' into 'reality' remains the biggest hurdle in the FSM.

Management's Discussion and Analysis for the year December 31, 2012 is set forth in the report on the audit of FSMPC's financial statements, which is dated June 26, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and may be obtained from the contact shown below.

CONTACT

Questions associated with the above MD&A may be sent by post, addressed to Mr. Mathias Lawrence Chief Financial Officer, P. O. Box 1762, Kolonia, Pohnpei, FSM 96941 or via email to petrocorp@fsmpc.com.

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

Statements of Net Position
December 31, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 7,753,522	$ 7,736,760
Trade receivables	2,158,241	2,010,177
Inventory, net	8,052,909	4,731,901
Deposit with supplier	1,560,978	2,860,067
Prepaid expenses	780,780	594,724
Total current assets	20,306,430	17,933,629
Restricted cash	500,000	500,000
Capital assets:		
Nondepreciable capital assets	4,985,403	5,320,502
Other capital assets, net of accumulated depreciation	10,740,286	6,796,880
	$ 36,532,119	$ 30,551,011
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	$ 667,352	$ 587,629
Accounts payable - fuel	3,275,150	414,591
Accounts payable - other	454,160	608,744
Accrued liabilities and others	1,328,772	1,312,859
Total current liabilities	5,725,434	2,923,823
Long-term debt, net of current portion	36,610	1,219,154
Due to states and primary government, net of current portion	2,284,049	2,427,518
Total liabilities	8,046,093	6,570,495
Commitments and contingencies		
Net position:		
Net investment in capital assets	10,036,324	4,990,097
Unrestricted	18,449,702	13,669,917
Total net position	28,486,026	23,980,516
	$ 36,532,119	$ 30,551,011

See accompanying notes to financial statements.

VITAL ENERGY, INC.

Statements of Net Position
December 31, 2013 and 2012
Discretely Presented Component Unit

ASSETS	2013	2012
Current assets:		
Cash	$ 13,547	$ 1,000
Receivables	188,704	139,856
Prepaid expenses	15,391	25,577
Total current assets	217,642	166,433
Property and equipment, net	66,897	61,691
	$ 284,539	$ 228,124

LIABILITIES AND NET POSITION	2013	2012
Current liabilities:		
Accounts payable	$ 101,524	$ 19,158
Accrued liabilities and others	15,044	22,525
Total current liabilities	116,568	41,683
Contingencies		
Net position:		
Net investment in capital assets	66,897	61,691
Unrestricted	101,074	124,750
Total net position	167,971	186,441
	$ 284,539	$ 228,124

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenue:		
Sales and service income	$ 58,757,490	$ 61,564,075
Other	11,389	11,424
	58,768,879	61,575,499
Cost of goods sold	46,500,495	49,649,654
Gross profit	12,268,384	11,925,845
Operating expenses:		
Taxes	1,716,612	1,792,477
Salaries and benefits	1,338,920	1,273,967
Depreciation	935,734	867,004
Professional fees	582,196	577,732
Rent	520,268	490,180
Staff travel, training and development	438,409	638,565
Insurance	396,055	394,487
Repairs and maintenance	387,504	243,586
Corporate governance	356,362	228,725
Communications	243,151	140,138
Utilities	196,368	158,441
Contracted services	195,302	186,082
Office supplies	139,324	146,418
Fuel	100,326	89,481
Miscellaneous	222,419	152,955
Total operating expenses	7,768,950	7,380,238
Operating income	4,499,434	4,545,607
Nonoperating revenues (expenses):		
Contributions to component unit	-	(305,785)
Interest income (expense), net	6,076	(2,386)
Total nonoperating revenues (expenses), net	6,076	(308,171)
Change in net position	4,505,510	4,237,436
Net position at beginning of year	23,980,516	19,743,080
Net position at end of year	$ 28,486,026	$ 23,980,516

See accompanying notes to financial statements.

VITAL ENERGY, INC.

Statements of Revenue, Expenses, and Changes in Net Position
For the year ended December 31, 2013 and the period from
Inception (February 10, 2012) to December 31, 2012
Discretely Presented Component Unit

	2013	2012
Operating revenue:		
Service income	$ 737,082	$ 393,910
Cost of services	(57,870)	-
Gross profit	679,212	393,910
Operating expenses:		
Salaries and benefits	200,321	115,476
Utilities	131,607	62,403
Contracted services	123,060	107,243
Professional fees	66,631	110,854
Insurance	50,463	28,856
Taxes	24,761	9,499
Rent	21,426	18,325
Office supplies	14,615	21,990
Depreciation	13,431	7,202
Communications	13,360	6,207
Fuel	8,069	4,870
Bank charges	6,789	1,880
Repairs and maintenance	6,528	5,407
Staff training and development	4,579	1,039
Travel and entertainment	2,630	7,488
Miscellaneous	9,412	4,515
Total operating expenses	697,682	513,254
Operating loss	(18,470)	(119,344)
Nonoperating income:		
Contributions from FSM Petroleum Corporation	-	305,785
Change in net position	(18,470)	186,441
Net position at beginning of the period	186,441	-
Net position at end of the period	$ 167,971	$ 186,441

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 58,552,863	$ 61,326,118
Cash paid to suppliers for goods and services	(51,561,142)	(53,082,969)
Cash paid to employees for services	(1,334,173)	(1,293,159)
Net cash provided by operating activities	5,657,548	6,949,990
Cash flows from investing activities:		
Contributions to component unit	-	(305,785)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(4,449,194)	(4,139,883)
Principal repayment of long-term debt	(1,102,821)	(844,412)
Interest paid	(88,771)	(124,342)
Net cash used for capital and related financing activities	(5,640,786)	(5,108,637)
Net change in cash	16,762	1,535,568
Cash at beginning of year	7,736,760	6,201,192
Cash at end of year	$ 7,753,522	$ 7,736,760
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 4,499,434	$ 4,545,607
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	935,734	867,004
(Increase) decrease in assets:		
Trade receivables	(148,064)	(504,675)
Due from employees	-	7,716
Inventory and related deposit with supplier	(2,021,919)	1,580,432
Prepaid expenses	(186,056)	(253,454)
Increase (decrease) in liabilities:		
Accounts payable	2,705,975	717,263
Accrued liabilities and others	15,913	177,555
Due to states and primary government	(143,469)	(187,458)
Net cash provided by operating activities	$ 5,657,548	$ 6,949,990
Supplemental schedule of noncash investing activities:		
Interest expense capitalized during construction	$ 94,847	$ 137,385

See accompanying notes to 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.

FSMPC's 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.

The Statement of Net Position presents all of the FSMPC's non-fiduciary assets, deferred outflows of resources, 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 four 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.

(1) Organization and Basis of Presentation, Continued

Basis of Accounting, Continued

- 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.

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.

Reporting Entity

Vital Energy, Inc. (Vital) is a legally separate entity which meets the criteria set forth for component units. Vital was incorporated on February 10, 2012 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. Vital's fiscal year-end is as of December 31. Copies of Vital's report can be obtained by contacting Vital management. Vital's significant notes are summarized in Note 2i.

(2) Summary of Significant Accounting Policies

A. Cash

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. FSMPC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and of cash flows, cash represents cash on hand and cash in bank accounts. Cash in bank accounts externally restricted for use are separately classified. As of December 31, 2013 and 2012, total carrying amounts of cash were $8,253,522 and $8,236,760, respectively, and the corresponding bank balances were $8,304,573 and $8,136,928 respectively, which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2013 and 2012, bank deposits in the amount of $250,000 and $333,712, respectively, were subject to FDIC insurance. Balances in excess of FDIC insurance are not collateralized.

(2) Summary of Significant Accounting Policies, Continued

B. Accounts Receivable

Accounts receivable are due from businesses and individuals located in the Federated States of Micronesia 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. At December 31, 2013 and 2012, the Company is of the opinion that an allowance for doubtful accounts is not required.

C. Inventory

Inventory is substantially carried at the lower of cost (moving average cost) or market value. At December 31, 2013 and 2012, inventory consists of the following:

	2013	2012
Fuel	$ 7,647,286	$ 4,264,119
Lubricants	362,456	423,755
Chemicals	93,754	94,614
	8,103,496	4,782,488
Less allowance for obsolescence	(50,587)	(50,587)
	$ 8,052,909	$ 4,731,901

D. 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
Motor vehicles	5 years
Plant and equipment	3 to 15 years
Furniture and fixtures	4 years
Office equipment	4 to 8 years
Machinery and equipment	4 years

E. Capitalized Interest

Interest cost for assets that require time to bring them to the condition and location necessary for their intended use is capitalized as part of the asset cost until such time as the assets are placed in service. The Company capitalized interest of $94,847 and $137,385 for the years ended December 31, 2013 and 2012, respectively.

F. Taxes

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

(2) Summary of Significant Accounting Policies, Continued

G. New Accounting Standards

During the year ended December 31, 2013, the Company implemented the following pronouncements:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhanced the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

(2) Summary of Significant Accounting Policies, Continued

G. New Accounting Standards, Continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which improves accounting and financial reporting by addressing an issue in Statement No. 68, Accounting and Financial Reporting for Pensions, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Company.

H. 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Vital's Accounting Policies

Receivable. Receivables are uncollected amounts from Guam Power Authority (GPA) (see note 9) and other debtors. 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. Accounts deemed uncollectible are written-off. At December 31, 2013 and 2012, Vital is of opinion that an allowance for doubtful accounts is not required.

Property 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:

Motor vehicles	5 years
Computer equipment	5 years
Furniture and fixtures	7 years
Machinery and equipment	7 years

Taxes. The Company is taxed by and files its income tax return in Guam. The Guam income tax code is similar to that of the United States of America.

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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period that includes the enactment date.

(2) Summary of Significant Accounting Policies, Continued

I. Vital's Accounting Policies, Continued

For Guam income tax purposes, a tax year generally remains open to assessment and collection for three years after the later of the due date for filing a tax return or the date on which the tax payer files its return.

(3) Capital Assets

FSM Petroleum Corporation

Capital asset activities for the years ended December 31, 2013 and 2012 are as follows:

	Balance at January 1, 2013	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2013
Buildings	$ 573,040	$ 203,875	$ (89,618)	$ 687,297
Motor vehicles	807,176	262,674	(52,105)	1,017,745
Plant and equipment	5,509,593	3,869,447	-	9,379,040
Furniture and fixtures	88,881	-	-	88,881
Office equipment	2,156,712	535,716	-	2,692,428
Machinery and equipment	495,260	154,316	(5,165)	644,411
	9,630,662	5,026,028	(146,888)	14,509,802
Less accumulated depreciation	(2,833,782)	(935,734)	-	(3,769,516)
	6,796,880	4,090,294	(146,888)	10,740,286
Construction in progress	5,320,502	4,530,064	(4,865,163)	4,985,403
	$ 12,117,382	$ 8,620,358	$ (5,012,051)	$ 15,725,689

	Balance at January 1, 2012	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2012
Buildings	$ 558,294	$ 14,746	$ -	$ 573,040
Motor vehicles	605,548	201,628	-	807,176
Plant and equipment	4,839,250	670,343	-	5,509,593
Furniture and fixtures	83,486	5,395	-	88,881
Office equipment	1,797,012	359,700	-	2,156,712
Machinery and equipment	334,202	161,058	-	495,260
	8,217,792	1,412,870	-	9,630,662
Less accumulated depreciation	(1,966,778)	(867,004)	-	(2,833,782)
	6,251,014	545,866	-	6,796,880
Construction in progress	2,456,104	3,611,905	(747,507)	5,320,502
	$ 8,707,118	$ 4,157,771	$ (747,507)	$ 12,117,382

(3) Capital Assets, Continued

Vital Energy, Inc.

Capital asset activities for the year ended December 31, 2013 are as follows:

	Balance at January 1, 2013	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2013
Motor vehicles	$ 25,258	$ -	$ -	$ 25,258
Computer equipment	21,940	11,423	-	33,263
Furniture and fixtures	9,741	-	-	9,741
Machinery and equipment	11,954	7,214	-	19,168
	68,893	18,637	-	87,530
Less accumulated depreciation	(7,202)	(13,431)	-	(20,633)
	$ 61,691	$ 5,206	$ -	$ 66,897

Capital asset activities for the period ended December 31, 2012 are as follows:

	Balance at February 1, 2012	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2012
Motor vehicles	$ -	$ 25,258	$ -	$ 25,258
Computer equipment	-	21,940	-	21,940
Furniture and fixtures	-	9,741	-	9,741
Machinery and equipment	-	11,954	-	11,954
	-	68,893	-	68,893
Less accumulated depreciation	-	(7,202)	-	(7,202)
	$ -	$ 61,691	$ -	$ 61,691

(4) Due to States and Primary 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 FSMNG properly and exclusively for the purchase of products enumerated in a list to be mutually agreed upon between the two governments. The Grant will be received by FSMNG in Yen currency, will be used as described above within a period of twelve months and any excess amounts will be refunded to the Government of Japan thereafter. 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 FSM.

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(4) Due to States and Primary Government, Continued

In 2009, FSMPC signed a memorandum of agreement with 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 FSMNG. FSMPC has received the equivalent gallons of fuel from the supplier and this is now maintained as strategic inventory in each State. As of December 31, 2013 and 2012, FSMPC recognized a liability to the States and FSMNG of $1,784,049 and $1,927,518, respectively.

At December 31, 2013 and 2012, the remaining $500,000 in due to primary government represents non-interest bearing advance from 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, 2014. The advance has been deposited in a bank account, which is presented as restricted cash in the accompanying statements of net position.

(5) Long-term Debt

Long-term debt represents balance outstanding on a bank note payable for purposes of acquiring capital assets, due in monthly installments of $57,949, with interest at 7% per annum, final payment due on March 2019, and unconditionally guaranteed by the FSM National Government. The loan is essentially collateralized by all FSMPC assets. During the years ended December 31, 2013 and 2012, the Company have been making monthly installments of approximately $100,000. At December 31, 2013 and 2012, the amount outstanding under this loan facility is $703,962 and $1,806,783, respectively.

Future minimum contractual repayments are as follows:

Year Ending December 31,	Principal	Interest	Total
2014	$ 667,352	$ 28,031	$ 695,383
2015	36,610	218	36,828
	$ 703,962	$ 28,249	$ 732,211

(6) Short-Term Borrowings

As of December 31, 2013 and 2012, the Company has a bank line of credit facility (LOC) of $10,000,000 and $4,300,000, respectively. On January 31, 2013, the LOC was increased by $5.7 million to $10.0 million and expired on February 28, 2014. On June 10, 2014, the LOC was renewed for another twelve months expiring on June 30, 2015. This LOC is utilized by the Company to fund fuel inventory purchases. The LOC and the related long-term obligation 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 LOC bear interest at the Bank's effective reference rate plus 0.75%, with minimum rate of 7% per annum and decreased to 5.75% per annum on January 31, 2013, with interest payable monthly and principal due within 180 days. No borrowings are outstanding against the LOC at December 31, 2013 and 2012.

(7) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2013 are as follows:

	Balance at January 1, 2013	Additions	Repayments	Balance at December 31, 2013	Due Within One Year
Note payable	$ 1,806,783	$ -	$ (1,102,821)	$ 703,962	$ 667,352
Due to states and primary government	2,427,518	-	(143,469)	2,284,049	-
	$ 4,234,301	$ -	$ (1,246,290)	$ 2,988,011	$ 667,352

Changes in long-term liabilities for the year ended December 31, 2012 are as follows:

	Balance at January 1, 2012	Additions	Repayments	Balance at December 31, 2012	Due Within One Year
Note payable	$ 2,651,195	$ -	$ (844,412)	$ 1,806,783	$ 587,629
Due to states and primary government	2,614,976	529,890	(717,348)	2,427,518	-
	$ 5,266,171	$ 529,890	$ (1,561,760)	$ 4,234,301	$ 587,629

(8) Risk Management

The Company purchases commercial insurance to cover its potential risks from refueling operations, inventory and facilities. It also maintains workmen's compensation coverage. It is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

(9) Significant Customers

FSM Petroleum Corporation

Revenue from one major customer for the years ended December 31, 2013 and 2012 approximated 18% and 19%, respectively, of the Company's total revenue.

The Company purchased substantially all fuel from one supplier in 2013 and 2012.

Vital Energy, Inc.

Vital has a contract with the Guam Power Authority (GPA) to manage, operate and maintain GPA's fuel bulk storage facility from June 1, 2012 to May 31, 2015. GPA may elect to extend the contract for up to two additional one-year terms. The contract is for an annual fixed fee of $675,273 payable by GPA monthly. The Company is required to seek approval from GPA for all major operation and maintenance activities exceeding $5,000 which are to be billed separately from monthly payments. Service fee revenue of $737,082 and $393,910 presented in the accompanying statements of revenue, expenses and changes in net position was earned from the GPA contract for the years ended December 31 2013 and 2012, respectively.

(10) Commitments and Contingencies

Leases

The Company leases land, warehouse, airport facilities and other such space through various leases expiring through 2027. 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.

Future minimum lease payments are as follows:

Year Ending December 31,	
2014	$ 430,688
2015	430,074
2016	424,254
2017	406,254
2018	409,254
2019-2023	1,445,279
2024-2027	333,000
	$ 3,878,803

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.

Letter of Credit

A stand-by letter of credit of $675,274 is issued in favor of GPA to satisfy Vital's required performance bond related to the contract described in note 9. The letter of credit expired on April 17, 2013 and the Company is in the process of renewing the agreement.

(11) Subsequent Event

In June 2014, the FSM Congress approved the integration of the FSM Coconut Development Authority, which is also a component unit of the FSM National Government into the operations of the Company. This integration is expected to occur as of October 1, 2014.

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

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 financial statements of the Federated States of Micronesia Petroleum Corporation (the Company), which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in accompanying Schedule of Findings and Responses as item 2013-02, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2013-01.

The Company's Response to Findings

The Company's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

June 30, 2014

Finding No.: 2013-01

Procurement Documents

Criteria: Procurement transactions shall provide for full and open competition that is best suited to the circumstances.

Condition: Procurement documents evidencing full and open competition or vendor selection were not provided for sixteen of twenty expenditures aggregating $1,824,559 from a total population of $8,544,642. Details follow:

#	Project No.	Voucher No.	Date	Amount
1	COR12-1501	0000012587	06/30/13	$ 32,018
2	COR12-1501	0000011501	04/16/13	89,806
3	COR12-1523	0000011234	03/27/13	22,628
4	COR13-1501	0000012558	06/25/13	40,000
5	COR13-1701	0000014502	10/14/13	48,680
6	GUM12-0301	0000013006	07/25/13	132,250
7	GUM12-0301	0000011893	05/14/13	79,350
8	PNI12-0301	0000012039	05/21/13	10,062
9	PNI12-0601	0000011880	05/07/13	4,800
10	PNI13-0201	0000011923	05/14/13	1,080,000
11	PNI13-0201	0000015745	12/16/13	60,140
12	YAP10-0101	0000011332	03/31/13	12,090
13	YAP10-0101	0000011332	03/31/13	6,600
14	YAP10-0501	0000012736	07/09/13	22,275
15	YAP13-0202	0000013015	07/30/13	14,003
16	KSA11-0103	0000006761	05/14/12	129,259
				$ 1,783,959

Cause: The cause of the above condition is lack of established procurement policies and regulations.

Effect: The effect of the above condition is potential noncompliance with competitive procurement.

Recommendation: We recommend that the Company complete a procurement manual entailing standard procedures to maximize full and open competition.

Prior Year Status: The lack of procurement documentation was reported as finding 2012-1 in the 2012 audit.

Auditee Response and Corrective Action Plan: We agree with the finding and we will implement the recommendation in 2014.

Finding No.: 2013-02

Construction-in-Progress (CIP) Project Monitoring

Criteria: An effective system of internal control includes policies and procedures related to periodic monitoring of capital project status that includes coordination between project management and finance and accounting personnel.

Condition: Seven of fourteen CIP projects tested for stage of completion were in use and should have been capitalized as of December 31, 2013. This was corrected through a proposed audit adjustment. Details follow:

#	Project No.	Amount
1	COR12-1501	$ 147,504
2	COR12-1523	22,628
3	COR13-1501	40,000
4	PNI12-0301	49,546
5	PNI12-0601	7,698
6	PNI13-0201	2,075,389
7	YAP10-0101	1,343,662
		$ 3,686,427

Cause: The cause of the above condition is the late submission of completion reports and closing documents from responsible project heads.

Effect: The effect of the above condition is a potential misstatement of capital assets and depreciation expense.

Recommendation: We recommend that management conduct a comprehensive and periodic review of the stage of completion of the CIP projects. Quarterly reports as to percentage of completion should be obtained from project head.

Auditee Response and Corrective Action Plan: We agree with the finding and we will implement the recommendation in 2014.

Unresolved Prior Year Findings
Year Ended December 31, 2013

Summary Schedule of Prior Audit Findings

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

Finding No. 2012 – 1, Procurement Documents – Not corrected. Refer to Finding No. 2013-01.