Financial Statements, Required Supplementary Information and Supplementary Information

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Years ended December 31, 2024 and 2023 with Report of Independent Auditors

Shape the future
with confidence

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Years ended December 31, 2024 and 2023

Contents

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Report of Independent Auditors

The Board of Directors
Federated States of Micronesia Petroleum Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Federated States of Micronesia (FSM) Petroleum Corporation (the Company), a component unit of the FSM National Government, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements which collectively comprise the Company's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of FSM Petroleum Corporation at December 31, 2024 and 2023, and the changes in net position and cash flows thereof 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 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 Financial Statements

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

In preparing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 10 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedules I - IV are presented for the purpose of additional analysis of the financial statements rather than to present the financial position and results of operations of the individual companies and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

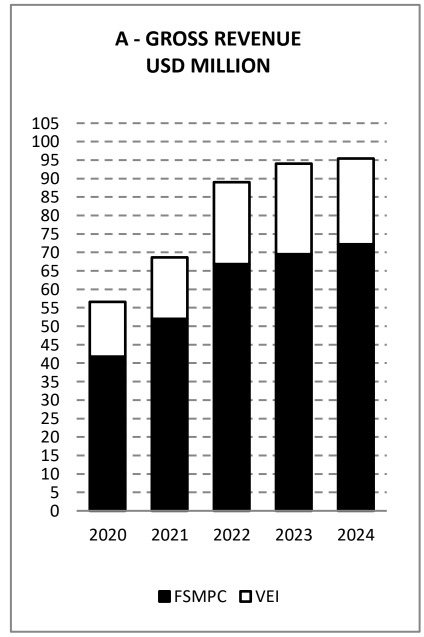
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2026, 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.

Ernst + Young LLP

July 30, 2026

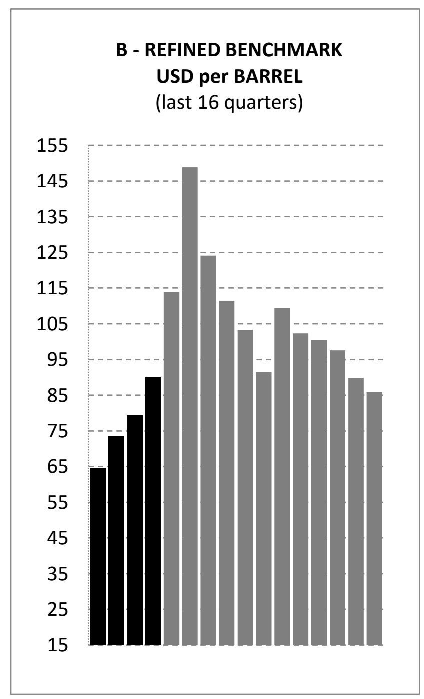
PREFORMANCE OVERVIEW



The Vital Group continued to diversify its business activities during 2024. In addition to its core petroleum operations, the Group now operates a range of complementary business lines under the Vital brand, including the sale of lubricants, electricity generation and energy services, maritime ferry and charter services, and the production and sale of value-added coconut products for both domestic consumption and export markets.

Management continues to pursue growth, efficiency, and value creation across these business lines through targeted operational and commercial initiatives. Finance and accounting services remained centrally managed through the Corporate Office to ensure consistent financial governance, reporting, treasury management, and capital allocation across the Group.

The Company's 2024 financial performance reflects the realities of operating in a geographically dispersed island environment characterized by high logistics costs, limited economies of scale, and dependence on international fuel supply chains. Despite these challenges, the Company maintained continuity of fuel supply and essential energy services throughout the year.

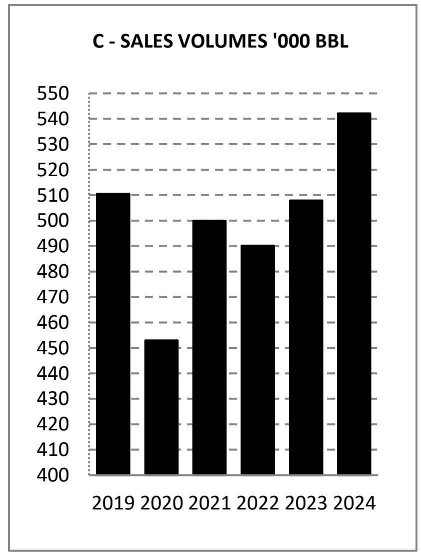


Financial sustainability remains fundamental to the Company's ability to maintain energy security, support critical national infrastructure, and invest in future growth opportunities. In this regard, financial performance is closely linked to the Corporation's broader purpose of supporting resilient communities through the reliable provision of energy and related services.

- **Revenues**

Approximately 95% of Group revenues continue to be derived from petroleum-related activities. Revenue performance is influenced primarily by international refined petroleum product markets and the operation of the Company's approved pricing mechanisms, including the Pricing Policy Framework (PPF), Nauru Pricing Template (NPT), and Energy Pricing Template (EPT). These frameworks provide structured and transparent mechanisms for adjusting prices in response to movements in international fuel prices, freight costs, taxation, foreign exchange movements, and other supply-chain costs.

International fuel prices experienced an overall decline throughout 2024, with the average cost of the Company's three primary fuel products reaching a low of approximately US$82 per barrel in September 2024. Despite lower average fuel prices, total Group revenues increased by approximately US$2 million, from US$94 million to US$96 million, driven principally by a 6% increase in fuel sales volumes equivalent to approximately 34,000 additional barrels sold during the year.



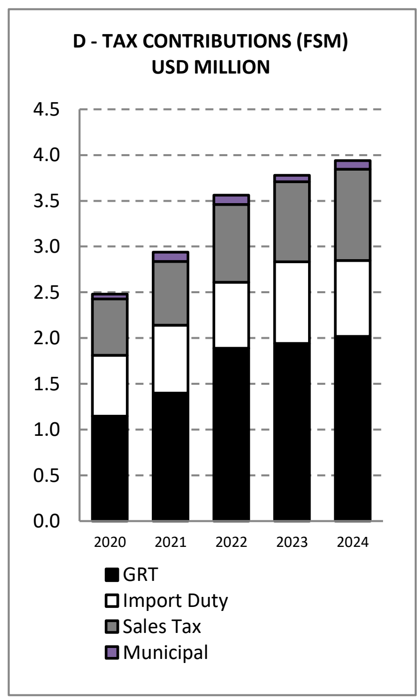
Business unit revenue contributions remained broadly consistent with prior years. Automotive Diesel Oil (ADO) represented approximately 48% of total revenues, followed by Unleaded Petrol (ULP) at 36%, while Home Kerosene (HK) and Jet A-1 collectively accounted for approximately 11%.

As a result of increased sales volumes, the Corporation collected and remitted higher levels of fuel-related taxes and duties during 2024. Total taxes, duties, and other government charges paid within the Federated States of Micronesia exceeded US$3.94 million during the year.

Non-fuel revenues derived from electricity generation, energy services, and coconut-related products represented approximately 3.3% of total Group revenues, compared with 3.4% in 2023. Revenue generated outside the Federated States of Micronesia decreased from approximately 26% of total Group revenues in 2023 to 24% in 2024.

- **Financial Condition**

The Corporation's pricing practices remained unchanged throughout 2024. The Pricing Policy Framework (PPF), Nauru Pricing Template (NPT), and Energy Pricing Template (EPT) continued to support scheduled price adjustments and contractual pricing arrangements for key customer segments, including utilities, airlines, government agencies, and commercial customers.



The easing of global inflationary pressures during 2024 contributed to lower input costs across the fuel supply chain. These conditions enabled the Corporation to further reduce retail fuel prices by approximately US$0.15 per gallon in December 2024.

Prudent financial management, disciplined inventory planning, and effective cash flow management enabled the Corporation to maintain energy security and continuity of supply throughout the year. As a result, the Corporation reported a net position of approximately US$68 million as at 31 December 2024.

The Board and Management continue to evaluate opportunities to improve capital efficiency through strategic partnerships, outsourcing arrangements, equipment leasing, joint ventures, and other alternative delivery models. These initiatives are intended to reduce capital intensity, improve operational flexibility, and allocate risk to parties best positioned to manage it.

The Investment Appraisal Framework adopted by the Board remains in effect and continues to provide a structured decision-making framework for evaluating investments, major projects, and capital allocation decisions.

The following table summarizes the Corporation's consolidated financial position and results of operations as of and for the years ended December 31, 2024, 2023 and 2022.

Assets	**2024**	**2023**	**2022**
Capital assets, net	36,885,664	31,506,648	30,819,573
Lease assets	3,265,342	3,030,998	3,495,488
Time certificates of deposit	6,016,370	401,396	401,396
Cash and cash equivalents	11,888,897	11,548,628	16,333,579
Inventory, net	17,070,153	16,321,127	18,099,137
Investments	8,198,178	13,684,040	7,628,741
Receivables and other assets	10,067,754	8,444,974	6,930,630
Total Assets	**93,392,358**	**84,937,811**	**83,708,544**
Liabilities and Net Position	**2024**	**2023**	**2022**
Current liabilities	19,115,920	12,991,139	14,885,594
Noncurrent liabilities	5,906,302	8,008,772	9,929,495
Total Liabilities	**25,022,222**	**20,999,911**	**24,815,089**
Net investment in capital assets	35,368,649	27,721,813	24,168,714
Unrestricted	33,001,487	36,216,087	34,724,741
Total Net Position	**68,370,136**	**63,937,900**	**58,893,455**
Total Liabilities and Net Position	**93,392,358**	**84,937,811**	**83,708,544**
Operating revenue	95,612,379	93,744,609	88,618,965
Cost of goods sold	(68,088,177)	(67,539,578)	(69,940,904)
Gross Profit	**27,524,202**	**26,205,031**	**18,678,061**
Operating expenses	(22,273,302)	(21,510,813)	(19,743,405)
Nonoperating (expenses) revenue	(818,664)	350,227	(1,807,840)
Change in Net Position	**4,432,236**	**5,044,445**	**(2,873,184)**

Major changes in the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Net Position during 2024 were attributable to the following factors:

1. The Corporation maintained its one-year revolving Line of Credit facility with the Bank of Guam totaling US$11 million. This LoC is one of the core components of the stabilization mechanism used to provide domestic price stability and absorb international price shocks. No short-term borrowings were outstanding at 31 December 2024, reflecting prudent liquidity management and strong operating cash flows to keep this line ready and available for fuel procurement and price stabilization.

2. The Corporation continued to operate under its established ex-ante pricing frameworks throughout 2024. These frameworks are designed to support cost recovery, financial sustainability, and continuity of supply while providing transparency and predictability in pricing outcomes.
3. Inflation in supply chain costs continue to be observed for primary freight, insurance, secondary transportation. Over the last twenty-four months, these costs have demonstrated a sustained increase of approximately $0.20/gallon. (Refer Graph K).

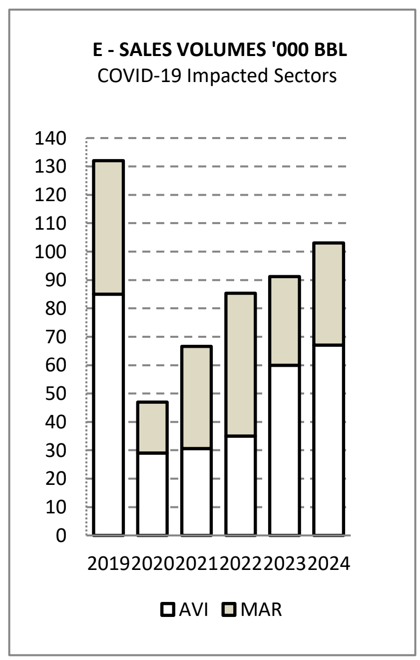
The Board and Management recognize that the Corporation operates within a unique market environment characterized by geographic isolation, fragmented demand across multiple islands, significant infrastructure requirements, and limited economies of scale. These structural factors influence both the cost-of-service delivery and the organization of fuel supply markets throughout the region.

The Corporation's position within the energy sector has developed primarily through long-term investment in fuel storage, logistics, distribution infrastructure, and the capability required to maintain reliable fuel supply to remote and isolated communities. This position reflects the practical requirements of national energy security and continuity of supply rather than a strategy of restricting market participation.

While the Corporation maintains a significant share of fuel supply within its operating markets, pricing outcomes remain substantially influenced by international benchmark fuel prices, freight costs, taxes and duties, inventory replacement costs, foreign exchange movements, and the approved pricing methodologies adopted by the Board. The Corporation's focus remains on maintaining reliable supply, operational efficiency, prudent financial management, and sustainable cost recovery.

The Board and Management further recognize the importance of maintaining public confidence in the governance of strategic energy infrastructure and fuel pricing arrangements. As the Corporation continues to evolve and diversify its energy-related activities, consideration is being given to opportunities to further strengthen transparency, pricing governance, energy security arrangements, and public-interest accountability mechanisms.

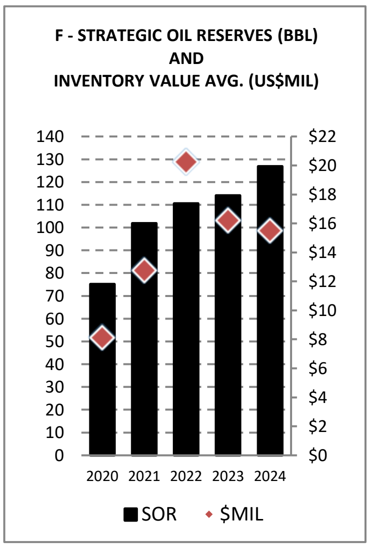
Consistent with the Corporation's role as a strategic state-owned enterprise, future governance developments will seek to balance consumer interests, national energy security objectives, financial sustainability, infrastructure investment requirements, and long-term economic resilience. Any future reforms will be designed to support transparency, accountability, and confidence in the energy sector while preserving the Corporation's ability to maintain reliable fuel and energy supplies throughout the Federated States of Micronesia.

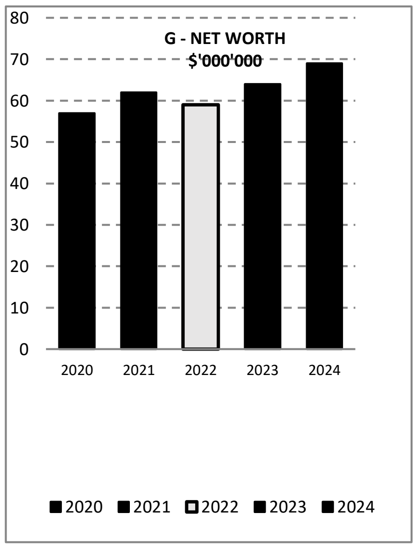


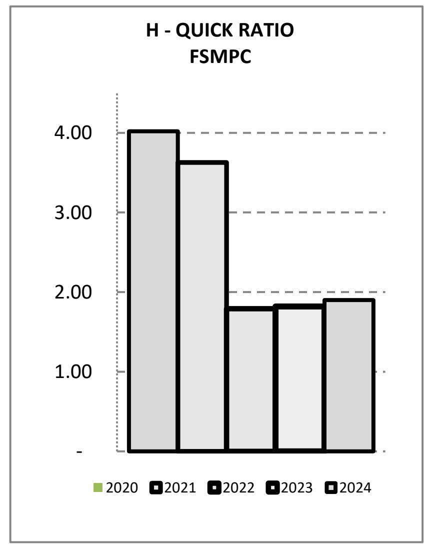
The Corporation remains committed to supporting resilient communities through the provision of secure, affordable, and responsibly managed energy services. Financial sustainability and energy security remain mutually reinforcing objectives that underpin the Corporation's long-term strategy and contribution to national development.

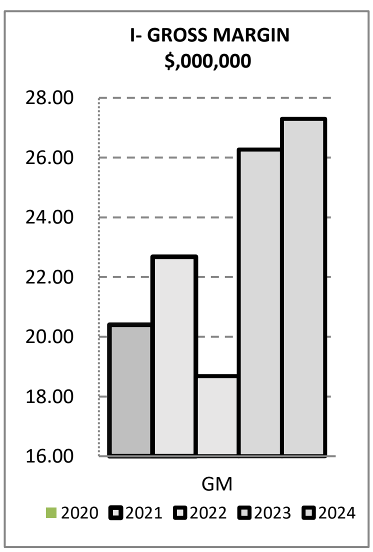
- **Capital Assets and Debt Management**

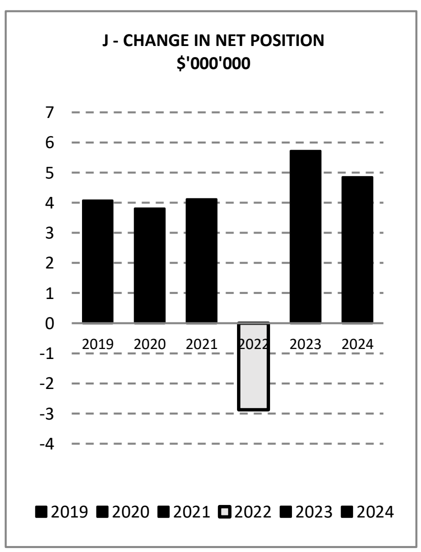
As of December 2024, the Corporation had $37 million invested in capital assets noting an increase of $6 million from 2023. The Corporation's long-term debt decreased from $5.3 million in 2023 to $3.9 million in 2024 (decrease of $1.4 million).

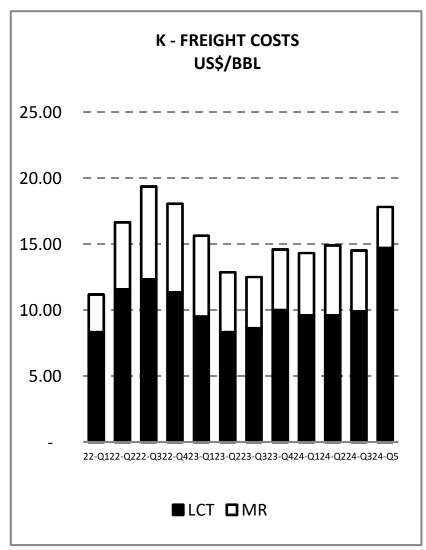












ECONOMIC OUTLOOK

The global economic outlook entering 2025 remains cautiously optimistic, although uncertainty continues to characterize international energy and commodity markets. Inflationary pressures have eased in many advanced economies compared with the highs experienced in recent years, and monetary policy is expected to gradually shift towards lower interest rates as inflation returns towards central bank targets. However, geopolitical tensions, supply chain disruptions, climate-related events, and ongoing volatility in energy markets continue to present material risks to global economic stability.

For the Federated States of Micronesia (FSM), economic performance will continue to be closely linked to government expenditure, external grant funding, tourism recovery, fisheries revenues, and the cost of imported goods and services. As a small island developing state with limited domestic energy resources, FSM remains highly exposed to international petroleum markets, shipping costs, and foreign exchange movements. These factors will continue to influence domestic inflation, electricity generation costs, transportation expenses, and the overall cost of living.

Demand for petroleum products is expected to remain relatively stable over the medium term, underpinned by essential transportation, aviation, maritime, and electricity generation requirements. While global trends towards decarbonization and renewable energy adoption continue to accelerate, petroleum products will remain a critical component of FSM's energy mix for the foreseeable future. Consequently, ensuring reliable fuel supply, maintaining strategic fuel infrastructure, and effectively managing price volatility will remain central to Vital's operational and commercial strategy.

The international shipping sector also continues to evolve in response to environmental regulation, changing trade patterns, and higher operating costs. For geographically isolated nations such as FSM, maintaining resilient supply chains and adequate fuel inventories remain essential to safeguarding national energy security and minimizing the impact of external disruptions.

Looking beyond traditional petroleum operations, the energy sector is undergoing a significant structural transformation. Rapid improvements in renewable energy technologies, battery energy storage systems, and distributed generation are creating new opportunities to diversify energy supply and improve long-term affordability. These developments align closely with Vital's expanded mandate under the Transformation Act 2022, which positions the Corporation to participate in the delivery of integrated energy solutions alongside its traditional petroleum distribution business.

While the transition to a more diversified energy portfolio presents significant opportunities, it also requires careful planning, disciplined capital investment, strong stakeholder collaboration, and prudent risk management. The pace of transition must balance affordability, reliability, energy security, and financial sustainability while ensuring that existing petroleum infrastructure continues to meet the country's essential energy needs.

Against this backdrop, Vital expects 2025 to be characterized by continued market volatility, increasing customer expectations, and a growing emphasis on operational resilience. Management will therefore remain focused on five strategic priorities:

- Maintaining uninterrupted national fuel supply and energy security.
- Strengthening asset integrity, operational reliability, and safety performance.
- Improving cost efficiency and commercial performance across all business lines.
- Accelerating digital transformation and organizational capability.

- Progressing commercially viable renewable and mixed-energy projects that support long-term national energy resilience.

Notwithstanding the external uncertainties facing global energy markets, the Corporation believes it is well positioned to respond to emerging challenges and opportunities. Through disciplined governance, prudent financial management, continued investment in critical infrastructure, and strategic diversification, Vital will continue to support the economic development of the Federated States of Micronesia while creating sustainable long-term value for its shareholders and stakeholders.

MANAGEMENT PERSPECTIVE

The Board and Management recognize that the business environment over the coming years is likely to be more volatile than in previous decades. Success will increasingly depend on the Corporation's ability to anticipate change, manage risk proactively, and adapt its business model while continuing to deliver on its core responsibility of providing safe, reliable, and affordable energy services. Accordingly, Vital will continue to balance the disciplined stewardship of its petroleum assets with strategic investment in the next generation of energy solutions, ensuring the Corporation remains resilient, commercially sustainable, and aligned with the nation's long-term development objectives.

CONTACT

The Management's Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Corporation's operations.

Management's Discussion and Analysis for the year ended December 31, 2023 is set forth in the Corporation's report on the audit of financial statements, which is dated August 5, 2025. That Discussion and Analysis explain the major factors impacting the 2023 financial statements and can be viewed at the Corporation's website at www.vitalenergy.fm or Office of the Public Auditor's website at www.fsmopa.fm.

Questions associated with the above Management's Discussion and Analysis may be sent by post, addressed to Mr. Johnny Adolph, Chief Risk & Compliance 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 Federated States of Micronesia National Government)

Statements of Net Position

	December 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$11,888,897	$11,548,628
Time certificates of deposit	6,016,370	401,396
Trade receivables	3,377,861	3,849,055
Other receivables	2,356,104	265,161
Inventory, net	17,070,153	16,321,127
Prepaid expenses	4,074,372	3,596,128
Investments	8,198,178	13,684,040
Total current assets	52,981,935	49,665,535
Lease assets, net	3,265,342	3,030,998
Other noncurrent assets	259,417	734,630
Capital assets:		
Non depreciable capital assets	17,050,690	10,316,365
Other capital assets, net of accumulated depreciation	19,834,974	21,190,283
Total assets	$93,392,358	$84,937,811
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 2,337,198	$ 1,412,502
Current portion of lease liabilities	205,961	439,479
Accounts payable - fuel	6,182,275	3,715,472
Accounts payable - other	6,143,802	2,761,548
Accrued liabilities and others	4,246,684	4,662,138
Total current liabilities	19,115,920	12,991,139
Lease liabilities	2,641,904	2,361,683
Long-term debt, net of current portion	1,517,015	3,899,706
Due to States and the FSM National Government	1,747,383	1,747,383
Total liabilities	25,022,222	20,999,911
Commitments and contingencies		
Net position:		
Net investment in capital assets	35,368,649	27,721,813
Unrestricted	33,001,487	36,216,087
Total net position	68,370,136	63,937,900
Total liabilities and net position	$93,392,358	$84,937,811

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended December 31, 2024	Year ended December 31, 2023
Operating revenues:		
Sales and service income	$94,680,399	$92,878,668
Other	931,980	865,941
	95,612,379	93,744,609
Cost of goods sold	68,088,177	67,539,578
Gross profit	27,524,202	26,205,031
Operating expenses:		
Salaries and benefits	5,992,554	4,790,641
Depreciation and amortization	2,690,208	3,247,893
Taxes	2,541,540	2,561,593
Repairs and maintenance	2,386,516	3,396,031
Professional fees	1,622,871	1,606,870
Rent	1,306,181	967,650
Insurance	1,177,381	885,803
Staff travel, training and development	1,086,581	872,604
Office supplies	624,899	476,413
Communications	581,401	692,721
Corporate governance, travel and entertainment	517,093	432,835
Contracted services	436,598	431,109
Miscellaneous	428,029	300,656
Fuel	420,345	403,566
Utilities	385,422	346,365
Bank charges	75,683	98,063
Total operating expenses	22,273,302	21,510,813
Operating income	5,250,900	4,694,218
Nonoperating income (expenses), net:		
Foreign exchange losses, net	(1,412,069)	(104,632)
Investment income	1,119,547	1,055,300
Interest expense, net	(526,142)	(600,441)
Total nonoperating (expense) income, net	(818,664)	350,227
Change in net position	4,432,236	5,044,445
Net position at beginning of year	63,937,900	58,893,455
Net position at end of year	$68,370,136	$63,937,900

See accompanying notes.

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Statements of Cash Flows

	Year ended December 31, 2024	Year ended December 31, 2023
Cash flows from operating activities:		
Cash received from customers	$96,083,573	$92,808,220
Cash paid to suppliers for goods and services	(80,500,183)	(82,311,929)
Cash paid to employees for services	(5,992,554)	(4,790,641)
Net cash provided by operating activities	9,590,836	5,705,650
Cash flows from capital and related financing activities:		
Interest paid on long-term debt	(567,611)	(635,441)
Repayment of long-term debt	(1,457,995)	(1,338,651)
Acquisition of capital assets	(8,256,865)	(3,551,509)
Net cash used in capital and related financing activities	(10,282,471)	(5,525,601)
Cash flows from investing activities:		
Increase in time certificates of deposit	(5,614,974)	---
Sales (purchases) of investments, net	6,605,408	(5,000,000)
Interest received on investments and bank accounts	41,470	35,000
Net cash provided by (used in) investing activities	1,031,904	(4,965,000)
Net change in cash and cash equivalents	340,269	(4,784,951)
Cash and cash equivalents at beginning of year	11,548,628	16,333,579
Cash and cash equivalents at end of year	$11,888,897	$11,548,628

See accompanying notes.

Statements of Cash Flows, continued

	Year ended December 31, 2024	Year ended December 31, 2023
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	$5,250,900	$4,694,218
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,690,208	3,247,893
Foreign exchange losses	(1,412,069)	(104,632)
(Increase) decrease in assets		
Trade receivables	471,194	(936,389)
Other receivables	(2,090,943)	41,457
Inventory and related deposit with supplier	(749,026)	1,778,010
Prepaid expenses	(478,244)	(594,875)
Other assets	475,213	(24,537)
Decrease in liabilities:		
Accounts payable	5,849,057	(2,302,882)
Accrued liabilities and others	(415,454)	(92,613)
Net cash provided by operating activities	$9,590,836	$5,705,650

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 signed into law on September 11, 2007, for the purpose of 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.

Vital Energy, Inc. (VEI) was incorporated on February 10, 2012 in Guam for the purpose of carrying on the importation and sale of petroleum products, and the 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, 2024 and 2023. VEI is presented as a blended component unit of FSMPC as 1) their governing bodies are substantively the same, 2) there is a financial benefit or burden relationship between the primary government (FSMPC) and the component unit (VEI), and 3) management of the primary government has operational responsibility for the component unit.

The financial statements include the accounts of FSMPC and its blended component unit VEI. All significant intercompany transactions and balances have been eliminated.

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

2. Summary of Significant Accounting Policies

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 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.

2. Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

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 include the cost of sales and services, administrative expenses, and depreciation of 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.

Accounting 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.

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.

For purposes of the statements of net position and 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, 2024 and 2023, total carrying amounts of USD denominated cash and cash equivalents and time certificates of deposit were $13,238,406 and $8,135,242, respectively, and the corresponding bank balances were $14,114,247 and $8,959,211, respectively, which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2024 and 2023, bank deposits in the amount of $500,000 were subject to FDIC insurance. Bank balances in excess of FDIC insurance are not collateralized.

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Additionally, as of December 31, 2024 and 2023, 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 $4,666,861 and $3,814,782, 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, 2024 and 2023, bank deposits of approximately $155,000 and $170,000, respectively, were subject to FCS guarantee. Balances in excess of FCS guarantee are not collateralized.

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.

Accounts Receivable

Accounts receivables 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 was recorded as of December 31, 2024 and 2023.

Inventory

Fuel inventories and materials and supplies inventory on hand are substantially stated at the lower of cost (moving average cost) or net realizable value. Inventory in transit is recorded at invoiced cost.

An allowance for inventory obsolescence is provided for inventory items with no movement or determined to be potentially unusable.

Prepaid Expenses

Advance payments relating to goods and services not yet received are recorded as prepaid expenses.

2. Summary of Significant Accounting Policies, continued

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

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 returns 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 25% of taxable income effective 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 statement of revenues, expenses and changes in net position. No income tax expense was recognized for 2024 and 2023 due to the recognition of FTC.

For VEI’s income tax returns in 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, 2024 and 2023, the majority of VEI’s deferred income tax assets relate to FTC carryovers of approximately $102,000 and $19,000 expiring through 2029 and 2030, respectively, and are included as a component of other noncurrent assets in the accompanying statements of net position.

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Company's revenues are derived mainly from sales 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. Other income, mainly representing plane fees and other delivery and service fees, is billed and accrued upon sale of related fuel.

Recently Adopted Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. The provisions of GASB Statement No. 99 that were effective for the year ended December 31, 2024 are related to:

- Modification of guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures.

- Guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The implementation of the aforementioned provisions of GASB Statement No. 99 during the year ended December 31, 2024 did not have an effect on the accompanying financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. The implementation of GASB Statement No. 100 during the year ended December 31, 2024 did not have a material effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement results in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and eliminates potential comparability issues between governments that offer different types of leave.

The model also results in a more robust estimate of the amount of compensated absences that a government will pay or settle, which enhances the relevance and reliability of information about the liability for compensated absences. The implementation of GASB Statement No. 101 during the year ended December 31, 2024 did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending December 31, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending December 31, 2026.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.

A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal year ending December 31, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. GASB Statement No. 105 will be effective for fiscal year ending December 31, 2027.

Management is currently evaluating the effects the above upcoming accounting pronouncements might have on the financial statements.

3. Investments

As of December 31, 2024 and 2023, investments at fair value are as follows:

	2024	2023
Fixed income securities:		
Domestic fixed income	$3,835,172	$ 7,331,655
Other investments:		
Common equities	3,059,607	2,477,358
Exchange traded funds	1,303,399	1,066,776
Money market funds	---	2,808,251
	4,363,006	6,352,385
	$8,198,178	$13,684,040

As of December 31, 2024 and 2023, the Company's fixed income securities had the following maturities:

2024

Investment Type	Fair value	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
U.S. treasury securities	$2,236,576	$ ---	$1,602,841	$521,986	$111,749
Corporate bonds	1,598,596	---	1,108,460	446,608	43,528
	$3,835,172	$ ---	$2,711,301	$968,594	$155,277

2023

Investment Type	Fair value	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
U.S. treasury securities	$1,590,130	$ ---	$ 787,457	$ 732,492	$ 70,181
Corporate bonds	2,200,818	74,530	1,359,484	642,462	124,342
Certificate of deposits	3,540,707	3,540,707	---	---	---
	$7,331,655	$3,615,237	$2,146,941	$1,374,954	$194,523

The Company's exposure to credit risk as of December 31, 2024 and 2023, were as follows:

Moody's Rating	2024	2023
AAA	$2,257,498	$2,224,030
A1	375,289	437,554
A2	116,871	140,629
A3	92,613	140,934
BAA1	519,944	261,423
BAA2	353,719	563,117
BAA3	119,238	23,261
Not rated	---	3,540,707
	$3,835,172	$7,331,655

3. Investments, continued

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.

The Company has the following recurring fair value measurements as of December 31, 2024 and 2023:

		Fair Value Measurements Using		
	December 31, 2024	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	$3,835,172	$2,236,576	$1,598,596	$---
Equity securities	3,059,607	3,059,607	---	---
Exchange-traded funds	1,303,399	1,303,399	---	---
Total investments by fair value level	$8,198,178	$6,599,582	$1,598,596	$---

		Fair Value Measurements Using		
	December 31, 2023	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	$ 7,331,655	$ ---	$7,331,655	$---
Equity securities	2,477,358	2,477,358	---	---
Exchange-traded funds	1,066,776	1,066,776	---	---
Total investments by fair value level	10,875,789	$3,544,134	$7,331,655	$---
Investments measured at amortized cost:				
Money market funds	2,808,251			
	$13,684,040			

4. Inventory

At December 31, 2024 and 2023, inventory consists of the following:

	2024	2023
Inventory on hand:		
Fuel	$14,231,765	$13,767,280
Engineering parts	1,404,188	1,366,360
Lubricants	398,646	376,057
Chemicals	25,792	26,135
Others	1,060,349	835,882
	17,120,740	16,371,714
Less allowance for obsolescence	(50,587)	(50,587)
	$17,070,153	$16,321,127

5. Capital Assets

Capital asset activities for the years ended December 31, 2024 and 2023 are as follows:

	Balance at January 1, 2024	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2024
Buildings	$ 2,851,472	$ 5,233	$ ---	$ 2,856,705
Leasehold improvements	26,191	---	---	26,191
Motor vehicles	3,519,140	123,895	(298,634)	3,344,401
Plant and equipment	26,202,809	617,927	(2,000)	26,818,736
Furniture and fixtures	668,379	37,198	(17,088)	688,489
Office equipment	9,057,215	16,531	(70,585)	9,003,161
Machinery and equipment	3,618,480	44,146	(26,944)	3,635,682
Boats and vessels	2,325,199	16,236	---	2,341,435
	48,268,885	861,166	(415,251)	48,714,800
Less accumulated depreciation	(27,078,602)	(2,144,309)	343,085	(28,879,826)
	21,190,283	(1,283,143)	(72,166)	19,834,974
Construction-in-progress	10,316,365	7,468,235	(733,910)	17,050,690
	$31,506,648	$6,185,092	$(806,076)	$36,885,664
Lease assets, net	$ 3,030,998	$ 234,344	$ ---	$ 3,265,342

5. Capital Assets, continued

	Balance at January 1, 2023	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2023
Buildings	$ 2,713,294	$ 138,178	$ ---	$ 2,851,472
Leasehold improvements	26,191	---	---	26,191
Motor vehicles	2,170,287	1,348,853	---	3,519,140
Plant and equipment	23,994,199	2,208,610	---	26,202,809
Furniture and fixtures	576,389	91,990	---	668,379
Office equipment	8,614,879	443,236	(900)	9,057,215
Machinery and equipment	3,498,086	120,394	---	3,618,480
Boats and vessels	2,278,895	46,304	---	2,325,199
	43,872,220	4,397,565	(900)	48,268,885
Less accumulated depreciation	(24,296,076)	(2,783,403)	877	(27,078,602)
	19,576,144	1,614,162	(23)	21,190,283
Construction-in-progress	11,243,429	3,233,531	(4,160,595)	10,316,365
	$30,819,573	$4,847,693	$(4,160,618)	$31,506,648
Lease assets, net	$ 3,495,488	$ ---	$(464,490)	$ 3,030,998

6. 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.

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, 2024 and 2023, FSMPC recognized a liability to the States and the FSMNG of $1,247,383.

6. Due to States and the FSM National Government, continued

As of December 31, 2024 and 2023, the remaining $500,000 represents a non-interest bearing advance payable to the FSMNG. There are 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, 2026.

7. Short-Term Borrowings

As of December 31, 2024 and 2023, the Company maintained standby letters of credit (LC) totaling $7.4 million, comprising $3.0 million in favor of Mobil Oil Guam, Inc. in relation to its fuel purchase agreement with a maturity date of September 13, 2025 and $4.4 million in favor of T&I Global Limited as its coconut production facility contractor with a maturity date of March 31, 2025.

In addition, the Company has a bank line of credit (LOC) facility of $11 million for working capital and support LCs. The facility will mature on January 2, 2027.

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, 2024 and 2023.

8. Long-term Debt

Long-term debt consists of the following as of December 31, 2024 and 2023:

	2024	2023
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 9.25% as of December 31, 2023) 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.	$2,086,711	$2,643,938

8. Long-term Debt, continued

	2024	2023
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. This loan was fully paid on December 24, 2024.	---	668,985
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 8.5% as of December 31, 2023) 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.	1,767,502	1,999,285
Total long-term debt	3,854,213	5,312,208
Less current portion	2,337,198	1,412,502
	$1,517,015	$3,899,706

As of December 31, 2024, future minimum loan repayments are as follows:

Year ending December 31,	Principal	Interest	Total
2025	$2,337,198	$216,620	$2,553,818
2026	625,482	116,894	742,376
2027	891,533	55,645	947,178
	$3,854,213	$389,159	$4,243,372

8. Long-term Debt, Continued

Loan 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 security of 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 of default, the lenders reserve the right to accelerate the loan maturities in order to protect their interest or demand immediate settlement. The lender's 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, 2024 and 2023, and no event of default has been declared by the lenders.

Changes in long-term debt for the years ended December 31, 2024 and 2023 are as follows:

Balance at	Balance at January 1 2024	Additions	Repayments	December 31 2024	Due Within One Year
Long-term debt	$5,312,208	$ ---	$(1,457,995)	$3,854,213	$2,337,198

	Balance at January 1 2023	Additions	Repayments	Balance at December 31 2023	Due Within One Year
Long-term debt	$6,650,859	$ ---	$(1,338,651)	$5,312,208	$1,412,502

9. Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for the years ended December 31, 2024 and 2023 are as follows:

	Balance at January 1 2024	Additions	Repayments	Balance at December 31 2024	Due Within One Year
Due to States and the FSM National Government	$1,747,383	$ ---	$ ---	$1,747,383	$ ---
Lease liabilities	2,801,162	46,703	---	2,847,865	205,961
	$4,548,545	$46,703	$ ---	$4,595,248	$205,961

	Balance at January 1 2023	Additions	Repayments	Balance at December 31 2023	Due Within One Year
Due to States and the FSM National Government	$1,747,383	$ ---	$ ---	$1,747,383	$ ---
Lease liabilities	2,882,194	---	(81,032)	2,801,162	439,479
Other noncurrent liability	165,097	---	(165,097)	---	---
	$4,794,674	$ ---	$(246,129)	$4,548,545	$439,479

10. 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.

11. Concentration Risk

The Company's revenue from three major customers approximated 25% of the Company's revenues for the years ended December 31, 2024 and 2023. Receivables from the three major customers totaled $1,945,030 and $2,072,023, respectively, as of December 31, 2024 and 2023, 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 2024 and 2023. VEI purchases fuel under a Fuel Supply Contract which expires on October 31, 2026.

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.

Virtually all of VEI's revenues, approximately $23,318,200 and $24,331,000, respectively, are earned in connection with the New Agreement for the years ended December 31, 2024 and 2023.

The Agreement and the New Agreement allow VEI to charge prices based on Nauru Price Template (NPT). For the years ended December 31, 2024 and 2023, Vital recorded fuel sales of $22.7 million and $23.6 million, respectively.

At December 31, 2024, other receivable includes $1,247,198 due from the GON for facilities improvement costs advanced by the Company, which was subsequently collected in August 2025.

12. 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, 2024 and 2023 were $285,149 and $245,824, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Company. As of December 31, 2024 and 2023, plan assets were $4,134,491 and $3,888,270, respectively.

13. 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 Coconut Development Unit 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, 2024 and 2023 lease assets are as follows:

2024

Lease Description	Classification	Gross Balance	Accumulated Amortization	Net Balance
Land leases - project site	Land	$1,942,362	$ 362,190	$1,580,172
Land leases - facilities	Land and Building	1,052,779	144,892	907,887
Land leases - bulk plant	Land and Building	1,097,319	320,036	777,283
		$4,092,460	$827,118	$3,265,342

2023

Lease Description	Classification	Gross Balance	Accumulated Amortization	Net Balance
Land leases - project site	Land	$1,942,362	$ 213,739	$1,728,623
Land leases - facilities	Land and Building	1,052,779	313,406	739,373
Land leases - bulk plant	Land and Building	1,097,319	534,317	563,002
		$4,092,460	$1,061,462	$3,030,998

13. Leases, continued

The future lease payments for this transaction are as follows:

Year ending December 31,	Principal	Interest	Total
2025	$ 205,961	$ 181,087	$ 387,048
2026	217,484	164,040	381,524
2027	259,162	144,762	403,924
2028	246,226	125,298	371,524
2029	134,119	108,828	242,947
2030 through 2034	849,320	351,040	1,200,360
2035 through 2038	935,593	45,346	980,939
	$2,847,865	$1,120,401	$3,968,266

In connection with VEI's exclusive right to access, use and occupy the GON bulk fuel facilities, rental fee is waived and replaced by land use levy built on NPT effective January 2022 through the expiration of the new agreement in December 2026.

14. Commitments and Contingencies

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 financial statements.

15. 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 $19.03 million and $18.4 million were generated from the four utility companies for the years ended December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, FSMPC has total receivables of $2.2 million and $1.7 million, respectively, due from the four utility companies. In addition, as of December 31, 2024 and 2023, FSMPC has accrued liabilities in the form of letters of credit to PUC and CPUC totaling $1,613,556 and $1,037,343, respectively, in connection with fuel purchases price variances, which are included as a component of accrued liabilities and others in the accompanying statements of net position.

15. Related Parties, continued

As of December 31, 2024 and 2023, trade receivables include balances due from the components of FSM National and State Governments totaling $449,722 and $395,418, respectively.

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 $2.9 million and $3.2 million for the years ended December 31, 2024 and 2023, respectively.

16. Subsequent events

Subsequent to December 31, 2024, the Company renewed standby letters of credit (LC) totaling $7.4 million, comprising of $3.0 million in favor of Mobil Oil Guam, Inc. in relation to its fuel purchase agreement and $4.4 million in favor of T&I Global Limited as its coconut production facility contractor with a maturity date of September 13, 2026 and December 30, 2026, respectively.

17. Condensed Financial Information

The condensed financial information as of and for the year ended December 31, 2024 are as follows:

Condensed Statement of Net position:

	FSMPC	VEI	Elimination	Total Condensed
Assets:				
Current assets	$36,549,289	$16,432,646	$ ---	$52,981,935
Receivable from component unit	8,076,428	---	(8,076,428)	---
Other non-current assets	138,417	121,000	---	259,417
Capital assets and leased assets, net	40,041,625	109,381	---	40,151,006
Total assets	$84,805,759	$16,663,027	$(8,076,428)	$93,392,358
Liabilities:				
Current liabilities	$14,032,892	$ 9,121,242	$(4,038,214)	$19,115,920
Due to primary government	1,747,383	---	---	1,747,383
Due to other FSM government entities	---	4,038,214	(4,038,214)	---
Non-current liabilities	4,158,919	---	---	4,158,919
Total liabilities	19,939,194	13,159,456	(8,076,428)	25,022,222

17. Condensed Financial Information, continued

Condensed Statement of Net position, continued:

	FSMPC	VEI	Elimination	Total Condensed
Net Position:				
Net investment in capital assets	35,259,268	109,381	---	35,368,649
Unrestricted	29,607,297	3,394,190	---	33,001,487
Total net position	64,866,565	3,503,571	---	68,370,136
	$84,805,759	$16,663,027	$(8,076,428)	$93,392,358

Condensed Statement of Revenues, Expenses and Changes in Net Position:

	FSMPC	VEI	Elimination	Total Condensed
Operating revenues:				
Sales and service income	$71,983,160	$22,697,239	$ ---	$94,680,399
Other operating revenue	736,120	620,975	(425,115)	931,980
	72,719,280	23,318,214	(425,115)	95,612,379
Cost of goods sold	48,640,207	19,447,970	---	68,088,177
Gross profit	24,079,073	3,870,244	(425,115)	27,524,202
Operating expenses:				
Depreciation and amortization	2,649,165	41,043	---	2,690,208
Other operating expenses	16,999,988	3,008,221	(425,115)	19,583,094
	19,649,153	3,049,264	(425,115)	22,273,302
Operating income	4,429,920	820,980	---	5,250,900
Non-operating income (expenses):				
Interest and investments	593,405	---	---	593,405
Foreign exchange	---	(1,412,069)	---	(1,412,069)
	593,405	(1,412,069)	---	(818,664)
Change in net position	5,023,325	(591,089)	---	4,432,236
Net position at beginning of year	59,843,240	4,094,660	---	63,937,900
Net position at end of year	$64,866,565	$3,503,571	$ ---	$68,370,136

17. Condensed Financial Information, continued

Condensed Statement of Cash flows:

	FSMPC	VEI	Elimination	Total Condensed
Net cash provided by (used in):				
Operating activities	$ 8,148,583	$1,442,253	$ ---	$ 9,590,836
Capital and related financing activities	(10,282,471)	---	---	(10,282,471)
Investing activities	1,031,904	---	---	1,031,904
Net (decrease) increase in cash	(1,101,984)	1,442,253	---	340,269
Cash and cash equivalents at beginning of year	7,036,755	4,511,873	---	11,548,628
Cash and cash equivalents at end of year	$ 5,934,771	$5,954,126	$ ---	$11,888,897

The condensed financial information as of and for the year ended December 31, 2023 are as follows:

Condensed Statement of Net position:

	FSMPC	VEI	Elimination	Total Condensed
Assets:				
Current assets	$36,115,741	$13,549,794	$ ---	$49,665,535
Receivable from component unit	8,051,944	---	(8,051,944)	---
Other non-current assets	613,630	121,000	---	734,630
Capital assets and leased assets, net	34,387,222	150,424	---	34,537,646
Total assets	$79,168,537	$13,821,218	$(8,051,944)	$84,937,811
Liabilities:				
Current liabilities	$11,316,525	$ 4,358,595	$(2,683,981)	$12,991,139
Due to primary government	---	5,367,963	(5,367,963)	---
Due to other FSM government entities	1,747,383	---	---	1,747,383
Non-current liabilities	6,261,389	---	---	6,261,389
Total liabilities	19,325,297	9,726,558	(8,051,944)	20,999,911
Net Position:				
Net investment in capital assets	27,571,389	150,424	---	27,721,813
Unrestricted	32,271,851	3,944,236	---	36,216,087
Total net position	59,843,240	4,094,660	(---)	63,937,900
	$79,168,537	$13,821,218	$(8,051,944)	$84,937,811

17. Condensed Financial Information, continued

Condensed Statement of Change in Net position:

	FSMPC	VEI	Elimination	Total Condensed
Operating revenues:				
Sales and service income	$69,257,888	$23,620,780	$ ---	$92,878,668
Other operating revenue	621,983	709,881	(465,923)	865,941
	69,879,871	24,330,661	(465,923)	93,744,609
Cost of goods sold	46,887,491	20,652,087	(---)	67,539,578
Gross profit	22,992,380	3,678,574	(465,923)	26,205,031
Operating expenses:				
Depreciation and amortization	3,199,693	48,200	---	3,247,893
Other operating expenses	16,216,779	2,512,064	(465,923)	18,262,920
	19,416,472	2,560,264	(465,923)	21,510,813
Operating income	3,575,908	1,118,310	---	4,694,218
Non-operating income (expenses):				
Interest and investments	454,859	---	---	454,859
Foreign exchange	---	(104,632)	---	(104,632)
	454,859	(104,632)	---	350,227
Change in net position	4,030,767	1,013,678	---	5,044,445
Net position at beginning of year	55,812,473	3,080,982	---	58,893,455
Net position at end of year	$59,843,240	$4,094,660	$ ---	$63,937,900

Condensed Statement of Cash flows:

	FSMPC	VEI	Elimination	Total Condensed
Net cash provided by (used in):				
Operating activities	$ 3,778,244	$1,927,406	$ ---	$ 5,705,650
Capital and related financing activities	(5,525,601)	---	---	(5,525,601)
Investing activities	(4,887,337)	(77,663)	---	(4,965,000)
Net (decrease) increase in cash	(6,634,694)	1,849,743	---	(4,784,951)
Cash and cash equivalents at beginning of year	13,671,449	2,662,130	---	16,333,579
Cash and cash equivalents at end of year	$ 7,036,755	$4,511,873	$ ---	$11,548,628

Supplementary Information

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Combining Statement of Net Position

December 31, 2024

Assets	FSMPC	Vital	Eliminations	Consolidated
Cash and cash equivalents	$ 5,934,771	$ 5,954,126	$ ---	$ 11,888,897
Time certificate of deposits	5,614,974	401,396	---	6,016,370
Trade receivables	3,109,521	268,340	---	3,377,861
Other receivables	1,062,606	1,293,498	---	2,356,104
Inventory, net	9,339,294	7,730,859	---	17,070,153
Prepaid expenses and other assets	3,289,945	784,427	---	4,074,372
Investments	8,198,178	---	---	8,198,178
Total current assets	36,549,289	16,432,646	---	52,981,935
Due from related parties and employee, net of current portion	8,076,428	---	(8,076,428)	---
Lease assets	3,265,342	---	---	3,265,342
Other assets	138,417	121,000	---	259,417
Property and equipment, net	19,725,593	109,381	---	19,834,974
Nondepreciable capital assets	17,050,690	---	---	17,050,690
Total assets	$ 84,805,759	$ 16,663,027	$ (8,076,428)	$ 93,392,358
Liabilities				
Current portion of long-term debt	$ 2,337,198	$ ---	$ ---	$ 2,337,198
Current portion of lease liabilities	205,961	---	---	205,961
Accounts payable - fuel	6,182,275	---	---	6,182,275
Accounts payable - others	1,804,971	4,338,831	---	6,143,802
Accrued liabilities and others	3,502,487	744,197	---	4,246,684
Due to related parties	---	4,038,214	(4,038,214)	---
Total current liabilities	14,032,892	9,121,242	(4,038,214)	19,115,920
Lease liabilities	2,641,904	---	---	2,641,904
Long-term debt, net of current portion	1,517,015	---	---	1,517,015
Due to related parties, net of current portion	---	4,038,214	(4,038,214)	---
Due to states and primary government	1,747,383	---	---	1,747,383
Total liabilities	19,939,194	13,159,456	(8,076,428)	25,022,222
Net position:				
Net investment in capital assets	35,259,268	109,381	---	35,368,649
Unrestricted	29,607,297	3,394,190	---	33,001,487
Total net position	64,866,565	3,503,571	---	68,370,136
	$ 84,805,759	$ 16,663,027	$ (8,076,428)	$ 93,392,358

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Combining Statement of Net Position

December 31, 2023

	FSMPC	VEI	Eliminations	Total
Assets				
Cash and cash equivalents	$ 7,036,755	$ 4,511,873	$ ---	$ 11,548,628
Time certificate of deposit	---	401,396	---	401,396
Trade receivables	2,946,938	902,117	---	3,849,055
Due from component unit	---	---	---	---
Other receivables	265,161	---	---	265,161
Inventory, net	9,817,023	6,504,104	---	16,321,127
Prepaid expenses and other assets	2,365,824	1,230,304	---	3,596,128
Investments	13,684,040	---	---	13,684,040
Total current assets	36,115,741	13,549,794	---	49,665,535
Due from related parties and employee, net of current portion	8,051,944	---	(8,051,944)	---
Lease assets	3,030,998	---	---	3,030,998
Other noncurrent asset	613,630	121,000	---	734,630
Other capital assets, net of accumulated depreciation	21,039,859	150,424	---	21,190,283
Nondepreciable capital assets	10,316,365	---	---	10,316,365
Total assets	$ 79,168,537	$ 13,821,218	$ (8,051,944)	$ 84,937,811
Liabilities				
Current portion of long-term debt	$ 1,412,502	$ ---	$ ---	$ 1,412,502
Current portion of lease liabilities	439,479	---	---	439,479
Accounts payable - fuel	3,715,472	---	---	3,715,472
Accounts payable - others	2,338,493	423,055	---	2,761,548
Accrued liabilities and others	3,410,579	1,251,559	---	4,662,138
Due to related parties	---	2,683,981	(2,683,981)	---
Total current liabilities	11,316,525	4,358,595	(2,683,981)	12,991,139
Lease liabilities	2,361,683	---	---	2,361,683
Long-term debt, net of current portion	3,899,706	---	---	3,899,706
Due to related parties, net of current portion	---	5,367,963	(5,367,963)	---
Due to states and primary government	1,747,383	---	---	1,747,383
Total liabilities	19,325,297	9,726,558	(8,051,944)	20,999,911
Net position:				
Net investment in capital assets	27,571,389	150,424	---	27,721,813
Unrestricted	32,271,851	3,944,236	---	36,216,087
Total net position	59,843,240	4,094,660	---	63,937,900
	$ 79,168,537	$ 13,821,218	$ (8,051,944)	$ 84,937,811

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended December 31, 2024

	FSMPC	Vital	Eliminations	Consolidated
Operating revenue:				
Sales and service income	$ 71,983,160	$ 22,697,239	$ ---	$ 94,680,399
Other	736,120	620,975	(425,115)	931,980
	72,719,280	23,318,214	(425,115)	95,612,379
Cost of goods sold	48,640,207	19,447,970	---	68,088,177
Gross profit	24,079,073	3,870,244	(425,115)	27,524,202
Operating expenses:				
Taxes	2,018,120	523,420	---	2,541,540
Salaries and benefits	5,604,468	388,086	---	5,992,554
Depreciation and amortization	2,649,165	41,043	---	2,690,208
Staff travel, training and development	1,074,177	12,404	---	1,086,581
Rent	1,148,350	157,831	---	1,306,181
Insurance	584,644	592,737	---	1,177,381
Professional fees	1,399,461	223,410	---	1,622,871
Contracted services	317,386	119,212	---	436,598
Repairs and maintenance	2,294,241	92,275	---	2,386,516
Utilities	344,231	41,191	---	385,422
Communications	513,648	67,753	---	581,401
Office supplies	558,756	66,143	---	624,899
Corporate governance, travel and entertainment	393,110	123,983	---	517,093
Fuel	392,844	27,501	---	420,345
Bank charges	58,006	17,677	---	75,683
Miscellaneous	298,546	129,483	---	428,029
Corporate office shared services	---	425,115	(425,115)	---
Total operating expenses	19,649,153	3,049,264	(425,115)	22,273,302
Operating income	4,429,920	820,980	---	5,250,900
Nonoperating (expenses) revenues:				
Grants and subsidies	---	---	---	---
Foreign exchange	---	(1,412,069)	---	(1,412,069)
Investment (loss) income	1,119,547	---	---	1,119,547
Other income	---	---	---	---
Interest expense, net	(526,142)	---	---	(526,142)
Total nonoperating (expenses) revenues, net	593,405	(1,412,069)	---	(818,664)
Change in net position	5,023,325	(591,089)	---	4,432,236
Net position at beginning of year	59,843,240	4,094,660	---	63,937,900
Net position at end of year	$ 64,866,565	$ 3,503,571	$ ---	$ 68,370,136

Federated States of Micronesia Petroleum Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended December 31, 2023

	FSMPC	VEI	Eliminations	Total
Operating revenue:				
Sales and service income	$ 69,257,888	$ 23,620,780	$ ---	$ 92,878,668
Other	621,983	709,881	(465,923)	865,941
	69,879,871	24,330,661	(465,923)	93,744,609
Cost of goods sold	46,887,491	20,652,087	---	67,539,578
Gross profit	22,992,380	3,678,574	(465,923)	26,205,031
Operating expenses:				
Salaries and benefits	4,492,693	297,948	---	4,790,641
Repairs and maintenance	3,268,170	127,861	---	3,396,031
Depreciation and amortization	3,199,693	48,200	---	3,247,893
Taxes	1,953,336	608,257	---	2,561,593
Professional fees	1,482,728	124,142	---	1,606,870
Rent	824,874	142,776	---	967,650
Insurance	554,733	331,070	---	885,803
Staff travel, training and development	869,045	3,559	---	872,604
Communications	617,195	75,526	---	692,721
Office supplies	452,018	24,395	---	476,413
Corporate governance, travel and entertainment	363,761	69,074	---	432,835
Contracted services	343,273	87,836	---	431,109
Fuel	358,227	45,339	---	403,566
Utilities	302,519	43,846	---	346,365
Miscellaneous	250,136	50,520	---	300,656
Bank charges	84,071	13,992	---	98,063
Corporate office shared services	---	465,923	(465,923)	---
Total operating expenses	19,416,472	2,560,264	(465,923)	21,510,813
Operating income	3,575,908	1,118,310	---	4,694,218
Nonoperating (expenses) revenues:				
Grants and subsidies	---	---	---	-
Foreign exchange	---	(104,632)	---	(104,632)
Investment gain	1,055,300	---	---	1,055,300
Other income	---	---	---	-
Interest expense, net	(600,441)	---	---	600,441
Total nonoperating revenues (expense), net	454,859	(104,632)	---	350,227
Change in net position	4,030,767	1,013,678	---	5,044,445
Net position at beginning of year	55,812,473	3,080,982	---	58,893,455
Net position at end of year	$ 59,843,240	$ 4,094,660	$ ---	$ 63,937,900

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Report of Independent Auditors 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, 2024, and the related statement of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2026.

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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2024-001, that we consider to be a significant deficiency.

Report on 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 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*.

The Company's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Company's responses to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Ernst + Young LLP

July 30, 2026

Schedule of Findings and Responses

Finding No. 2024-001 – Construction-in-Progress (CIP)

Criteria: The Company should maintain complete, accurate, and updated CIP records and perform timely reconciliations to ensure CIP balances are properly supported, accurately reported and readily available for financial reporting and audit purposes.

Condition: During the audit, we noted that the Company's CIP schedules were not prepared, reconciled and maintained on a timely basis. Specifically, the Coconut Development Unit and CORP CIP schedules as of December 31, 2024 were not finalized and provided to the audit team until July 15, 2026. The absence of timely and complete CIP schedules significantly delayed the performance and completion of audit procedures related to CIP balances.

Cause: This condition was attributable to inadequate controls and oversight over the preparation, reconciliation, and review of CIP schedules and related project activities.

Effect: The lack of timely preparation and reconciliation of CIP schedules increases the risk that errors, omissions, unsupported expenditures, or other inaccuracies in CIP balances may not be identified and corrected on a timely basis. Furthermore, the delayed availability of CIP records contributed to delays in the completion of audit procedures and the issuance of the audited financial statements.

Recommendation: We recommend that management strengthen its controls over the monitoring and reporting of CIP activities by implementing procedures to ensure CIP schedules are prepared, reviewed, and reconciled on a timely basis. Management should also establish periodic review processes to identify and resolve discrepancies promptly, maintain adequate supporting documentation for all CIP activities, and ensure completed projects are transferred to the appropriate fixed asset accounts in a timely manner. This will help promote the accuracy and completeness of CIP balances and facilitate timely financial reporting and audit completion.

Auditee Response and Corrective Action Plan: Management concurs with the finding and will strengthen the oversight and monitoring of CIP controls by incorporating CIP review procedures into the monthly, quarterly, and year end closing checklists used by the finance and accounting team. These checklist procedures will ensure that CIP schedules are prepared, reviewed, and reconciled to the general ledger; supporting documentation is maintained; discrepancies are promptly resolved; and completed projects are transferred to fixed assets in a timely manner. The project accountant, under the direct oversight of the incoming interim CFO, will coordinate with the established and resourced PMO office to ensure interim financial statements issued to management and the Board accurately reflects the current status of all projects recorded in the CIP general ledger accounts.