Financial Statements, Required Supplementary Information and Supplementary Information

Federated States of Micronesia Petroleum Corporation

Year ended December 31, 2022
with Report of Independent Auditors

Building a better working world

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

Year Ended December 31, 2022

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

Qualified Opinion

We have audited the financial statements of the business-type activities of Federated States of Micronesia (FSM) Petroleum Corporation (the Company), as of and for the year ended December 31, 2022, and the related notes to the financial statements which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial present fairly, in all material respects, the financial position of FSM Petroleum Corporation as of December 31, 2022, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence about the carrying amount of inventory of $7,569,597 at December 31, 2022 because we were not engaged on time and therefore not able to observe the year-end inventory count of certain locations and we were unable to satisfy ourselves by means of other audit procedures. Consequently, we were unable to determine whether any adjustment to this amount is necessary.

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 qualified 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 17 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 and II 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*

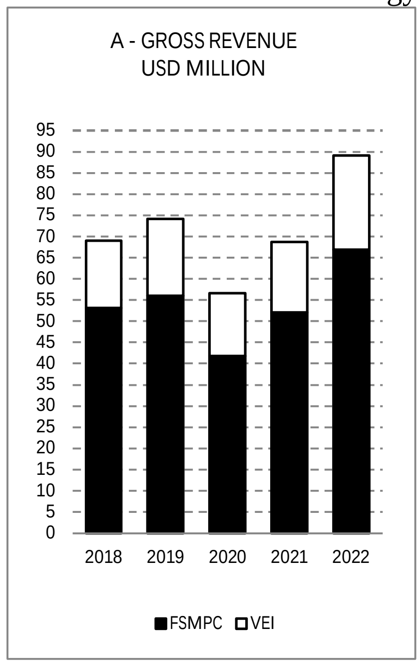
In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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

May 17, 2024

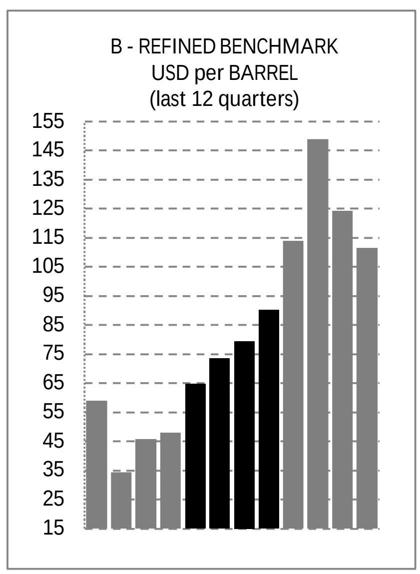
ROLE AND FUNCTION

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



The Corporation remains the single largest supplier of energy in the FSM and continues to engage efficiently, responsibly, and profitably in the country to ensure that there are sufficient resources to maintain assets, train people, hold strategic oil inventories, and provide petroleum products in full, on-time, to international specifications, and to provide the necessary resources to develop and rehabilitate the coconut industry. Vital Energy Incorporated (VEI), Guam, is an affiliate wholly owned by the FSMPC, and is the responsible entity for operations in Guam and Nauru. Opportunities to diversify into alternative energy technology to support the nations climate commitments, establish partnerships with development partners and technology suppliers, as well as expand into regional markets are investigated thoroughly.

This MD&A is supplemented with additional information that is available in the FY 2022 Annual Report that is available for download from our website (Home - The Vital Group - Energy Supplier FSM Micronesia (vitalenergy.fm)).



STRATEGIC OBJECTIVES

The strategic plan, Voyaging Together 2025 (VT2025) is coming to its end of life. VT2025 was launched in 2012, and through its life had many strategy pivots introduced to address shifting external forces and drivers acting on the business model.

At the end of this financial year, 2022 saw another mandate and direction from government, namely the Public Law 22-171 "The Transformation Act". This driver signals a further change in the strategic direction of the company. The Act calls for the development of a strategic plan that would assist in the transition into a zero-carbon economy while simultaneously maintaining the energy security of the nation and targets a 25% transition within an aggressive five (5) year timeframe.

To aid in the development of the new strategic plan, the International Energy Agency (IEA) definition of energy security has been adopted, which simply means that Micronesia has *adequate, affordable* and *reliable* supplies of energy for its current and future needs.

The Board and Management consider the energy transition an opportunity rather than a risk, however, as we transition from a predominantly fossil fuel technology that is supported with dispatchable energy source to other variable, multiple new risks are introduced that will require timely and appropriate investments in policy, in energy infrastructure, in supply chains, and energy source diversity.

While resources have been allocated to the development of a new strategic plan in accordance with the methodology of the Balanced Scorecard Institute (https://balancedscorecard.org), the primary objective of the corporation remains 'Enhancing Corporate Resilience', with a focus on strengthening balance sheet resilience to shocks and perturbations, as well as to fund elements of the energy transition to come.

Prudent financial planning, management and a strong balance sheet enabled the corporation to withstand the consequences of geopolitical turmoil that contributed to record refined oil prices exceeding $US183/BBL, an annual import bill exceeding US$69million, and an increase in the value strategic reserve inventory holdings to more than US$19million dollars.

The events of 2022 alone quantified the magnitude of the *price risk* and provides further justification of the need for the transformation act, its associated strategic plan, and early implementation of its renewable energy investment pipeline as a prudent, and proactive countermeasure.

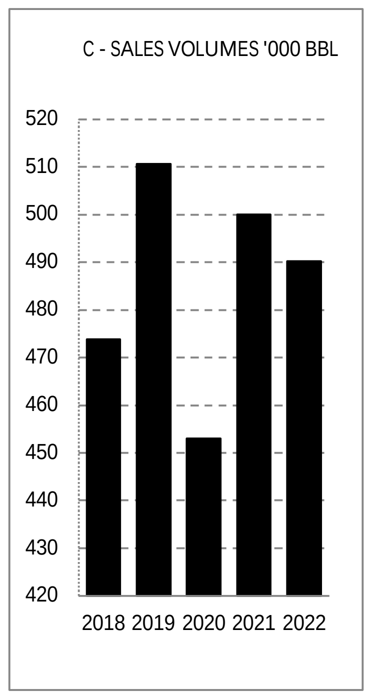
In the short-term, maintaining a profitable business model is essential, as it will ensure that funds and resources are available for ongoing activities that deliver the missions defined within the Public Laws as well as meet the expectations of stakeholders as well as manage the threats to energy security that come from external as well as domestic risk sources.

SUMMARY OF OPERATIONS

Operations during COVID-19. The FSM took strong proactive measures to protect the health of the nation, and the entire FSM has avoided any cases of community spread of COVID-19 through most of 2022. With the exception of international travel, life was normal or perhaps enhanced by various domestic preparedness and assistance programs. Due to high staff turnover during the COVID lockdown period, the company worked tirelessly with the state and national taskforces to enable the inward movement of essential workers. In April 2022, an agreement was reached, and with the assistance of the Pohnpei Taskforce, the Fiji Embassy, and a logistic operator in Fiji a one-off charter flight bringing in over thirty (30) essential workers, including engineers, mechanics, electricians, welders and fitters was successfully conducted meeting all of the requirements of the border control protocols. By early-May 2022, the company had re-established projects and programs associated with maintenance of mission critical assets that were under serviced during the lockdown period. It was not until November 2022, when the last of the domestic border controls were removed for the State of Chuuk.

Fuel Supply, Storage and Distribution. The Corporation continues to operate a total of eight fuel terminals across the Federated States of Micronesia, Guam and Nauru, and provided plane aviation services to five (5) international airports, five (5) international marine ports, and inland market segments in all these economies.

Our petroleum operations throughout the FSM, Guam and Nauru are supported by fuel, lubricant, and technical service agreements with *Mobil Oil Micronesia Incorporated (MOMI)*, *Total Oil Asia Pacific (TOAP)*, and *ExxonMobil Aviation (EMA)*. Throughout 2021 and 2022, we maintained *Pacific Bulk Fuels (NZ)* Limited as a product supplier to the Corporation.

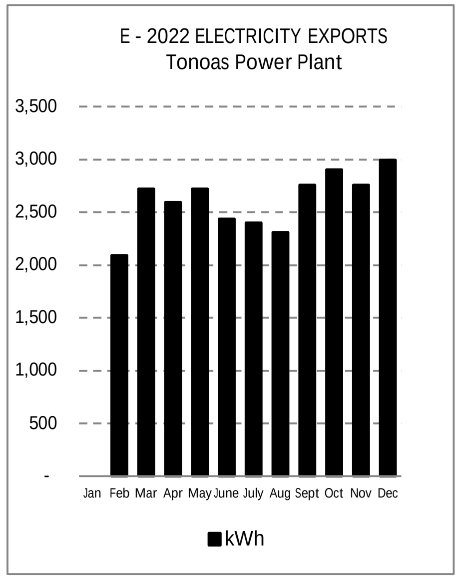


Our affiliate, Vital Energy (Guam) Inc. continues to provide terminal and project management services to the Government of Nauru. Our Nauru operations have maintained supply arrangements with *Union Petrochemical (HK) Co.* for product supplies and *Shell Services International* for technical services for aviation operations. The company pricing practices in 2022 remined largely unchanged compared to 2021 and as follows:

- The *FSM Pricing Policy Framework (PPF)* provides a mechanism to stabilize domestic prices and cushion the effect of international volatility. There are no cross subsidies within the PPF, and the prices reflect the costs of procuring, financing, storing, handling, and distribution of fuels in the jurisdictions that we operate. The PPF has remained largely unchanged since it was developed in 2009.

- The *Nauru Pricing Template (NPT)* negotiated with the Government of Nauru provides the mechanism to earn a return-on-investment commensurate with the risks of operating in Nauru.

The NPT has a similar stabilization mechanism for domestic prices and cushions the effect of international volatility. NPT2 was negotiated as part of the international competitive bidding process and will be used from 2022 through to 2026.



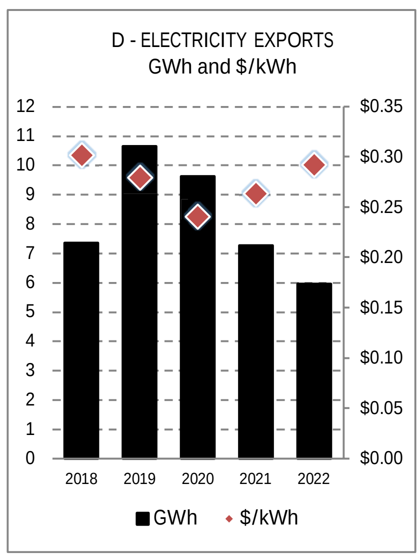
- An *Energy Pricing Template (EPT)* sets prices for electricity in our power plants that export to the electricity grid. The EPT comprises industry standard mechanisms such as capacity charges, maintenance allowances, and net electrical energy output based on a guaranteed minimum energy efficiency. There are two EPT, one with the Pohnpei Utilities Corporation (PUC) and a second with the Chuuk Power Utility Corporation (CPUC).

There are no cross subsidies between the PPF, NPT or EPT, and the prices in each operating unit reflect the costs of procuring, financing, storing, handling, and distribution of fuels, or generation of electricity in the States that we operate. The Corporation continues to benchmark domestic price competitiveness through comparison of pump prices of island neighbors.

Throughout CY22, domestic prices lagged international and regional prices. By and large, we were significantly lower than the benchmark Guam pump prices and all regional neighbors. This is often observed in rising oil price markets as our domestic prices are slow to rise and equally slow to fall.

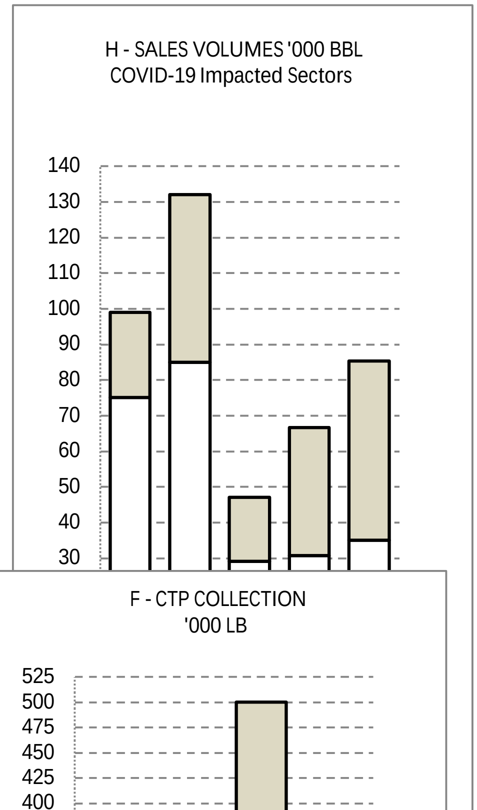
Further detail on prices and fuel terminal operations can be obtained from the 2022 Annual Report available for download on the company website.

Power Generation. In 2015, the corporation entered a partnership with the Pohnpei Utility Corporation (PUC) to improve the energy security in the state due to aging and failing generators. We have operated under an independent power producer (IPP) arrangement, exporting into the grid between 6.0 and 11.0 GWh per annum of electricity to the Pohnpei Utilities Corporation (PUC) meeting up to 25% of Pohnpei demand requirements.



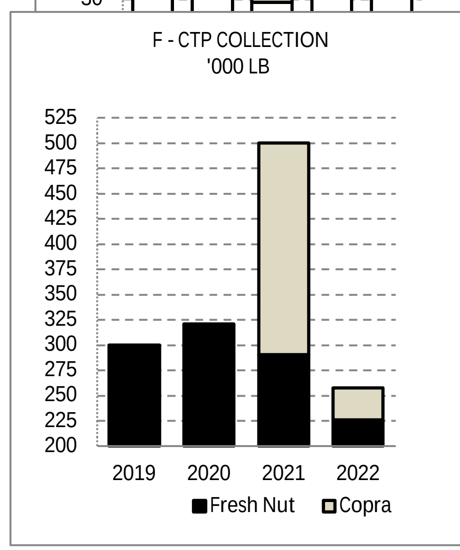
The total GWh produced by the IPP arrangement has declined each year as PUC continues to improve and strengthen its generation capacity and recover from the emergency situation of 2012. Given that there was also depressed demand due to border controls through much of year due to border controls in the FSM. The average price of electricity to PUC for the year was US$0.29/kWh (Graph D), reflecting significantly higher international oil prices (Graph B) and lower overall plant utilization.

A second smaller independent power plant that is operational in the State of Chuuk also operates under an independent power producer (IPP) model and has a production capacity of 1.5GWh. This major accomplishment in partnership with CPUC has been a significant contributor to the country's SDG#7 and National Energy Policy (NEP) targets seeing approximately 120 homes wired ready and connected to the grid, providing grid stable power to an island that has not had it for over a decade. Electricity exported to the grid in Tonoas (Graph E) commenced in February after commission and has continued to grow and mature through the year.

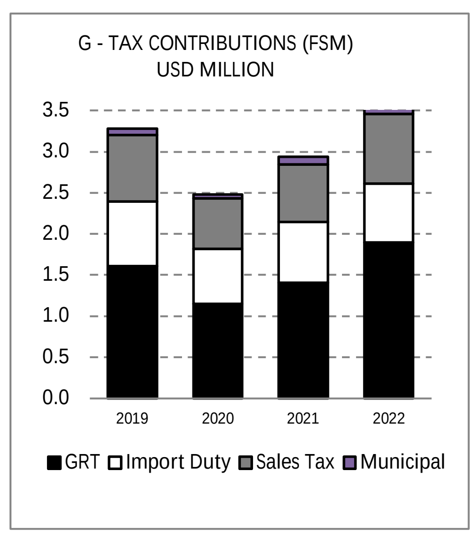


The rollout of solar PV BESS business models has been placed on hold and will be coordinated with a larger strategy and action plan consistent with the Transformation Act.

Manufacturing and Exports. The Corporation owns and operates a coconut tree product (CTP) processing facility in Pohnpei producing crude coconut oil, virgin coconut oils, soaps, and edible oils. A second integrated coconut processing facility is under construction in Chuuk. Site readiness work has commenced with minor construction activities. The project is expected to begin in 2024, once it is clear that the supply chain challenges and bottlenecks of COVID have been addressed. Throughout 2022, efforts remained focused on preparations for HACCP, GMP and other certifications as well as production efficiency, processing capacity, and product research and development.



Out grower Cooperatives. The Corporation continues to promote and progress the Vital participatory guarantee scheme (VPGS). The VPGS provides a legal and commercial framework that enables farmers to pool together their production capacity to meet the quantity and quality demands of the market. Farmers can then engage fully in a modern economy through a formalized community enterprise that has confirmed buy quotas and price guarantees. In 2022, there was continued growth in the number of out-grower cooperatives, with an additional 19 new community enterprises registered up from 187, and an additional 16 farmers up from 1,140.



2022 continued to see a decrease in the amount of fresh coconut supplied from farmers in Pohnpei, and from the island communities of Yap copra collection (Graph F). This was largely affected by i) the loss of many farmers that ceased collection of coconut, ii) outward migration of farmers to join families in the mainland USA and iii) the lack of minimum crew levels for our vessels as we were unable to replace crew as the left the FSM for various reasons.

The Vital funded coconut national export strategy (CocoNES) consultations have commenced with the UNCTAD-International Trade Centre (ITC). Promising progress was made throughout 2022, and this sectoral strategy – a first for the FSM - is expected to be completed in this year. A Presidential Order was signed by His Excellency, David W. Panuelo, putting into place the organizational framework of private/public stakeholders from across the FSM to support the design process. The strategy was launched in May 2023.

Maritime. The Corporation maintains a forty-four (44) seater passenger ferry, an 80MT landing craft and two 3MT workboats. Operations in 2022 was significantly impacted due to lower project related activities in the Chuuk State. Operations from January to May 2022 were affected due to border controls which affected our mission readiness and minimum manning levels as we were unable to change out and rotate our international crew in a timely manner. However, we continued operations with our workboats where we had a local expertise and crews.
In April 2022 we managed to secure a waiver with the FSM government in bringing across the necessary manpower to operate our vessels. The crew met all border control entry requirements and were dispatched to Chuuk to commence operating the vessels with the voyage schedules in place. Despite the challenges faced throughout the year, the fleet safely completed 290 voyages (Vital Carrier 10, Seawatch 79, Mandy 201) an increase of 90 compared to the previous year. An increase in payload with approximately 760MT (Vital Carrier 718 + Mandy 42) and 990 passengers transfers (Mandy 842 & Seawatch 148).

REVENUES

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

It was an extremely unpredictable and volatile year for international petroleum prices (Graph B), as we saw the market react to geopolitical events, as well as demand recovery post covid, creating supply and demand imbalances. There were eight (8) quarters of consecutive fuel price increases, from a record low of US$35 per BBL in 2020-Q2 peaking at US$183 per BBL in 2022-Q3, settling over $US100/BBL, higher than pre-COVID levels.

The removal of travel controls saw some rebound in international and domestic aviation and marine sales. International marine sales recovered by approximately 14,000 BBL (39%) as compared to the same time last year (Graph H) as the FSM registered fishing fleet started to support the local economy by diverting some of their fuel requirements to domestic purchases, major port upgrade projects in Nauru, and domestic marine and retail activities. These sectors remain well below pre-COVID levels.

As a result of increased sales and increased oil prices, the total group revenues grew by US$20MM from US$68MM to US$88MM (Graph A). Business unit contributions remain consistent with prior years. Automotive diesel oil remains the highest revenue component at 53%, followed by unleaded petrol (or gasoline) 35%, and home kerosene and Jet A1 of just 7%.

The combination of price increases and a recovery of some sales volumes had seen an increase in the amount of gross revenue tax, sales taxes and import duties collected and paid in the FSM in 2022 of approximately >US$500,000 (Graph G), with total tax burden at approximately US$3.5MM for the FSM.

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

Non-FSM related revenues increased marginally from 31% to 33% of total revenues mix.

RISK AND RISK MANAGEMENT

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

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

The Board effectuates its risk oversight role primarily through regular and special meetings of the Board and Board committees. In certain cases, risk management issues are specifically addressed in presentations and discussions. Responsibility for day-to-day risk management relating to business management and operational risks resides with the Management Team and Staff. Management effectuates its risk management role by working with the Board to agree risk principles, framework and processes that are comprehensive and appropriate for the business, and then applies this consistently across all business activities. All extant risk related Programs report directly to the CEO, such programs including SAFER, Quality Management, Emergency Preparedness, Asset Integrity and Incident Investigation.

A key guidance issued by the Board is the *Statement of General Business Principles* (SGBP) and the *Ethics Statement*. The SGBP and the *Ethics Statement* defines how we engage with stakeholders and the economy at large. This was reviewed in 2022. Management seeks formal reassurance from each staff member that they operate within these principles annually. The Board also confirms their commitment to the SGBP annually. There were no reported breaches of these principles in 2022.

The Board and Committees regularly require senior management and external advisors to report to the Board and the Committees on a variety of risk categories including, but not limited to, governance risks, board approval risks, critical enterprise risks, business management risks, and emerging and non-traditional risks. The Board and Committees has transitioned to an entirely virtual online meeting arrangement. The Board met eight (8) times throughout the year, slightly less than the prior year, as they had a better understanding of the pandemic and its impacts on the company. Financial stress test models; forecasts under various future-state scenarios; succession for unplanned loss of key individuals; investment risks; and business model risks continued to dominate discussions.

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

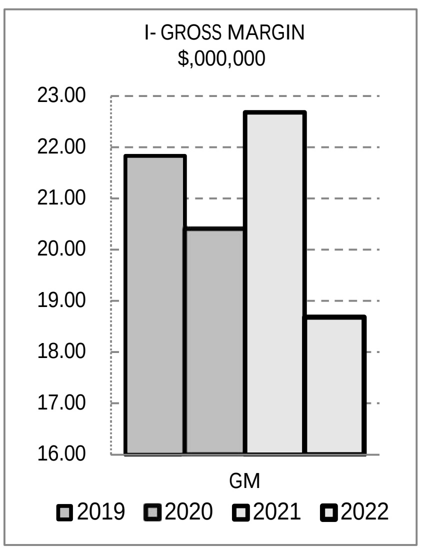
The Board and Management are aligned and committed to maintaining vigorous risk management principles and processes; however, it is recognized that not all risks that may affect the Corporation can be identified, that it may not be practical or cost effective to eliminate or mitigate certain risks, that it is necessary to bear certain risks (such as continued hydrocarbon related business activities) while decarbonization and transformation strategies are implemented, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness.
There have been no additional risks identified in the last operating period. Further information on risks and risk management can be found in the *2022 Annual Report* available for download from our website.

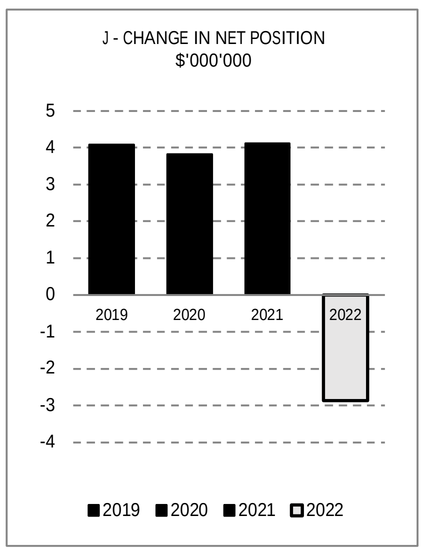
The risk highlighted in the last audit has been updated to reflect the end of COVID-19 and is described below:

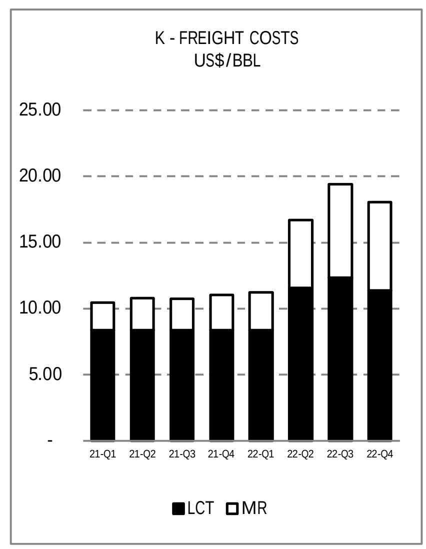
- *RISK: Shifting 'emotional focus':* Our operations have a significant exposure to high frequency operational risks and there is a heavy reliance on people to do the right thing at the right time to manage known hazards i.e. storage and handling of hazardous, flammable, and combustible liquids. COVID-19 amplified by the inability of senior management to travel to locations to ensure an appropriate risk and safety culture existing in all operating locations, teams and units, and that supervisors' words, actions and behaviors consistently reflect the leadership, stewardship and governance expectations of the Board.

Given the passage of the transformation act, greater emphasis will be placed in coming years on recognizing and treating emerging risks as new variable renewable energy (VRE) technology becomes more prevalent, and also more susceptible to damage from extreme climate events.

FINANCIAL CONDITION







Pricing practices did not change throughout 2022. The PPF, NPT, and EPT maintained scheduled price adjustments in accordance with various price instruments for contract customers such as utilities and airlines.

Extremely high domestic inflation was observed in basic products and services at both national and state levels. The Board and Management decided against a full passthrough of fuel costs components to domestic consumers. We were concerned with the hardships that may be faced by smaller households and businesses, especially since most assistance schemes of 2022 had ceased.

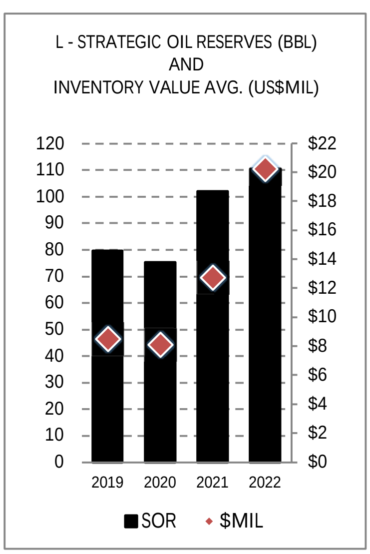
As a result of this pricing policy decision, the company posted, for the first-time a -$US2.8MM reduction in net position, the first time the corporation has been in a shareholder value eroding position since inception. The primary contributors to this include:

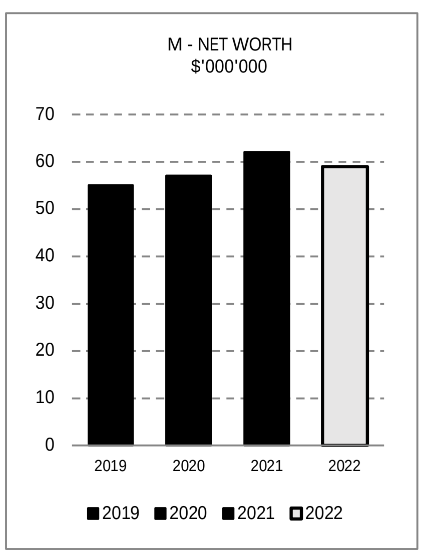
- **International Freight: -US$1.2MM**. International freight, comprising medium range tanker (MRT) and local coastal tankers (LCT) almost doubled in 2022 over 2021 from approximately US$10/BBL to almost US$18/BBL. This reflects higher bunker adjustment factors (BAF) on the cost of running the vessels, as well as increases in contract rates as tanker markets were extremely tight in response to Russian oil sanctions. Freight cost increases were not passed on to any domestic market. It appears that supply chain costs will remain high in coming years as the costs of shipping, intermediate terminal, handling and storage are all hit with the higher inflation observed globally.

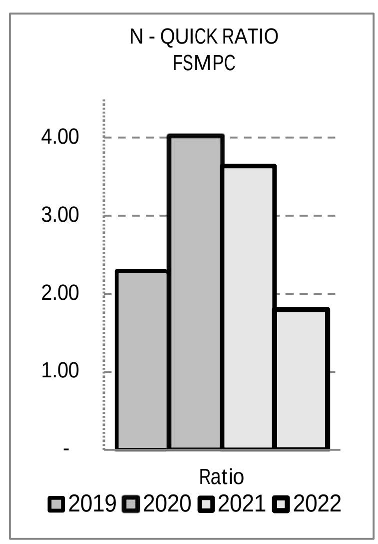
- **Product Cost Subsidy: -US$1.8MM.** In total, we withheld approximately $1.8million product related costs. In doing so we were able to contain electricity prices and keep retail oil prices below $5-60/gallon while our neighbors such as Guam breached $6-40/gallon at the pump..

- **Operating Cost Subsidy: -US$1.9MM.** Significant one-off costs were incurred by the company to come out of the COVID lockdowns strong. A significant expense was the recruitment, mobilization, and refreshment of over 30 skilled technical workers to commence long overdue maintenance and operational work in the terminals. Having qualified and additional human resources then enabled a higher expenditure in repairs and maintenance of trucks, tanks, pipelines and other mission critical assets across the network. Though expenses and activities returned to pre-covid levels, volumes have yet to recover, and unit rate costs of operations remain significantly higher than the add-on allowances within the EPT and PPT.

Despite this significant shift in net position, we were able to absorb these price shocks while simultaneously maintaining strategic reserves at pre-COVID levels (Graph L), and in some instances investing heavily into inventory as prices continued to rise to contain losses from higher cost of goods.







While there were impacts on many key financial indicators, prudent financial management over the last decade and the reallocation of our capital plans enabled us to weather the storm and cushion domestic oil prices in a time of global volatility and inflation.

The following table summarizes the Corporation's financial position and results of operations as of and for the years ended December 31, 2022 and 2021.

Assets:	***2022***	***2021***
Capital assets, net	$30,819,573	$31,483,722
Lease assets	3,495,488	---
Time certificates of deposit	401,396	401,396
Cash and cash equivalents	16,333,579	28,529,971
Inventory, net	18,099,137	12,952,192
Investments	7,628,741	3,158,734
Receivables and other assets	6,930,630	5,243,291
Total Assets	**$83,708,544**	**$81,769,306**

Liabilities and Net Position	***2022***	***2021***
Current liabilities	$14,885,594	$11,313,774
Noncurrent liabilities	9,929,495	8,688,893
Total Liabilities	**24,815,009**	**20,002,667**
Net investment in capital assets	24,168,714	23,420,513
Unrestricted	34,724,741	38,346,126
Total Net Position	**58,893,455**	**61,766,639**
Total Liabilities and Net Position	***$83,708,544***	***$81,769,306***

Operating revenues	$88,618,965	$67,546,797
Cost of goods sold	(69,940,904)	(45,523,561)
Gross profit	18,678,061	22,023,236
Operating expenses	(19,743,405)	(17,882,976)
Nonoperating (expenses) revenue	(1,807,840)	(20,334)
Change in Net Position	**($ 2,873,184)**	**$ 4,119,926**

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

Major changes in profit and loss and statement of net position component for CY22 are result of:

a) The Corporation maintained its one-year term Line of Credit with Bank of Guam (BOG) of US$11M. The short-term notes with banks remained at a zero balance in CY2022 as a result of prudent cash management.

b) The Corporation utilized its retained earnings to invest in a price stability and cushioning mechanism throughout 2022, investing in higher levels of strategic oil inventory to increase the energy security and price stability of the nation, and electing not to pass through full cost recovery for international freight, cost of goods, and higher unit operating costs. This resulted in a reduction in gross margins of approximately US$3.9MM. The board and management utilized financial stress tests to confirm the impact of this decision on the overall financial condition of the corporation, and determined that this was a prudent use of its retained earnings to limit the impact on observed domestic inflation.

c) Expenses for 2022 reflected a return to pre-Covid levels as the business adjusted and incorporated new ways to proceed with its operational activities. It also includes additional one- off expenses such as a chartered flight, recruitment and onboarding of approximately thirty (30) new employees to fill numerous vacancies created by an outward movement of staff during the border controls, and new vacancies that were created to address the accumulated and delayed maintenance activities on mission critical assets and projects during the covid period.

d) The PPF and the EPT are based on an *ex-ante* type regulatory model. The model was designed in 2009 and was the basis of pricing structures implemented across sectors and states. The PPF and EPT used long run average costs (LRAC) allowances based on a fifteen (15) year capital investment profile, and a targeted a return of more than 10% - the benchmark standard for state owned enterprises (SOEs) of the time. The consistent use of this model has resulted in stable domestic oil prices, but in turn has resulted in a gradual erosion in the return on capital employed (RoCE) and return-on-investment (ROI) ratios. This is primarily due to supply chain cost inflation due to dis-economy of isolation and a loss of economy-of-scale over time. It is expected that a complete revision of the ex-ante PPF and EPT models are needed within two (2) years to enable a return to appropriate benchmark and acceptable returns for state owned enterprises (SOE's).

e) The total amount received from sales of petroleum products was less than the amount paid to vendors and employees for goods and services. The net cash used for operating activities in 2022 was -$1,754,025 as compared to net cash provided for operating activities in 2022 of $3,830,541 in 2021.

f) A total of $3,377,490 in 2021 and $5,474,933 in 2022 was used for capital and related financing activities mainly for the purchase of capital assets. The Corporation's net investments in capital assets, inclusive of construction in progress as of December 31, 2021 and 2022 were $23,420,513 and $24,168,714, respectively.

CAPITAL ASSETS AND DEBT MANAGEMENT

Capital Assets and Long-Term Debt: At the end of CY2022, the Corporation had $30.8 million invested in capital assets. This represents a decrease in the net capital assets (including additions and deletions) of US$0.6 million over the previous year. For additional information about the Corporation's capital assets, refer to Note 5 to the financial statements. The Corporation had long-term debt of US$6.7 million outstanding as at December 31, 2022, a decrease of US$1.4 million from US$8.1 million outstanding at December 31, 2021. For additional information about the Corporation's long-term debt, refer to Note 8 to the financial statements.

ECONOMIC OUTLOOK

The FSM national government has maintained a policy to ringfence two-thirds of the revenue windfall it has experienced since FY12, preferring to place these funds into the trust fund rather than drive public sector growth. However, this is not surprising, given that spending under the infrastructure program of the amended Compact period remains less than half of annually available funds and projected to end FY23 with, perhaps, over $260 million of unexpended infrastructure fund reserves. Should the country get better at spending infrastructure funds, as well as development partner grants, we should see an improvement in the construction industry contribution to gross domestic product (GDP).

The private sector is small and relatively underdeveloped. The structure of the economy has remained largely unchanged, and dominated by the retail and hotel sectors. These sectors were impacted by the global pandemic. This economic structure is not expected to change significantly in the near future. We anticipate hotels returning to pre-covid contribution levels and beyond as international and regional agencies increased presence in the FSM. We expect the contribution of the agricultural sector to grow slowly and steadily as the Corporation's coconut sector interventions start to take hold, and the numerous food security initiatives and projects of development partners are implemented. As these food security initiatives are generally targeted at households and the informal sector, it is anticipated that the informal, household sector continuing to have a major if not increased role in gross domestic product contribution if the projects are successful and sustainable.

Two main forms of energy are supplied in the FSM: fossil fuels by FSM Petroleum Corporation and electricity by four State owned power utilities, namely: Pohnpei Utility Corporation (PUC), Kosrae Utilities Authority (KUA), Yap State Public Services Corporation (YSPSC) and Chuuk Public Utility Corporation (CPUC). The 2018 FSM Energy Master Plan projects hundreds of millions of dollars needed to structurally reform the sector and drive the FSM to a low carbon economy. The current grant pipeline is approximately US$100MM, that will need to be increase at least twofold to increase renewable generation capacity and improve reliability to a point that it has a material impact on the energy security of the nation.

The corporation believes, given the current challenges that face government led infrastructure and grant spending in the FSM as well as the ongoing maintenance and sustaining systems, that the private sector, and independent power producer (IPP), and outsourced operation and maintenance models are the most viable pathway to step changes in energy generation, distribution and demand. The Corporation's strategic plan and renewable energy pipeline to be developed under the Transformation Act, and the willingness of state governments and their utility corporations to progress alternative business models will be pivotal.

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

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

Management's Discussion and Analysis for the year ended December 31, 2021 is set forth in the report on the audit of FSMPC's financial statements, which is dated December 2, 2022. This Management Discussion and Analysis explains the major factors impacting the 2021 financial statements and may be obtained from the contact shown below.

CONTACT

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

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

Statement of Net Position

Year Ended December 31, 2022

Assets	
Current assets:	
Cash and cash equivalents	$16,333,579
Time certificates of deposit	401,396
Trade receivables	2,912,666
Other receivables	306,618
Inventory, net	18,099,137
Prepaid expenses	3,001,253
Investments	7,628,741
Total current assets	48,683,390
Lease assets	3,495,488
Other noncurrent assets	710,093
Capital assets:	
Nondepreciable capital assets	11,243,429
Other capital assets, net of accumulated depreciation	19,576,144
	83,708,544
Liabilities	
Current liabilities:	
Current portion of long-term debt	1,435,005
Current portion of lease liabilities	81,033
Accounts payable - fuel	7,183,778
Accounts payable - other	1,596,124
Accrued liabilities and others	4,589,654
Total current liabilities	14,885,594
Lease liabilities	2,801,161
Long-term debt, net of current portion	5,215,854
Due to States and the FSM National Government	1,747,383
Other noncurrent liability	165,097
Total liabilities	24,815,089
Commitments and contingencies	
Net position:	
Net investment in capital assets	24,168,714
Unrestricted	34,724,741
Total net position	$58,893,455

See accompanying notes.

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

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2022

Operating revenues:	
Sales and service income	$88,469,094
Other	149,871
	88,618,965
Cost of goods sold	69,940,904
Gross profit	18,678,061
Operating expenses:	
Salaries and benefits	5,465,527
Depreciation and amortization	3,482,483
Taxes	2,033,588
Professional fees	1,962,002
Repairs and maintenance	1,465,783
Staff travel, training and development	934,536
Insurance	787,328
Rent	698,985
Communications	460,695
Miscellaneous	532,351
Office supplies	452,949
Contracted services	449,255
Utilities	347,798
Fuel	310,959
Bank charges	182,269
Corporate governance, travel and entertainment	176,897
Total operating expenses	19,743,405
Operating loss	(1,065,344)
Nonoperating expenses:	
Foreign exchange losses, net	(679,458)
Investment loss, net	(529,994)
Interest expense, net	(598,388)
Total nonoperating expenses, net	(1,807,840)
Change in net position	(2,873,184)
Net position at beginning of year	61,766,639
Net position at end of year	$58,893,455

See accompanying notes.

Statement of Cash Flows

Year Ended December 31, 2022

Cash flows from operating activities:	
Cash received from customers	$ 88,083,507
Cash paid to suppliers for goods and services	(84,372,005)
Cash paid to employees for services	(5,465,527)
Net cash used in operating activities	(1,754,025)
Cash flows from capital and related financing activities:	
Interest paid on long-term debt	(630,954)
Repayment of long-term debt	(1,412,350)
Acquisition of capital assets	(3,431,629)
Net cash used in capital and related financing activities	(5,474,933)
Cash flows from investing activities:	
Investment purchases	(5,000,000)
Interest received on investments and bank accounts	32,566
Net cash used in investing activities	(4,967,434)
Net change in cash and cash equivalents	(12,196,392)
Cash and cash equivalents at beginning of year	28,529,971
Cash and cash equivalents at end of year	$ 16,333,579
Reconciliation of operating loss to net cash used in operating activities:	
Net operating loss	$(1,065,344)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	3,482,483
Foreign exchange losses	(679,458)
Increase in assets:	
Trade receivables	(535,458)
Other receivables	(191,298)
Inventory and related deposit with supplier	(5,146,945)
Prepaid expenses	(899,776)
Other assets	(60,807)
Increase in liabilities:	
Accounts payable	2,904,788
Accrued liabilities and others	437,790
Net cash used in operating activities	$(1,754,025)
Supplemental information and noncash capital activities	
Lease assets	$ 4,092,460
Lease liabilities	(3,119,961)
Prepaid expenses	(972,499)

See accompanying notes.

1. Organization and Basis of Presentation

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

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

- 1 member appointed by the President with the advice and consent of the FSM Congress to represent the FSMNG.

- 4 members appointed by each State governor to represent each of the States.

- 2 members from the private sector, appointed by the President with the advice and consent of the FSM Congress.

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

Vital Energy, Inc. (VEI) was incorporated on February 10, 2012 in Guam for the purpose of carrying on the operation of importation and sale of petroleum products, and operation, management and maintenance of petroleum storage terminals, international marine bunkering services, operation of road and aviation bridging tankers, and aviation refueling operations. On May 22, 2015, VEI established Vital Energy, Inc. (Nauru) (the "Nauru Branch"), a foreign branch operation in the Republic of Nauru for the purpose of providing fuel supply and distribution in Nauru under an agreement with the Government of Nauru (GON). VEI's main operations are in Nauru during the year ended December 31, 2022. 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 includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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 statement 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, 2022 , total carrying amounts of cash and cash equivalents and time certificates of deposit were $14,251,866 and the corresponding bank balances were $14,260,153 which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2022 , 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, 2022, cash and cash equivalents include deposits in AUD denominated accounts with Bendigo Adelaide Bank Limited (Bendigo), an authorized deposit-taking institution (ADI) subject to the Australian Government Financial Claims Scheme (FCS) of $2,483,109. 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, 2022, bank deposits of approximately $170,000, 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 receivable are due from businesses and individuals located primarily in the FSM and Nauru and are interest free and uncollateralized, except those from utility companies. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb potential losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Bad debts are written-off against the allowance based on the specific identification method. No allowance for doubtful accounts was recorded as of December 31, 2022.

Inventory

Fuel inventories and materials and supplies inventory on hand are substantially state 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 return in Guam. The Guam income tax code is similar to that of the United States of America. The Company also pays a Business Profits Tax (BPT) in Nauru under the Republic of Nauru Business Tax Act (the "Act"). BPT is calculated as 20% of taxable income as of June 30, 2018, and increased to 25% at June 30, 2019, as defined in the Act, for non-resident companies conducting business in Nauru through Permanent establishment. BPT is taken as a foreign tax credit (FTC) on the Guam income tax return, with certain limitations. BPT and provisions for Guam income taxes are presented as a component of taxes in the statement of revenues, expenses and changes in net position. No income tax expense was recognized for 2022 due to the recognition of FTC.

For VEI's income tax returns on Guam, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As of December 31, 2022, the majority of VEI's deferred income tax assets relate to FTC carryovers of approximately $102,000 and $19,000, respectively, expiring through 2029 and 2030, respectively, and are included as a component of other noncurrent assets in the accompanying statement of net position.

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Company's revenues are derived mainly from sale of fuel. Fuel sales are recognized when charged to customers' charge accounts and when merchandise is delivered to customers and title is passed and collectability is reasonably assured. Other income, mainly representing into plane fee and other delivery and service fee, is billed and accrued upon sale of related fuel.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on the beginning net position. The Company recorded lease assets of $4,092,460 and lease liability of $3,119,961 at January 1, 2022.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The adoption of GASB Statement No. 91 during the year ended December 31, 2022 did not have an effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 during the year ended December 31, 2022 did not have an effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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

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

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, which 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. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, as amended.

- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets.

- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended*, related to the focus of the government-wide financial statements.

- Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021.

These provisions of GASB Statement No. 99 were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for fiscal year ending December 31, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending December 31, 2023.

The Company is in process of assessing the impact of the aforementioned standards reporting and disclosure requirements.

3. Investments

As of December 31, 2022, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	$4,443,969
Other investments:	
Common equities	2,204,566
Exchange traded funds	789,187
Money market funds	191,019
	3,184,772
	$7,628,741

As of December 31, 2022, the Company's fixed income securities had the following maturities:

Investment Type	Fair value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Corporate bonds	$1,508,424	$ ---	$ 895,771	$576,958	$35,695
U.S. treasury securities	1,934,315	---	1,694,715	198,350	41,250
Certificate of deposits	1,001,230	1,001,230	---	---	---
	$4,443,969	$1,001,230	$2,590,486	$775,308	$76,945

The Company's exposure to credit risk as of December 31, 2022, was as follows:

Moody's Rating	
AAA	$1,944,849
A1	209,983
A2	210,699
A3	225,257
BAA2	719,922
BAA3	13,470
BAA1	118,559
Not rated	1,001,230
	$4,443,969

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.

3. Investments, continued

The Company has the following recurring fair value measurements as of December 31, 2022:

		Fair Value Measurements Using		
	December 31, 2022	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	$4,443,969	$ ---	$4,443,969	$---
Equity securities	2,204,566	2,204,566	---	---
Exchange-traded funds	789,187	789,187	---	---
Total investments by fair value level	7,437,722	$2,993,753	$4,443,969	$---
Investments measured at amortized cost:				
Money market funds	191,019			
	$7,628,741			

4. Inventory

At December 31, 2022, inventory consists of the following:

Inventory on hand:	
Fuel	$15,701,133
Engineering parts	1,341,102
Lubricants	488,071
Chemicals	27,057
Others	592,361
	18,149,724
Less allowance for obsolescence	(50,587)
	$18,099,137

5. Capital Assets

Capital asset activities for the years ended December 31, 2022 are as follows:

	Balance at January 1, 2022	Transfers and Additions	Transfers and Deletions	Balance at December 31, 2022
Buildings	$ 2,700,344	$ 12,950	$ ---	$ 2,713,294
Leasehold improvements	26,191	---	---	26,191
Motor vehicles	2,033,655	136,632	---	2,170,287
Plant and equipment	23,886,865	130,253	(22,919)	23,994,199
Furniture and fixtures	550,736	25,653	---	576,389
Office equipment	8,469,427	145,452	---	8,614,879
Machinery and equipment	3,460,954	47,566	(10,434)	3,498,086
Boats and vessels	2,276,696	2,199	---	2,278,895
	43,404,868	500,705	(33,353)	43,872,220
Less accumulated depreciation	(21,443,488)	(2,885,511)	32,923	(24,296,076)
	21,961,380	(2,384,806)	(430)	19,576,144
Construction-in-progress	9,522,342	2,049,821	(328,734)	11,243,429
	$31,483,722	$(334,985)	$(329,164)	$30,819,573
Lease assets	$ 4,092,460	$ ---	$(596,972)	$ 3,495,488

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, 2022, 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, 2022, the remaining $500,000 represents a non-interest bearing advance payable to the FSMNG. There is no specific repayment terms and management has classified the advance as long-term since it has no expectation that such will have to be repaid before December 31, 2023.

7. Short-Term Borrowings

As of December 31, 2022, the Company has a bank standby letter of credit (LC) of $3,000,000, with maturity date on September 13, 2023, in favor of Mobil Oil Guam in relation to its fuel purchase agreement. Additionally, the Company has a standby LC of $4,396,900 for the coconut production facility contractor, with maturity date on December 30, 2023.

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

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

Borrowings against the LOCs bear interest at the bank's effective reference rate plus 0.75%, with minimum rate of 5.75% per annum, with interest payable monthly and principal due within 180 days. No borrowings are outstanding against the LOCs as of December 31, 2022.

8. Long-term Debt

Long-term debt consists of the following as of December 31, 2022:

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 8.25% as of December 31, 2022) and monthly installments of $61,865 through December 2027. The loan is collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.	$3,138,730

8. Long-term Debt, Continued

A $3,000,000 bank note from the FSM Development Bank (FSMDB), dated August 2017, a component unit of the FSM National Government, for capital asset projects. The loan bears interest fixed at 5% per annum and is payable in quarterly installments of $170,461 beginning August 31, 2017 to September 25, 2022. On May 1, 2018, FSMDB approved FSMPC's request for deferment of principal payment from June 2018 to June 2019. On June 24, 2019, FSMDB approved another principal payment deferment up to June 2020. Maturity date has been extended through December 2024. The loan is collateralized by the Company's inventories and related petroleum products.	1,297,799
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 7.5% as of December 31, 2022) and is payable in monthly installments of $32,558 beginning March 2020 to April 25, 2025. The loan is collateralized by future buildings, equipment, furniture and fixtures, inventory, vehicle and accounts receivables.	2,214,330
Total long-term debt	6,650,859
Less current portion	1,431,005
	$5,215,854

As of December 31, 2022, future minimum loan repayments are as follows:

Year Ending December 31,	Principal	Interest	Total
2023	$1,435,005	$379,910	$1,814,915
2024	1,527,594	154,066	1,681,660
2025	2,381,498	138,871	2,520,369
2026	685,344	57,032	742,376
2027	621,418	16,281	637,699
	$6,650,859	$746,160	$7,397,019

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 on security for the loan and to maintain aggregate loan value of at least 120% of loan amount.

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

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

Management believes that the Company is in compliance with all covenants as of and for the year ended December 31, 2022, and no event of default has been declared by the lenders.

Changes in long-term debt for the year ended December 31, 2022 are as follows:

	Balance at January 1 2022	Additions	Repayments	Balance at December 31 2022	Due Within One Year
Long-term debt	$8,063,209	$ ---	$ (1,412,350)	$6,650,859	$1,435,005

9. Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for the year ended December 31, 2022 are as follows:

	Balance at January 1 2022	Additions	Repayments	Balance at December 31 2022	Due Within One Year
Due to States and the FSM National Government	$1,747,383	$ ---	$ ---	$1,747,383	$ ---
Lease liabilities	3,119,961	---	(237,767)	2,882,194	81,033
Other noncurrent liability	293,311	---	(128,214)	165,097	---
	$5,160,655	$ ---	$(365,981)	$4,794,674	$81.033

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 34% of the Company's revenues for the year ended December 31, 2022. Receivables from the three major customers totaled $885,000 as of December 31, 2022, 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 2022. VEI purchases fuel under a Fuel Supply Contract which expires on October 31, 2026.

11. Concentration Risk, continued

Government of Nauru (GON)

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

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

Virtually all of the VEI's revenues, of approximately $16,596,000 are earned in connection with the new Agreement for the year ended December 31, 2022.

The Agreement and the New Agreement allows VEI to charge prices based on Nauru Price Template (NPT). For the year ended December 31, 2022, Vital recorded fuel sales of $21.7 million. As of December 31, 2022, Vital recorded throughput and rehabilitation fee liability of $165,009, for the purpose of funding the facilities' mooring system repairs and improvements and Compliance and Integrity Projects, which is included in the other noncurrent liability account in the accompanying statements of net position.

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 year ended December 31, 2022 were $234,209. Management is of the opinion that the Plan does not represent an asset or a liability of the Company. As of December 31, 2022, plan assets were $3,209,134.

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 CDU project site. The agreements have an initial term of twenty-years, with certain options to renew, and require an initial seven-year prepayment. As of December 31, 2022 lease assets are as follows:

Lease Description	Classification	Gross Balance	Accumulated Amortization	Net Balance
Land leases - project site	Land	$1,942,362	$ 115,473	$1,826,889
Land leases - facilities	Land and Building	1,052,779	156,703	896,076
Land leases - bulk plant	Land and Building	1,097,319	324,796	772,523
		$4,092,460	$ 596,972	$3,495,488

The future lease payments for this transaction are as follows:

Year ending December 31,	Principal	Interest	Total
2023	$ 81,033	$ 223,336	$ 304,369
2024	439,479	222,507	661,986
2025	205,961	179,885	385,846
2026	217,484	164,040	381,524
2027	259,162	144,762	403,924
2028 through 2032	873,656	492,294	1,365,950
2033 through 2037	801,001	145,539	946,540
2038	4,418	59	4,477
	$2,882,194	$1,572,422	$4,454,616

In connection with the VEI's exclusive right to access, use and occupy the GON bulk fuel facilities, the VEI is required to pay a rental fee of $529,168 per annum over the 5-year term of the agreement from June 1, 2015 to May 31, 2020, which remained in holdover status until the executive of the new agreement in December 2021 (see Note 11). Beginning January 2022, rental fee is waived and replaced by land use levy built on NPT until the expiration of the new agreement in December 2026.

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 $23.4 million were generated from the four utility companies for the year ended December 31, 2022. As of December 31, 2022, FSMPC has total receivables of $1.7 million due from the four utility companies. In addition, as of December 31, 2022, FSMPC has accrued liabilities in the form of letters of credit to PUC and CPUC totaling $1,037,343, in connection with fuel purchases price variances, which are included as a component of accrued liabilities and others in the accompanying statement of net position.

As of December 31, 2022, trade receivables includes balances due from the components of FSM National and State Governments totaling $392,088.

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 $2.4 million for the year ended December 31, 2022.

16. Condensed Financial Information

The condensed financial information for as of and for the year ended December 31, 2022 are as follows:

Condensed Statement of Net position:

	FSMPC	VEI	Elimination	Total Condensed
Assets:				
Current assets	$37,376,040	$11,307,350	$ ---	$48,683,390
Receivable from component unit	7,194,532	---	(7,194,532)	---
Other non-current assets	589,093	121,000	---	710,093
Capital assets and leased assets, net	34,194,100	120,961	---	34,315,061
Total assets	$79,353,765	$11,549,311	$(7,194,532)	$83,708,544
Liabilities:				
Current liabilities	$13,776,894	$ 1,108,700	$ ---	$14,885,594
Due to primary government	---	7,194,532	(7,194,532)	---
Due to other FSM government entities	1,747,383	---	---	1,747,383
Non-current liabilities	8,017,015	165,097	---	8,182,112
Total liabilities	23,541,292	8,468,329	(7,194,532)	24,815,089
Net Position:				
Net investment in capital assets	24,047,753	120,961	---	$24,168,714
Unrestricted	31,764,720	2,960,021	---	34,724,741
Total net position	55,812,473	3,080,982	(---)	58,893,455
	$79,353,765	$11,549,311	$(7,194,532)	$83,708,544

Condensed Statement of Change in Net position:

	FSMPC	VEI	Elimination	Total Condensed
Operating revenue:				
Sales and service income	$66,259,303	$22,209,791	$ ---	$88,469,094
Other operating revenue	583,591	---	(433,720)	149,871
	66,842,894	22,209,791	(433,720)	88,618,965
Cost of goods sold	50,510,547	19,430,357	(---)	69,940,904
Gross profit	16,332,347	2,779,434	(433,720)	18,678,061
Operating expenses:				
Depreciation and amortization	3,435,099	47,384	---	3,482,483
Other operating expenses	14,495,893	2,198,749	(433,720)	16,260,922
	17,930,992	2,246,133	(433,720)	19,743,405
Operating (loss) income	(1,598,645)	533,301	---	(1,065,344)

16. Condensed Financial Information, continued

Condensed Statement of Change in Net position, continued

	FSMPC	VEI	Elimination	Total Condensed
Non-operating expenses:				
Interest and investments	(1,128,382)	(---)	---	(1,128,382)
Foreign exchange	---	(679,458)	---	(679,458)
	(1,128,382)	(679,458)	---	(1,807,840)
Change in net position	(2,727,027)	(146,157)	---	(2,873,184)
Net position at beginning of year	58,539,500	3,227,139	---	61,766,639
Net position at end of year	$55,812,473	$ 3,080,982	$ ---	$58,893,455

Condensed Statement of Cash flows:

	FSMPC	VEI	Elimination	Total Condensed
Net cash provided by (used in):				
Operating activities	$(1,235,107)	$(518,918)	$ ---	$(1,754,025)
Capital and related financing activities	(5,470,950)	(3,983)	---	(5,474,933)
Investing activities	(4,967,434)	---	---	(4,967,434)
Net decrease in cash	(11,673,491)	(522,901)	---	(12,196,392)
Cash and cash equivalent at beginning of year	25,344,940	3,185,031	---	28,529,971
Cash and cash equivalent at end of year	$13,671,449	$ 2,662,130	$ ---	$16,333,579

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, 2022

Assets	FSMPC	Vital	Eliminations	Total
Current assets:				
Cash and cash equivalents	$ 13,671,449	$ 2,662,130	$ ---	$ 16,333,579
Time certficates of deposit	---	401,396	---	401,396
Trade receivables	2,582,256	330,410	---	2,912,666
Due from component unit	1,952,464	---	(1,952,464)	---
Other receivables	306,618	---	---	306,618
Inventory, net	10,529,540	7,569,597	---	18,099,137
Prepaid expenses	2,657,436	343,817	---	3,001,253
Investments	7,628,741	---	---	7,628,741
Total current assets	39,328,504	11,307,350	(1,952,464)	48,683,390
Prepaid expenses, net of current portion	---	---	---	---
Due from component unit, net of current portion	5,242,068	---	(5,242,068)	---
Other noncurrent asset	589,093	121,000	---	710,093
Lease assets	3,495,488	---	---	3,495,488
Capital assets:				
Nondepreciable capital assets	11,243,429	---	---	11,243,429
Other capital assets, net of accumulated depreciation	19,455,183	120,961	---	19,576,144
Total assets	$ 79,353,765	$ 11,549,311	$ (7,194,532)	$ 83,708,544
Liabilities:				
Current liabilities:				
Current portion of long-term debt	1,435,005	---	---	1,435,005
Current portion of lease liabilities	81,033			81,033
Accounts payable - fuel	7,183,778	---	---	7,183,778
Accounts payable - other	1,377,810	218,314	---	1,596,124
Due to primary government	---	1,952,464	(1,952,464)	---
Accrued liabilities and others	3,699,268	890,386	---	4,589,654
Total current liabilities	13,776,894	3,061,164	(1,952,464)	14,885,594
Long-term debt, net of current portion	5,215,854	---	---	5,215,854
Due to primary government, net of current portion	---	5,242,068	(5,242,068)	---
Due to States and the FSM National Government	1,747,383	---	---	1,747,383
Lease liabilities	2,801,161	---	---	2,801,161
Other noncurrent liability	---	165,097	---	165,097
Total liabilities	23,541,292	8,468,329	(7,194,532)	24,815,089
Commitments and contingencies				
Net position:				
Net investment in capital assets	24,047,753	120,961	---	24,168,714
Unrestricted	31,764,720	2,960,021	---	34,724,741
Total net position	55,812,473	3,080,982	---	58,893,455
	$ 79,353,765	$ 11,549,311	$ (7,194,532)	$ 83,708,544

Federated States of Micronesia Petroleum Corporation

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

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

December 31, 2022

	FSMPC	Vital	Eliminations	Total
Operating revenues:				
Sales and service income	$ 66,259,303	$ 22,209,791	$ ---	$ 88,469,094
Other	583,591	---	(433,720)	149,871
	66,842,894	22,209,791	(433,720)	88,618,965
Cost of goods sold	50,510,547	19,430,357	---	69,940,904
Gross profit	16,332,347	2,779,434	(433,720)	18,678,061
Operating expenses:				
Salaries and benefits	5,102,250	363,277	---	5,465,527
Depreciation and amortization	3,435,099	47,384	---	3,482,483
Taxes	1,879,281	154,307	---	2,033,588
Repairs and maintenance	1,869,835	92,167	---	1,962,002
Professional fees	1,212,692	253,091	---	1,465,783
Staff travel, training and development	928,202	6,334	---	934,536
Insurance	386,284	401,044	---	787,328
Rent	571,766	127,219	---	698,985
Miscellaneous	466,237	66,114	---	532,351
Communications	363,589	97,106	---	460,695
Office supplies	422,343	30,606	---	452,949
Contracted services	346,625	102,630	---	449,255
Utilities	310,254	37,544	---	347,798
Fuel	292,409	18,550	---	310,959
Bank charges	177,530	4,739	---	182,269
Corporate governance, travel and entertainment	166,596	10,301	---	176,897
Corporate office shared services	---	433,720	(433,720)	---
Total operating expenses	17,930,992	2,246,133	(433,720)	19,743,405
Operating (loss) income	(1,598,645)	533,301	---	(1,065,344)
Nonoperating expenses:				
Foreign exchange loss, net	---	(679,458)	---	(679,458)
Investment loss, net	(529,994)	---	---	(529,994)
Interest expense, net	(598,388)	---	---	(598,388)
Total nonoperating expenses, net	(1,128,382)	(679,458)	---	(1,807,840)
Change in net position	(2,727,027)	(146,157)	---	(2,873,184)
Net position at beginning of year	58,539,500	3,227,139	---	61,766,639
Net position at end of year	$ 55,812,473	$ 3,080,982	$ ---	$ 58,893,455

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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, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 17, 2024.

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.

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

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.*

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

May 17, 2024