

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
FINANCIAL AUDIT
YEAR ENDED SEPTEMBER 30, 2024**

AUDIT REPORT NO. 005-25

**Office of the Public Auditor
State of Pohnpei**



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July 02, 2025

The Honorable Stevenson Joseph, Governor, State of Pohnpei
The Honorable Marvin Yamaguchi, Speaker, 11th Pohnpei Legislature
Honorable Members of 11th Pohnpei Legislature
Board of Directors, Small Business Guarantee & Finance Corporation
Mr. Thomas Pablo, Executive Director, Small Business Guarantee & Finance Corp.

Executive Summary

We are pleased to submit the financial audit report of the Small Business Guarantee and Finance Corporation (the Corporation), as of and for the fiscal year ended September 30, 2024. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit was also performed pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law No. 1L-10-79, as amended.

The objectives of our audit were:

- (i) the expression of an opinion concerning whether the financial statements present fairly in all material respects, the financial position, results of operations, and cash flows of Small Business Guarantee and Finance Corporation, in conformity with accounting principles generally accepted in the United States of America;
- (ii) reporting on the internal control relevant to an audit of the financial statements; and
- (iii) reporting on the Corporation's compliance with laws and regulations, which could have a material effect on the financial statements. We also conducted a review of management controls to determine whether there is reasonable assurance that management's objectives were achieved efficiently and effectively.

The highlights of the report are as follows:

Auditor's Opinion

The Corporation's financial statements present fairly, in all material respects, the financial position of the Corporation, as of and for the fiscal year ended September 30, 2024, and the results of its operations, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Financial Analysis

- (i) The Corporation incurred \$22,133 operating loss during the fiscal year, which is 18% higher compared to \$18,682 for fiscal year 2023.
- (ii) At September 30, 2024, the Corporation's operating expenses totaled \$285,597. The amount is \$43,262 or 18% higher than last year's figure of \$242,335.
- (iii) The Corporation's net asset was increased by \$574,939, from \$2,684,237 in fiscal year 2023 to \$3,259,177 for fiscal year 2024.
- (iv) The Corporation's loan accounts increased from a net of \$2,115,393 in fiscal year 2023 to a total net of \$2,492,110 in the current year.

Findings and Recommendations

We followed up on prior year audit findings and found that SBGFC has successfully resolved the only outstanding finding, related to payroll. Consequently, there are no outstanding audit findings for prior years. However, for the current fiscal year, our audit found an instance of non-compliance, also a reportable condition, as described below.

The Corporation's lending manual requires that loan accounts more than 120 days overdue are to be charged off and removed from the list of active accounts. Though the board and management actively monitored delinquent accounts, they did not ensure that this year's overdue accounts of more than 120 days are separated from active accounts.

The audit finding is fully discussed in the Schedule of Findings and Recommendations shown on pages 22 to 23.

As is customary, we have discussed the draft audit report with management of the Corporation and have requested for their response to our findings and recommendations. The Corporation's response is shown on pages 25-26 of this report, as Exhibit I.

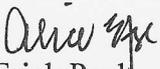
The Pohnpei State Law No. 5L-08-00, as amended, requires the auditee to prepare and submit monthly report to the Public Auditor indicating corrective measures already taken or will be shortly implemented to clear the audit deficiencies cited in the report until the findings are satisfactorily

resolved, which period shall not exceed one year. Accordingly, the first progress report from the Corporation should be due around August 4, 2025.

In closing, we extend our sincere appreciation to the Corporation's Executive Director and members of the workforce for the support and assistance extended to us during the course of our audit.

With warmest regard, I remain.

Sincerely,


for Erick Paul
State Public Auditor
Pohnpei



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Independent Auditor's Report

The Board of Directors
Small Business Guarantee and Finance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Small Business Guarantee and Finance Corporation (the Corporation), a component unit of the State of Pohnpei, which comprise the statements of the net position as of September 30, 2024 and 2023, and the related statements of revenues, expenses and changes in net position and cash flows for the years ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant

Audit Report - Small Business Guarantee and Finance Corporation

to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Corporation, as of September 30, 2024, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The Management's Discussion and Analysis on pages 3 to 5 is not a required part of the financial statement but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2025 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Corporation's internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Accounting Standards* in considering the Corporation's internal control over financial reporting and compliance.


Erick Paul
State Public Auditor
5 June 2025

Audit Report - Small Business Guarantee and Finance Corporation

Management's Discussion and Analysis Year Ended September 30, 2024

The Small Business Guarantee and Finance Corporation presents an overview of its financial performance as of and for the fiscal year ended September 30, 2024. This Management's Discussion and Analysis should be read in conjunction with the Corporation's financial statements, on pages 6 to 9 of this audit report.

Financial Highlights

- (i) For the fiscal year ended September 30, 2024, the Corporation's total operating revenues increased by \$39,811 or 18% over last year's figure.
- (ii) The net asset at September 30, 2024 was \$3,259,177, which is an increase of \$574,940 or 21% higher than last year's amount of \$2,684,237.
- (iii) For the year, total operating expenses was \$285,597, which is an increase of \$43,262 or 18% as compared with prior year.
- (iv) The Corporation incurred an operating loss of \$22,133 for the period, compared to an operating loss of \$18,682 last year.
- (v) Current assets of the Corporation increased by \$205,469 or about 35% compared to fiscal year 2023.
- (vi) Liabilities increased by \$1,793 or 6% as compared to fiscal year 2023.

Overview of the Financial Statements

The financial statements presented herein include all activities of the Small Business Guarantee and Finance Corporation. Included in this report are the statement of net assets, the statement of revenues, expenses, and changes in net assets, and statement of cash flows. These financial statements present the complete financial picture of the Corporation from the economic measurement focus using the accrual basis of accounting. It can be read from these statements whether the cash inflow of the Corporation is sufficient to take care of its financial obligations and commitments. These financial statements help management to measure company performance and determine flaws in its financial policies and consequently to assist management in determining the appropriate remedial measures.

The Corporation's budget that is subsidized partly by Pohnpei State is prepared annually by the management and transmitted through the Board of Directors for approval of the Pohnpei State Legislature. The budget contains the projected revenues, expenses and capital expenditures.

Audit Report - Small Business Guarantee and Finance Corporation

Management's Discussion and Analysis Year Ended September 30, 2024

Financial Analysis of the Corporation as Whole

Changes in Net Assets

The statement of net assets presents the financial position or condition of the Corporation and it shows the information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets or net liabilities. The passage of time and/or increases or decreases in net assets may serve as an indicator whether the financial position of the Corporation is improving or deteriorating.

The following table summarizes the changes in net assets of the Corporation for FY2024 and FY2023.

	<u>2024</u>	<u>2023</u>	<u>% Increase/ (Decrease)</u>
Current assets	\$ 784,285	\$ 578,816	35%
Capital assets, net	13,734	19,187	(28%)
Other non-current assets	<u>2,492,110</u>	<u>2,115,393</u>	<u>18%</u>
Total assets	<u>3,290,129</u>	<u>2,713,396</u>	<u>21%</u>
Current liabilities	<u>30,952</u>	<u>29,159</u>	<u>6%</u>
Net assets:			
Invested in capital assets	13,734	19,187	(28%)
Restricted	3,207,143	2,629,126	22%
Unrestricted	<u>38,299</u>	<u>35,924</u>	<u>7%</u>
Total liabilities and net assets	<u>\$ 3,290,129</u>	<u>2,713,396</u>	<u>21%</u>

Operating Activities

The Corporation charges 1% guarantee fee per annum on the guaranteed outstanding loan based on the diminishing balance thereof and payable one (1) prepayment period in advance.

On the Micro Loan Program, the Corporation charges 9% interest per annum and 2% penalty fee for delinquent loans, based on the monthly amortization in the event an installment is made after the fifteenth (15th) day of the due date. Upon closing of the loan, the Corporation charges 0.5% processing fee and a 35% agent's commission on every credit life insurance premium the Corporation issues on each loan. The loan ceiling is \$25,000.

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Management's Discussion and Analysis Year Ended September 30, 2024

Personal/Consumer Loan Program was established in June 2020 for eligible Pohnpei citizens. The loan program charges 13% interest per annum and 2% penalty fee for delinquent loans based on the monthly amortization. The Corporation charges \$25 upon closing of the loan. The loan ceiling is \$7,500 and the maximum repayment term is 3 years.

Loan program disbursed under the Economic Development Administration (EDA) charges 9% interest per annum and 1% penalty fee for delinquent payments based on the monthly amortization. The corporation charges 1% processing fee based on the total amount of loan.

In fiscal year 2024, about 33% of the Corporation's operation was subsidized by the State Government, while the remaining 67% was provided through the Corporation's project income and other revenues. Interest income from the \$2 million capitalization accrues to the benefit of the Corporation.

The result of the operation for the period as compared to last year is summarized below:

	<u>2024</u>	<u>2023</u>	<u>% Increase/ (Decrease)</u>
Operating revenues	\$ 263,464	\$ 223,653	18%
Operating expenses	<u>285,597</u>	<u>242,335</u>	18%
Operating income (loss)	(22,133)	(18,682)	18%
Non-operating revenues	<u>597,072</u>	<u>325,015</u>	84%
Net income (loss)	\$ <u>574,939</u>	\$ <u>306,333</u>	88%

Capital Assets and Debt Administration

As of September 30, 2024, the Corporation's investment in capital assets is \$13,734 (net of accumulated depreciation). The Corporation's capital assets include office furniture and equipment, software and vehicles.

Contacting the Corporation's Financial Management

This Management's Discussion and Analysis is designed to provide the customers, creditors, investors, board of directors and other interested parties, with a general overview of the Corporation's financial activities. Questions concerning any of the information provided in this discussion and analysis or requests for additional information should be addressed to the Executive Director, Small Business Guarantee and Finance Corporation at P.O. Box 1751 Kolonia, Pohnpei, FM 96941, or call (691) 320-2968 or (691) 320-3264.

Audit Report - Small Business Guarantee and Finance Corporation

Statement of Net Assets

September 30, 2024

(With Comparative totals for September 30, 2023)

ASSETS	2024	2023
Current assets:		
Cash and equivalents – unrestricted (note 2)	\$ 500	\$ 500
Cash and equivalents – restricted (note 2)	715,035	513,733
Prepaid Insurance	506	521
Accounts receivable, net (note 3)	1,250	1,250
Employee loans receivable (4)	10,686	11,886
Advances, net (note 5)	9,288	3,903
Interest receivable (note 6)	47,023	47,023
Deferred Charges	-	-
Total current assets	<u>784,285</u>	<u>578,816</u>
Non-current assets:		
Property and equipment, net (note 7)	13,734	19,187
Notes receivable – restricted (note 8)	<u>2,492,110</u>	<u>2,115,393</u>
Total non-current assets	<u>2,505,844</u>	<u>2,134,580</u>
Total assets	\$ <u>3,290,129</u>	\$ <u>2,713,396</u>
LIABILITIES		
Current liabilities:		
Social security payable	\$ 5,185	\$ 3,439
Withholding tax payable	2,742	1,746
Credit life insurance payable	91	-
Accounts Payable (note 9)	22,104	22,028
Accrued expense	584	1,701
Cash Short/Over	245	245
Total liabilities	\$ <u>30,952</u>	\$ <u>29,159</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 13,734	\$ 19,187
Restricted for capital stock and business development project	3,191,859	2,615,194
Restricted for employee loan program	15,284	13,932
Unrestricted net assets	<u>38,299</u>	<u>35,924</u>
Total liabilities and net assets	\$ <u>3,290,129</u>	\$ <u>2,713,396</u>

See accompanying notes to financial statements.

Audit Report - Small Business Guarantee and Finance Corporation

Statement of Revenues, Expenses, and Changes in Net Assets

September 30, 2024

(With Comparative totals for September 30, 2023)

	<u>2024</u>	<u>2023</u>
Operating revenues		
Interest income (note 10)	\$ 240,492	\$ 200,290
Loan processing fee	14,147	12,727
Loan restructuring fee	1,125	800
Income – CLI commission	-	3,542
Recovery of loans PDLF	7,699	6,294
Total operating revenues	\$ <u>263,464</u>	\$ <u>223,653</u>
Operating expenses		
Salaries	\$ 120,099	\$ 81,680
Employee benefit program	4,913	3,223
Retirement Plan Employer	2,488	1,757
Social security tax	9,008	6,126
Cost of living allowance	17,050	13,970
Travel	39,517	18,964
Depreciation	15,173	14,499
Office supplies	6,772	9,087
Telephone and communication	2,941	2,615
Utilities	3,435	2,858
Annual dues	-	-
Gasoline	5,134	4,129
Representation and entertainment	14,030	13,312
Repairs and maintenance	2,608	1,386
Janitorial and cleaning	3,100	3,050
Bank charges	1,915	2,262
Meeting allowance	13,800	8,140
Membership fee	857	573
Security service	4,320	4,320
Promotion and Advertising	705	50
Printing and Production	24	22
Legal and Professional fee	6,683	25,185
Insurance Expense	1,104	1,031
Miscellaneous	1	527
Bad Debt Expense	-	13,648
Annual System Maintenance	9,921	9,921

Audit Report - Small Business Guarantee and Finance Corporation

Total operating expenses	\$	<u>285,597</u>	\$	<u>242,335</u>
Operating loss	\$	<u>(22,133)</u>	\$	<u>(18,682)</u>
Non-operating revenues				
Transfers in (note 11)		593,090		93,090
Grant Contribution		-		229,820
Interest Income (note 10)		215		179
Other income (note 14)		3,615		1,690
Interest income - employee loan		151		236
Total non-operating revenues		<u>597,072</u>		<u>325,015</u>
Increase (decrease) in Net Assets		<u>574,939</u>		<u>306,333</u>
Net assets (liabilities) – beginning of year		<u>2,684,237</u>		<u>2,337,904</u>
Net assets (liabilities) – end of year	\$	<u><u>3,259,177</u></u>	\$	<u><u>2,684,237</u></u>

See accompanying notes to financial statements.

Audit Report - Small Business Guarantee and Finance Corporation

Statement of Cash Flows

For the year ended September 30, 2024

Cash flows from operating activities:	
Receipts from customers	\$ 2,028,990
Payments to suppliers and employees	2,415,041
Net cash used by operating activities	<u>(386,051)</u>
Cash flows from non-capital financing activities:	
Transfers in	593,090
Grant Contribution-EDA	-
Interest income	366
Other income	3,615
Net cash provided by non-capital financing activities	<u>597,072</u>
Cash flows from capital and related financing activities:	
Purchase of capital asset	<u>(9,720)</u>
Net cash used by capital and related financing activities	<u>(9,720)</u>
Net cash and equivalents increase for the year	201,301
Cash and equivalents at beginning of year	<u>514,233</u>
Cash and equivalents at End of Year	<u>\$ 715,535</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating loss	\$ (22,133)
Depreciation	15,173
(Increase) decrease in assets:	
Accounts receivable	-
Prepaid Insurance	15
Advances	(5,385)
Interest receivable	-
Employee loans receivable	1,201
Notes receivable	(376,716)
Increase (decrease) in liabilities:	
Accounts payable	76
Accrued expense	(1,116)
Credit life insurance payable	91
Social security tax payable	1,747
Deferred Revenue	-
Cash Short/Over	-
Suspense Account	-
Withholding tax payable	996
Net cash used by operating activities	<u>\$ (386,051)</u>

See accompanying notes to financial statements.

Notes to Financial Statements

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Reporting Entity**

The Corporation was established by Pohnpei State Law No. 3L-86-95 on February 14, 1995. However, it officially started its operation on October 1, 1999 when the accounting system was transferred from the Department of Treasury and Administration to the Corporation. The Corporation's mission is to provide, promote, develop and widen in both scope and service, reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, and secondary mortgage and/or rediscounting of loan papers to small businesses.

Pursuant to Pohnpei State Law No. 5L-14-00 (Executive Reorganization Act of 2000), the Corporation shall be attached to the Pohnpei State Government's Office of Economic Affairs, and shall be under the policy, program, and administrative supervision of the Small Enterprise Development (SED) Council. It shall exercise all the general powers conferred by law upon corporations as are incidental or conducive to the attainment of the Business Development Act of 1994, including the power to promulgate articles of incorporation, bylaws, rules and regulations, guiding programs and policies. Its main function is to guarantee loans to qualified small enterprises, local and/or regional associations' small enterprises and industries, private voluntary organizations and/or cooperatives. It may guarantee loans up to 85% and may also provide second guarantees on the credit and/or investment guarantees made by credit guarantee associations and other institutions in support of small enterprises.

The powers of the Corporation shall be vested upon a seven-member Board of Directors. The Administrator of the Office of Economic Affairs shall serve as Chairman, with the other six members appointed by the Governor upon recommendation of the SED Council with the advice and consent of the Legislature. Three members shall come from the private sector and the other three members are from the public sector. The Board consists of seven (7) members, including the Chairman. Effective March 17, 2019 a new State Law No. 9L-103-19, provides that "The members of the Board shall elect a chairman of the Board during the first meeting of the Board, following the most recent amendment to this section of the Code, who shall serve a term of chairman as set forth in the bylaws of the Corporation."

The Corporation is managed by an Executive Director, appointed by the Board of Directors and who reports directly to the Board. The Director is charged with the responsibility of ensuring smooth operation of the Corporation in line with the policies established by the Board of Directors. He is also in charge of the implementation of the guarantee program.

B. Financial Statements

The financial statements of Small Business Guarantee and Finance Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial

Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989.

The Corporation has implemented the general provisions of GASB Statement No. 34, "Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments", pursuant to paragraph 142 of the Statement. The financial statements in this report include the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

C. Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of the Corporation are organized as a proprietary fund-component unit of Pohnpei State Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income as well as the maintenance of capital.

Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included in the statement of net assets. Net asset is segregated into three (3) components: invested in capital assets, restricted, and unrestricted. The operating statement for proprietary funds is the statement of revenues, expenses, and changes in fund net assets. Revenues are reported by major sources and distinguished between operating and non-operating revenues.

Basis of accounting refers to when revenues and expenses are recorded in the accounts and reported in the financial statements. The Corporation utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash is received or payment is made.

D. Budget

The Corporation operates on an annual budget determined and appropriated by the Pohnpei State Legislature (PSL). The Corporation, upon approval by the Board of Directors, may also use certain revenues generated by its activities to supplement its annual budget.

E. Cash and Equivalents

For the purpose of the statement of net assets and statement of cash flow, cash and equivalents are defined as cash on hand and cash in banks, including time certificates of deposit that mature within one year. Of these amounts, \$250,000 is insured through the FDIC, with the remaining balance exceeding insurable limits. The Corporation does not require collateralization of its deposits by its banks. Therefore, the amounts, which exceed the FDIC insurable limits, are characterized as uncollateralized.

F. Capital Assets

Assets with value of \$1,000 or more are capitalized and recorded at cost less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets.

G. Revenues

Annual operating subsidies to the Corporation, which finance either capital or current operations, are reported as non-operating revenues based on GASB Statement No. 33.

H. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. In accordance with the provisions of FASB Statement No. 43- Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken.

I. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 reports could differ from those estimates.

J. Net Assets

The Corporation complied with the requirements of GASB Statement No. 34, regarding the presentation of net assets in the financial statements. The difference between the assets and liabilities is displayed as "net assets", which is further segregated into three (3)

components: “invested in capital assets”, “restricted”, and “unrestricted”. The restricted component of net assets includes cash, notes receivable and investment where the fund source has been restricted for capital stock and business development projects. The unrestricted component of net assets includes unrestricted cash, other current assets and liabilities that are not restricted for use by the Corporation.

K. New Accounting Standards

During the year, the Corporation implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple- Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment to GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of Small Business Guarantee and Finance Corporation.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012.

Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of Small Business Guarantee and Finance Corporation.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Corporation.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Corporation.

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

Audit Report - Small Business Guarantee and Finance Corporation

(2) CASH AND EQUIVALENTS

The Corporation's cash and equivalents at September 30, 2024 is summarized below:

	Restricted	Unrestricted	Total
Petty cash		\$ 500	\$ 500
Cash in bank – Savings ITA	\$ 4,703		4,703
Cash in bank – BOG	401,348		401,348
Cash in bank - PDLF Savings	106,455		106,455
Cash in bank - Employee Loan Program	15,284		15,284
Cash in bank – Direct Loan Program	170,386		170,386
Cash in bank- TCD	-		-
Cash in bank – EDA	16,859		16,859
Total cash and equivalents	<u>\$ 715,035</u>	<u>\$ 500</u>	<u>\$ 715,535</u>

The restricted cash represents balances of cash in banks arising from the following:

- The Original capitalization of \$1,000,000;
- Business development projects fund of \$500,000 received by the Corporation in fiscal year 2000;
- A transfer of \$102,700 from the defunct Development Loan Fund. (*see also Note 10*); and,
- Initial employee loan fund of \$10,000.
- On April 24, 2024, the Corporation received \$500,000 from the Pohnpei State Legislature designated for the consumer loan program. (*see also note 11*)

(3) ACCOUNTS RECEIVABLE

The Corporation's accounts receivable at September 30, 2024 is **\$1,250**.

(4) EMPLOYEE LOANS RECEIVABLE

The total balance of employees' loans with the Corporation at September 30, 2024 is **\$10,686**.

(5) ADVANCES

The summary of the Corporation's advances at September 30, 2024 is as follows:

Total amount of advances	\$12,329
Allowance for doubtful accounts	(3,041)
Net	<u>\$ 9,288</u>

Audit Report - Small Business Guarantee and Finance Corporation

(6) INTEREST RECEIVABLE

The Corporation charges 15% on its direct loans and the loans from the defaulted guarantees. At September 30, 2024, the loans have accrued interests of **\$47,023**.

(7) CAPITAL ASSETS

The capital assets' activities as of and for the fiscal year ended September 30, 2024 are as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decrease)</u>	<u>Ending Balance</u>
Vehicles	\$ 14,532	\$ 8,500	\$ (7,900)	\$ 15,132
Office equipment	19,494	1,363	(2,755)	18,101
Software	160,064	0	0	160,064
Total cost	\$ 194,090	\$ 9,863	\$ (6,575)	\$ 193,297
(Less) accumulated depreciation for:				
Vehicles				\$ (7,199)
Office equipment				(16,234)
Software				(156,130)
Total accumulated depreciation				(179,563)
Capital assets, net				\$ 13,734

(8) NOTES RECEIVABLE

The account represents two (2) promissory notes arising from defaulted loan guarantees, forty-one (41) promissory notes from the Micro Loan Program and seven hundred fifty-nine (759) promissory notes from the Consumer Loan Program.

A summary of the notes receivable at September 30, 2024 is as follows:

Description	Gross Amount	Allowance for Bad Debts	Net Amount
Micro Loan Program (41 accounts)	\$ 295,098	\$ (134,053)	\$ 161,045
Defaulted Loan Guarantees (2 accounts)	166,429	(166,429)	0.00
PDLF	243,316	(243,316)	0.00
Consumer Loan Program (759 accounts)	1,975,417	0.00	1,975,417
EDA Grant	355,648	0.00	355,648
Total	\$ 3,035,908	\$ (543,798)	\$ 2,492,110

Audit Report - Small Business Guarantee and Finance Corporation

(9) ACCOUNTS PAYABLE

The amount represents accumulated total overpayment of loan. At September 30, 2024 accounts payable is **\$22,104**

(10) INTEREST INCOME

The amounts represent 9% interests earned on the direct loans under Micro Loan Program (MLP), the loans from the defaulted loan guarantees (DLG) and 13% interest earned on the Consumer Loan program for the year ended September 30, 2024.

(11) TRANSFERS-IN

For the fiscal year 2024, the Pohnpei State Legislature appropriated a total of \$593,090 to the Corporation. Of this amount, \$93,090 was designated to subsidize the Corporation's operations, while the remaining \$500,000 was provided as additional funds for consumer loans. The amounts were recorded as non-operating revenues.

(12) GRANT CONTRIBUTION

No grant received for the current year.

(13) POHNPEI DEVELOPMENT LOAN FUND (PDLF)

In December 2013 the Governor signed into law S. L. No. 8L-36-13 authorizing the transfer of \$100,000 of the liquid capital of the defunct Development Loan Fund (the Fund) and all the outstanding loan portfolio of the Fund to the Corporation. The fund is contributed as capital for the Corporation for the purpose of providing government assistance to qualifying businesses. The capital including payments/interests in the total amount of \$102,700 was recorded in the Corporation's books in June 2014 and named as Pohnpei Development Loan Fund.

(14) OTHER INCOME

The amounts represent interest earned on operation bank accounts maintained by the Corporation and interest earned on employees' loans for the year ended September 30, 2024.

During the period, the Corporation recorded a gain on the disposal of assets amounting to \$1,500. This gain resulted from the sale of assets at a value higher than their carrying amount in the books. The disposal was conducted in accordance with policies and applicable accounting standards.

(15) CONTINGENCIES

Risk Management

The Corporation does not purchase commercial insurance covering its potential risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

Claims

There is currently no outstanding lawsuit or claim filed or threatened to be filed against the Corporation.

Guarantees

Pursuant to the Corporation's enabling act [PSL No. 3L-86-95, Section 15 (3)], the Corporation shall become liable under its guarantees upon proof that the loan has become past due under such terms and guidelines adopted by its Board and printed on the contract of guarantee. The Corporation did not enter into new loan guarantees during the fiscal year 2024.

SMALL BUSINESS GUARANTEE & FINANCE CORPORATION

Independent Auditor's Report on Compliance & Internal Control over Financial Reporting

YEAR ENDED SEPTEMBER 30, 2024



OFFICE OF THE PUBLIC AUDITOR
POHNPEI STATE GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED UPON THE
AUDIT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND
INTERNAL CONTROL OVER FINANCIAL REPORTING

Chairman
Board of Directors
Small Business Guarantee and Finance Corporation:

We have audited the accompanying financial statements of Small Business Guarantee and Finance Corporation (the Corporation), as of and for the year ended September 30, 2024, and have issued our report thereon dated June 5, 2025. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such as opinion. The result of our tests disclosed an instance of non-compliance, which is described in the accompanying Schedule of Findings and Recommendations (pages 22-23) as finding number 2025-001 that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purposes of expressing an opinion on the effectiveness of the Corporation's internal control.

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable condition is described in the accompanying Schedule of Findings and Recommendations (pages 22-23) as finding 2025-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item number 2025-001, identified as reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management of the Corporation, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Purpose of the 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 entity'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.


for Erick Paul
State Public Auditor
5 June 2025

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2024

Finding No. 2025-001 Failure to Implement Loan Policy

Criteria:

Pursuant to the SBGFC policy adopted in April 2021, as outlined in Corporate Resolution No. SBGFC21-03, once consumer loan is 120 days past due, it shall be charged off and vigorous collection put in place. All charged off requests shall be approved by the Board of Directors. Loan charged off may be referred to Legal Counsel for collection subject to approval by the Executive Director.

Condition:

The auditors observed that there were loan accounts overdue for more than 120 days, yet management has not taken appropriate action to charge off the accounts as required by SBGFC's lending manual policy. The delinquent accounts are still reported as active receivables in the accounting records, and no provisions have been made.

Cause:

- Lack of awareness or understanding of the internal policies among staff responsible for loan portfolio management.
- Weak enforcement or oversight by management regarding compliance with loan charged off procedures.
- Inadequate monitoring or review mechanisms to ensure overdue accounts are identified and acted upon promptly.

Effect:

- Overstatement of assets by remaining active, overdue loans that should have been charged off.
- Increased risk of undiscoverable or uncollectible bad debt, affecting financial accuracy.
- Potential non-compliance with accounting standards and legal regulations, which could lead to penalties or sanctions.
- Reduced transparency and accountability in financial reporting, impairing stakeholder trust.
- Delayed recognition of loss provisions, which could distort the organization's financial health and impair decision-making.

Recommendations:

- Develop, formalize, and communicate clear procedures for identifying and charging off delinquent loans exceeding 120 days, ensuring compliance with policies and regulations.
- Implement regular monitoring and review mechanisms to promptly identify overdue accounts and ensure adherence to charge-off policies.
- Maintain complete documentation of all loan accounts beyond 120 days overdue, including management decisions, approval memos, and corresponding accounting entries.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Auditee Response (Exhibit I)

YEAR ENDED SEPTEMBER 30, 2024



SMALL BUSINESS GUARANTEE & FINANCE CORPORATION

P.O. Box 1751, Kolonia, Pohnpei FM 96941
Telephone: (691) 320-2968/3264

July 1, 2025

Erick Paul
Public Auditor
Pohnpei Office of the Public Auditor
Pohnpei State Government
Kolonia, Pohnpei FM 96941



RE: Response to Audit Citation Finding #2025-001: Failure to Implement Loan Policy

Dear Public Auditor Paul,

Thank you for your thorough review and bringing your finding to our attention.

We acknowledge the auditor's finding regarding the accounts that remained overdue for more than 120 days without being charged off, as required under our lending policy. While it is correct that these accounts were not charged off, the reason was not due to lack of awareness or understanding of the internal policy, nor due to weak enforcement or oversight of management. Management and its Board has been fully aware of the situation and has made continued efforts to address these delinquent accounts appropriately.

The delinquent accounts were first assigned to a private attorney (Salomon Saimon) for collection efforts. However, the Office of the Attorney General (AG) later advised that such matters should be handled through their office. The accounts were taken back from Attorney Saimon and handed over to the AG for action. Unfortunately, while under the AG's responsibility, there was little to no progress on the cases for over a year.

After some time, we took the accounts back from the AG's office and gave them once again to Attorney Saimon. Soon after, the AG's office asked for the files back, stating they would take action. However, little progress was made. Once these cases were turned over for legal action, management was no longer in a position to take action on them. Due to the continued delays, we eventually hired a loan collector and brought the accounts back under our control to move forward with collection and recovery efforts.

Throughout this time, management kept the Board of Directors informed of the status and challenges regarding these accounts, including updates during our regular monthly board meetings.

We understand the importance of complying with the charge-off provisions outlined in Resolution #21-03. Our intention was never to avoid or delay action, but rather to pursue every available legal and procedural options to recover the funds before charging off the accounts. Going forward, we are

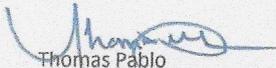
Audit Report - Small Business Guarantee and Finance Corporation

improving our internal processes to make sure delinquent accounts are either resolved or properly charged off on time, as required by policy.

We respectfully ask the auditors to consider this explanation, especially legal limitations we faced after the accounts were referred for legal action.

We appreciate the auditors' time and attention to this matter and we remain committed to ensuring full compliance with all applicable policies and procedures moving forward.

Sincerely,



Thomas Pablo
Executive Director
Small Business Guarantee & Finance Corp

CC: Salvason Salvador
Joseph Felix Jr.
Johnny Musrasrik
Mark Kostka
Albert Johnny
Rullens Phillip



IMPORTANT MESSAGE

We actively solicit and welcome allegations of any insufficient and wasteful practices, fraud and abuse of Pohnpei State Government public resources. Fraud, waste and abuse in government should be concern of everyone in Pohnpei. You can report allegations of fraud and abuse by contacting us at address below:

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P. O. Box 1684
Kolonia, Pohnpei State, FM 96941
Phone: (691) 320-2638
Hotline: (691) 320-8497 (24/7)
Email: erickpaul691@gmail.com
Website: www.opapni.fm

MEHN KAPESE KESEMPWAL

Pwukoa en tetehek, apwapwalih oh doadoahki mwohni oh dipwisou en kopwoment en wein Pohnpei sapwelimatail koaros (tohn doadoahk en kopwoment, Ohpis en Public Auditor oh aramas koaros en Pohnpei). Komw kak repwohtki omwi iren kapwunod kan meh pid sou itar en apwalih mwohni, dipwsou de awahn doadoahk en kopwoment en Pohnpei ni ansou karos ohng ni:

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