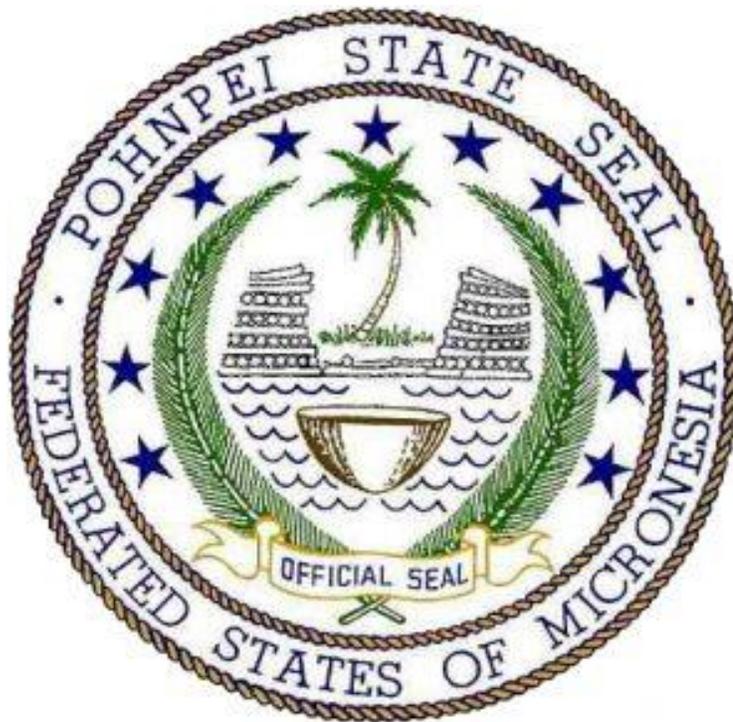


**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION  
FINANCIAL AUDIT  
FISCAL YEAR ENDED SEPTEMBER 30, 2023**

**AUDIT REPORT NO. 001-24**

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



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**POHNPEI STATE GOVERNMENT  
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July 04, 2024

The Honorable Stevenson A. Joseph, Governor, State of Pohnpei  
The Honorable Marvin T. Yamaguchi, Speaker, 11<sup>th</sup> Pohnpei Legislature  
Honorable Members of 11<sup>th</sup> Pohnpei Legislature  
Board of Directors, Small Business Guarantee & Finance Corporation  
Mr. Thomas S. 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, 2023. 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, 2023, 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 \$18,682 loss during the fiscal year, as compared to \$19,483 operating income in fiscal year 2022.
- (ii) At September 30, 2023, the Corporation's operating expenses totaled \$242,335. The amount is \$49,410 or 26% higher than last year's figure of \$192,925.
- (iii) The Corporation's net asset increased by \$306,333.
- (iv) The Corporation's loan accounts increased from a net of \$1,729,975 in fiscal year 2022 to a total net of \$2,115,393 in the current year.

### Findings and Recommendations

- (i) There is no new audit finding this year, however one (1) of the audit findings from the prior year has not been resolved fully. The audit finding is regarding paid but unsupported sick/annual leaves. For the finding, we have provided our recommendation if implemented, could further enhance the Corporation's operation.

The audit finding is discussed in the Schedule of Findings and Recommendations on page 22 of this report.

As is customary, we have discussed the draft audit report with management of the Corporation and have requested for their response to our finding and recommendation. The Corporation's response is shown on page 24 of this report, as Exhibit I.

The Pohnpei State Law No. 5L-08-00, 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 deficiency cited in the report until the finding is satisfactorily resolved, which period shall not exceed one year. Accordingly, the first progress report from the Corporation should be due around August 03, 2024.

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 warm regards, I am.

Sincerely,

Erick Paul  
State Auditor  
Pohnpei, FSM

**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 the Small Business Guarantee and Finance Corporation (the Corporation), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then 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 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.

# Audit Report - Small Business Guarantee and Finance Corporation

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

## **Opinion**

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Small Business Guarantee and Finance Corporation as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years 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 statements but is supplementary information required by the Governmental 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 May 28, 2024 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 Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Erick Paul  
State Auditor  
28 May 2024

# Audit Report - Small Business Guarantee and Finance Corporation

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## Management's Discussion and Analysis Year Ended September 30, 2023

The Small Business Guarantee and Finance Corporation presents an overview of its financial performance as of and for the fiscal year ended September 30, 2023. This Management's Discussion and Analysis should be read in conjunction with the Corporation's financial statements, on pages 3 to 5 of this audit report.

### Financial Highlights

- (i) For the fiscal year ended September 30, 2023, the Corporation's total operating revenues increased by \$11,245 or 5% over last year's figure.
- (ii) The net asset at September 30, 2023 was \$2,684,237, which is an increase of \$306,333 or 13% higher than last year's amount of \$2,377,904.
- (iii) For the year, total operating expense was \$242,335, which is an increase of 49,410 or 26% as compared with prior year.
- (iv) The Corporation experienced an operating loss of \$18,682 compared to an operating income of \$19,483 last year.
- (v) Current assets of the Corporation decreased by \$63,365 or about 10% compared to fiscal year 2022.
- (vi) Liabilities increased by \$3,597 or 14% as compared to fiscal year 2022 .

### 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

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## Management's Discussion and Analysis Year Ended September 30, 2023

### 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 FY2023 and FY2022.

	<u>2023</u>	<u>2022</u>	<u>% Increase/ (Decrease)</u>
Current assets	578,816	\$642,181	(10%)
Capital assets, net	19,187	31,310	(39%)
Other non-current assets	<u>2,115,393</u>	<u>1,729,975</u>	22%
Total assets	<u>2,713,396</u>	<u>2,403,466</u>	13%
Current liabilities	<u>29,159</u>	<u>25,562</u>	14%
Net assets:			
Invested in capital assets	19,187	31,310	(39%)
Restricted	2,629,126	2,306,320	14%
Unrestricted	<u>35,924</u>	<u>40,724</u>	(12%)
Total liabilities and net assets	<u>2,713,396</u>	<u>2,403,466</u>	13%

#### **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 (15<sup>th</sup>) 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.

# Audit Report - Small Business Guarantee and Finance Corporation

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## Management's Discussion and Analysis

Year Ended September 30, 2023

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 2023, about 38% of the Corporation's operation was subsidized by the State Government, while the remaining 62% was provided through the Corporation's project income and other revenues. Interest income from the \$1.5 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>2023</u>	<u>2022</u>	<u>% Increase/ (Decrease)</u>
Operating revenues	\$ 223,653	\$ 212,408	5%
Operating expenses	<u>242,335</u>	<u>192,925</u>	26%
Operating income (loss)	(18,682)	19,483	(196%)
Non-operating revenues	<u>325,015</u>	<u>373,092</u>	(13%)
Net income (loss)	<u>\$ 306,333</u>	<u>392,575</u>	(22%)

### **Capital Assets and Debt Administration**

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As of September 30, 2023, the Corporation's investment in capital assets is \$19,187 (net of accumulated depreciation). The Corporation's capital assets include office furniture and equipment, software and vehicles.

### **Contacting the Corporation's Financial Management**

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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, 2023

(With Comparative totals for September 30, 2022)

See accompanying notes to financial statements.

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
Current assets:		
Cash and equivalents – unrestricted (note 2)	\$ 500	\$ 300
Cash and equivalents – restricted (note 2)	513,733	576,345
Prepaid Insurance	521	427
Accounts receivable, net (note 3)	1,250	1,250
Employee loans receivable (4)	11,886	13,169
Advances, net (note 5)	3,903	3,667
Interest receivable (note 6)	47,023	47,023
Total current assets	<u>578,816</u>	<u>642,181</u>
Non-current assets:		
Property and equipment, net (note 7)	19,187	31,310
Notes receivable – restricted (note 8)	2,115,393	1,729,975
Total non-current assets	<u>2,134,580</u>	<u>1,761,285</u>
Total assets	\$ <u>2,713,396</u>	\$ <u>2,403,466</u>
<b>LIABILITIES</b>		
Current liabilities:		
Social security payable	\$ 3,439	\$ 2,898
Withholding tax payable	1,746	1,421
Credit life insurance payable	-	32
Accrued expense	1,701	3,258
Total liabilities	\$ <u>29,159</u>	\$ <u>25,562</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 19,187	\$ 31,310
Restricted for capital stock and business development project	2,615,194	2,293,906
Restricted for employee loan program	13,932	12,414
Unrestricted net assets	35,924	40,274
Total liabilities and net assets	\$ <u>2,713,396</u>	\$ <u>2,403,466</u>

# Audit Report - Small Business Guarantee and Finance Corporation

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## **Statement of Revenues, Expenses, and Changes in Net Assets**

September 30, 2023

(With Comparative totals for September 30, 2022)

	<u>2023</u>	<u>2022</u>
<b>Operating revenues</b>		
Interest income (note 9)	\$ 200,290	\$ 190,291
Loan processing fee	12,727	17,297
Loan restructuring fee	800	550
Income – CLI commission	3,542	0.00
Recovery of loans PDLF (note 13)	6,294	4,270
Total operating revenues	<u>\$ 223,653</u>	<u>\$ 212,408</u>
<b>Operating expenses</b>		
Salaries	\$ 81,680	70,618
Employee benefit program	3,223	2,807
Retirement Plan Employer	1,757	1,642
Social security tax	6,126	5,296
Cost of living allowance	13,970	12,000
Travel	18,964	375
Depreciation	14,499	14,661
Office supplies	9,087	5,643
Telephone and communication	2,615	3,298
Utilities	2,858	2,535
Annual dues	0.00	0.00
Gasoline	4,129	3,800
Representation and entertainment	13,312	12,065
Repairs and maintenance	1,386	1,425
Janitorial and cleaning	3,050	1,590
Bank charges	2,262	2,978
Meeting allowance	8,140	2,820
Membership fee	573	456
Security service	4,320	-
Promotion and Advertising	50	75
Printing and Production	22	-
Legal and Professional fee	25,185	13,561
Insurance Expense	1,031	1,531
Miscellaneous	527	23,837
Bad Debt Expense	13,648	-

## Audit Report - Small Business Guarantee and Finance Corporation

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Annual System Maintenance	9,921	9,912
Total operating expenses	\$ 242,335	\$ 192,925
Operating loss	\$ (18,682)	\$ 19,483
<b>Non-operating revenues</b>		
Transfers in (note 11)	\$ 93,090	107,000
Grant Contribution	229,820	264,962
Interest Income (note 10)	179	22
Other income (note 14)	1,690	518
Interest income - employee loan	236	590
Total non-operating revenues	\$ 325,015	373,092
Increase (decrease) in Net Assets	306,333	392,575
<b>Net assets (liabilities) – beginning of year</b>	2,377,904	1,985,329
<b>Net assets (liabilities) – end of year</b>	\$ 2,684,237	\$ 2,377,904

See accompanying notes to financial statements.

# Audit Report - Small Business Guarantee and Finance Corporation

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## **Statement of Cash Flows**

For the year ended September 30, 2023

<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,810,716
Payments to suppliers and employees	2,195,769
Net cash used by operating activities	<u>(385,053)</u>
<b>Cash flows from non-capital financing activities:</b>	
Transfers in	93,090
Grant Contribution-EDA	229,820
Interest income	415
Other income	1,690
Net cash provided by non-capital financing activities	<u>325,015</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchase of capital asset	(2,374)
Net cash used by capital and related financing activities	<u>(2,374)</u>
Net cash and equivalents decrease for the year	(62,412)
Cash and equivalents at beginning of year	<u>576,645</u>
Cash and equivalents at End of Year	<u>\$ 514,233</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating loss	\$ (18,682)
Depreciation	14,499
(Increase) decrease in assets:	
Accounts receivable	-
Prepaid Insurance	(94)
Advances	(236)
Interest receivable	-
Employee loans receivable	1,283
Notes receivable	(385,419)
Increase (decrease) in liabilities:	
Accounts payable	4,320
Accrued expense	(1,558)
Credit life insurance payable	(32)
Withholding tax payable	<u>325</u>
Net cash used by operating activities	<u>\$ (385,053)</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 its 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 received on an annual subsidy determined and appropriated by the Pohnpei State Legislature (PSL). The Corporation, upon approval by the Board of Directors, may also uses 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*

### K. New Accounting Standards, Continued

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

## Audit Report - Small Business Guarantee and Finance Corporation

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years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the Corporation's financial statements.

### (2) CASH AND EQUIVALENTS

The Corporation's cash and equivalents at September 30, 2023 is summarized below:

	Restricted	Unrestricted	Total
Petty cash		\$ 500	\$ 500
Cash in bank – Savings ITA	\$ 947		947
Cash in bank – BOG	100,803		100,803
Cash in bank - PDLF Savings	115,319		115,319
Cash in bank - Employee Loan Program	13,932		13,932
Cash in bank – Direct Loan Program	192,285		192,285
Cash in bank- TCD	-		-
Cash in bank – EDA	90,447		90,447
Total cash and equivalents	<u>\$ 513,733</u>	<u>\$ 500</u>	<u>\$ 514,233</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 13); and,
- Initial employee loan fund of \$10,000.

### (3) ACCOUNTS RECEIVABLE

The Corporation's accounts receivable at September 30, 2023 is **\$1,250**.

### (4) EMPLOYEE LOANS RECEIVABLE

The total balance of employees' loans with the Corporation at September 30, 2023 is **\$11,886**.

### (5) ADVANCES

The summary of the Corporation's advances at September 30, 2023 is as follows:

Total amount of advances	\$3,505
Allowance for doubtful accounts	<u>(3,041)</u>

## Audit Report - Small Business Guarantee and Finance Corporation

Net **464**

(6) INTEREST RECEIVABLE

The Corporation charges 15% on its direct loans and the loans from the defaulted guarantees. At September 30, 2023, 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, 2023 are as follow

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decrease)</u>	<u>Ending Balance</u>
Vehicles	\$ 14,532	0	0	\$ 14,532
Office equipment	17,119	2,375	0	19,494
Software	160,064	0	0	160,064
Total cost	\$194,090			194,090
 (Less) accumulated depreciation for:				
Vehicles				\$ (14,532)
Office equipment				(16,040)
Software				(144,331)
Total accumulated depreciation				\$ (174,903)
Capital assets, net				<b>19,187</b>

(8) NOTES RECEIVABLE

The account represents two (2) promissory notes arising from defaulted loan guarantees and fifty-one (51) promissory notes ensuing from the Micro Loan Program.

A summary of the notes receivable at September 30, 2023 is as follows:

Description	Gross Amount	Allowance for Bad Debts	Net Amount
Micro Loan Program (33 accounts)	\$ 375,773	\$ (135,142)	\$ 240,631
Defaulted Loan Guarantees (2 accounts)	166,429	( 166,429)	0.00
PDLF	248,009	(248,009)	0.00
Consumer Loan Program (609 accounts)	1,567,106	0.00	1,567,106
EDA Grant	307,656	0.00	307,656
Total	\$ 2,664,973	\$ ( 549,580)	\$ <b>2,115,393</b>

(9) ACCOUNTS PAYABLE

(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, 2023.

(11) TRANSFERS-IN

The Pohnpei State Legislature appropriated \$93,090 to subsidize the Corporation's operation for the fiscal year 2023. The amount is recorded as non-operating revenue.

(12) GRANT CONTRIBUTION

The amount represent the grant received from US Department of Commerce Economic Development Administration (EDA) for the 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, 2023.

(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 2023.

SMALL BUSINESS GUARANTEE & FINANCE CORPORATION

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**Independent Auditor's Report On Compliance & Internal Control Over Financial Reporting**

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YEAR ENDED SEPTEMBER 30, 2023



**POHNPEI STATE GOVERNMENT  
OFFICE OF THE PUBLIC AUDITOR**

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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, 2023, and have issued our report thereon dated May 28, 2024. 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 (page 22) as finding number 2024-001 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.

## Audit Report - Small Business Guarantee and Finance Corporation

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However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 (page 22) as finding number 2024-001.

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 2024-001 identified as a 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.

Ihlen K. Joseph  
State Auditor  
28 May 2024

**SCHEDULE OF FINDINGS AND RECOMMENDATION**  
**FISCAL YEAR ENDING ENDED SEPTEMBER 30, 2023**

**Finding No. 2024-001 Unresolved Prior Years' Findings**

**Criteria:**

Pohnpei State Law No. 5L-08-00, required the auditee to submit to the Public Auditor a report on its progress in clearing the deficiencies cited in the audit report until such time that all the deficiencies have been cleared, which period shall not exceed one (1) year..

**Condition:**

The table that follows shows the status of the implementation of prior year's recommendations:

<b>Audit Findings</b>	<b>Status of Resolution</b>	<b>Auditor's Remarks</b>
<b>Finding No 2019-003 Payroll Related matters not in accord with Policies and Procedures</b>  Management should ensure Corporation's policies and procedures are duly followed to prevent recurrence of issued regarding payroll related administrative matters.	Finding accepted and Corporation agreed to strictly follow payroll related policies of the Corporation.	Partly resolved.  Minor instances were noted.

**Cause:**

The condition happened due to oversight.

**Effect:**

As a result, prior year finding remains until satisfactorily resolved.

**Recommendation:**

We recommend that management should ensure policies and procedures are duly followed to prevent recurrence of issues relating to payroll matters.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION**

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**Auditee Response (Exhibit I)**

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**YEAR ENDED SEPTEMBER 30, 2023**



**SMALL BUSINESS GUARANTEE & FINANCE CORPORATION**

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

July 2, 2024

Iso Ihlen K. Joseph  
Public Auditor  
Pohnpei Office of the Public Auditor  
Pohnpei State Government  
Kolonia, Pohnpei FM 96941



Dear Public Auditor Joseph,

Thank you for your thorough review and bringing your findings to our attention. We appreciate your diligence in ensuring compliance with our policies. Allow me to address the single citation regarding payroll-related matters in your report:

1. Sick leave form reasoning: We acknowledge that a sick leave form lacked reason. We've reinforced procedures to ensure all employees understand the need to provide a reason.
2. Vacation leave form: It was noted that a 4-hour vacation wasn't properly documented, resulting in an incorrect 8-hour payment. It's important to clarify that the employee had sufficient leave balance for this period. We have improved our oversight procedures to ensure accurate recording of leave hours.
3. Sick leave hours discrepancy: There was an inconsistency between recorded sick leave hours and payroll records. We're enhancing verification processes to prevent such discrepancies.
4. Lack of sick leave for submission: We recognize instances where a sick leave form was not submitted. We've reminded staff to adhere to our policy on timely form submission.

We've issued a reminder to all staff about complying strictly with our leave policy to maintain accurate records. We remain committed to process improvement.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas Pablo".

Thomas Pablo  
Executive Director  
Small Business Guarantee & Finance Corporation