

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
FINANCIAL AUDIT
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

AUDIT REPORT NO. 001-23

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



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Small Business Guarantee and Finance Corporation
Audit Report
Year Ended September 30, 2022

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**POHNPEI STATE GOVERNMENT
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June 5, 2023

The Honorable Oliver B. Reed, Governor, State of Pohnpei
The Honorable Marvin Yamaguchi, Speaker, 10th Pohnpei Legislature
Honorable Members of 10th 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, 2022. 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 September 30, 2022, 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's net asset was increased by \$392,575.
- (ii) The Corporation earned a total of \$19,483 operating income during the fiscal year, a \$49,091 or 166% increase as compared to the \$29,608 operating loss in fiscal year 2021.
- (iii) At September 30, 2022, the Corporation's operating expenses totaled \$192,925. The amount is \$23,611 or 14% higher than last year's figure of \$169,314.
- (iv) The Corporation's loan accounts increased from a net of \$1,647,699 in fiscal year 2021 to a total net of \$1,729,975 in the current year. Contributing factor is the increase of new loans approved under the Consumer Loan Program and EDA grant.

Findings and Recommendations

- (i) There are two audit findings this fiscal year regarding inadequate reconciliation of accounts and unresolved prior year's audit findings. For the findings, we have provided our recommendations if implemented, could improve the Corporation's operation.
- (ii) The audit findings are fully discussed in the Schedule of Findings and Recommendations shown on pages 22 to 24.


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 26-27 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 deficiencies cited in the report until all findings are satisfactorily resolved, which period shall not exceed one year. Accordingly, the first progress report from the Corporation should be due around July 2, 2023.

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,


Ihlen K. Joseph
State 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 net position as of September 30, 2022, and the related statement of revenues, expenses and statement of cash flow for the fiscal year then ended, and the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Corporation, as of September 30, 2022, 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

Required Supplementary Information

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 April 28, 2023 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.


Ihlen K. Joseph
State Auditor
28 April 2023

Small Business Guarantee and Finance Corporation
Management's Discussion and Analysis
Year Ended September 30, 2022

The Small Business Guarantee and Finance Corporation presents an overview of its financial performance as of and for the fiscal year ended September 30, 2022. 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, 2022, the Corporation's total operating revenues increased by \$72,702 or 52% over last year's figure. This is due to increase of interest income earned on Micro Loan Program and Consumer Loan and related processing fees.
- (ii) The net assets at September 30, 2022 was \$2,377,904 which is \$392,575 higher than last year's amount of \$1,985,329. The increase in net assets is due to grant contribution of \$230,364 and operating income earned by the Corporation.
- (iii) During the year, total operating expense increased by \$23,611 or 14%, as compared with prior year.
- (iv) The Corporation earned an operating income of \$19,483 in FY 2022 which is 166% higher than last year's operating loss of \$29,608.

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.

Small Business Guarantee and Finance Corporation
Management's Discussion and Analysis
Year Ended September 30, 2022

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 FY2022 compared with FY2021.

	<u>2022</u>	<u>2021</u>	<u>% Increase/ (Decrease)</u>
Current assets	642,181	\$349,561	84%
Capital assets, net	31,310	44,685	(30%)
Other non-current assets	<u>1,729,975</u>	<u>1,647,699</u>	5%
Total assets	<u>2,403,466</u>	<u>2,041,945</u>	18%
Current liabilities	<u>25,562</u>	<u>56,616</u>	(55%)
Net assets:			
Invested in capital assets	31,310	44,685	(30%)
Restricted	2,306,320	1,929,189	20%
Unrestricted	<u>40,274</u>	<u>11,455</u>	252%
Total liabilities and net assets	<u><u>2,403,466</u></u>	<u><u>2,041,945</u></u>	18%

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.

Small Business Guarantee and Finance Corporation
Management's Discussion and Analysis
Year Ended September 30, 2022

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.

For the fiscal year 2022, about 55% of the Corporation's operation was subsidized by the State Government, while the remaining 45% 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>2022</u>	<u>2021</u>	<u>% Increase/ (Decrease)</u>
Operating revenues	\$ 212,408	\$ 139,706	52%
Operating expenses	192,925	169,314	14%
Operating income (loss)	<u>19,483</u>	<u>(29,608)</u>	166%
Non-operating revenues	373,092	144,455	158%
Capital Contribution from PSG	-	-	-
Net income (loss)	<u>\$ 392,575</u>	<u>114,847</u>	242%

Capital Assets and Debt Administration

As of September 30, 2022, the Corporation's investment in capital assets is \$31,310 (net of accumulated depreciation). Its capital assets include office furniture and equipment, software and vehicles. The Corporation's current liabilities is about 4% of its current assets.

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.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Statement of Net Assets

September 30, 2022

(With Comparative totals for September 30, 2021)

ASSETS	2022	2021
Current assets:		
Cash and equivalents – unrestricted (note 2)	\$ 300	\$ 800
Cash and equivalents – restricted (note 2)	576,345	281,490
Prepaid Insurance	427	833
Accounts receivable, net (note 3)	1,250	1,250
Employee loans receivable (note 4)	13,169	14,913
Advances, net (note 5)	3,667	3,752
Interest receivable (note 6)	47,023	47,023
Total current assets	<u>642,181</u>	<u>349,561</u>
Non-current assets:		
Property and equipment, net (note 7)	31,310	44,685
Notes receivable – restricted (note 8)	1,729,975	1,647,699
Total non-current assets	<u>1,761,285</u>	<u>1,692,384</u>
Total assets	<u>\$ 2,403,466</u>	<u>\$ 2,041,945</u>
LIABILITIES		
Current liabilities:		
Social security payable	\$ 2,898	\$ 1,485
Withholding tax payable	1,421	1,392
Credit life insurance payable	32	32
Accrued expense	3,258	3,004
Deferred Revenue	-	33,088
Accounts payable	17,708	17,370
Cash short/over	245	245
Total liabilities	<u>\$ 25,562</u>	<u>\$ 56,616</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 31,310	\$ 44,685
Restricted for capital stock and business development project	2,293,906	1,918,864
Restricted for employee loan program	12,414	10,325
Unrestricted net assets	40,274	11,455
Total liabilities and net assets	<u>\$ 2,403,466</u>	<u>\$ 2,041,945</u>

See accompanying notes to financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Statement of Revenues, Expenses, and Changes in Net Assets
September 30, 2022
(With Comparative totals for September 30, 2021)

	<u>2022</u>	<u>2021</u>
Operating revenues		
Interest income (note 9)	\$ 190,291	\$ 127,331
Loan processing fee	17,297	6,965
Loan restructuring fee	550	750
Income – CLI commission	0.00	0.00
Recovery of loans PDLF (note 12)	4,270	4,660
Total operating revenues	\$ 212,408	\$ 139,706
Operating expenses		
Salaries	70,618	75,991
Employee benefit program	2,807	\$ 3,471
Retirement plan employer	1,642	1,642
Social security tax	5,296	5,668
Cost of living allowance	12,000	8,400
Travel	375	-
Depreciation	14,661	15,656
Office supplies	5,643	7,510
Telephone and communication	3,298	3,315
Utilities	2,535	2,295
Annual dues	0.00	0.00
Gasoline	3,800	3,597
Representation and entertainment	12,065	10,039
Repairs and maintenance	1,425	1,053
Janitorial and cleaning	1,590	300
Bank charges	2,978	1,538
Meeting allowance	2,820	1,840
Membership fee	456	560
Security service	-	4,320
Promotion and advertising	75	155
Legal and professional fee	13,561	6,000
Insurance expense	1,531	1,125
Miscellaneous	23,837	4,927
Annual system maintenance	9,912	9,912
Total operating expenses	\$ 192,925	\$ 169,314
Operating income (loss)	\$ 19,483	\$ (29,608)

Non-operating revenues		
Transfers in (note 10)	107,000	107,000
Grant Contribution (note 11)	264,962	34,598
Interest Income (note 9)	518	829
Other income (note 13)	22	602
Interest income - employee loan	590	1,426
Total non-operating revenues	<u>373,092</u>	<u>144,455</u>
Contributed Capital	-	-
Increase (decrease) in Net Assets	392,575	114,847
Net assets (liabilities) – beginning of year	<u>1,985,329</u>	<u>1,870,482</u>
Net assets (liabilities) – end of year	<u>\$ 2,377,904</u>	<u>\$ 1,985,329</u>

See accompanying notes to financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Statement of Cash Flows

For the year ended September 30, 2022

Cash flows from operating activities:	
Receipts from customers	\$ 4,609,287
Payments to suppliers and employees	4,686,238
Net cash used by operating activities	<u>(76,951)</u>
Cash flows from non-capital financing activities:	
Transfers in	107,000
Grant Contribution-EDA	264,962
Interest income	612
Other income	518
Net cash provided by non-capital financing activities	<u>373,092</u>
Cash flows from capital and related financing activities:	
Purchase of capital asset	<u>(1,286)</u>
Net cash used by capital and related financing activities	<u>(1,286)</u>
Net cash and equivalents increase for the year	294,855
Cash and equivalents at beginning of year	<u>281,790</u>
Cash and equivalents at end of year	\$ <u>576,645</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ 19,483
Depreciation	14,661
(Increase) decrease in assets:	
Accounts receivable	-
Prepaid Insurance	406
Advances	85
Interest receivable	-
Employee loans receivable	1,744
Notes receivable	(82,276)
Increase (decrease) in liabilities:	
Accounts payable	337
Accrued expense	255
Credit life insurance payable	-
Social security tax payable	1,413
Cash Short/Over	-
Deferred Revenue	(33,088)
Suspense Account	
Withholding tax payable	<u>29</u>
Net cash used by operating activities	\$ <u>76,951</u>

See accompanying notes to financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(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.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Notes to Financial Statements

September 30, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Standards, Continued

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.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Standards, Continued

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.

(2) CASH AND EQUIVALENTS

The Corporation's cash and equivalents at September 30, 2022 is summarized below:

	Restricted	Unrestricted	Total
Petty cash		\$ 300	\$ 300
Cash in bank – Savings ITA	\$ 1,063		1,063
Cash in bank – BOG	40,782		40,782
Cash in bank - PDLF Savings	60,002		60,002
Cash in bank - Employee Loan Program	12,414		12,414
Cash in bank – Direct Loan Program	408,273		408,273
Cash in bank – EDA	53,811		53,811
Total cash and equivalents	<u>\$ 576,345</u>	<u>\$ 300</u>	<u>\$ 576,645</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 Pohnpei Development Loan Fund. (See also Note 12); and,
- Initial employee loan fund of \$10,000.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(3) ACCOUNTS RECEIVABLE

The Corporation's accounts receivable at September 30, 2022 is **\$1,250**.

(4) EMPLOYEE LOANS RECEIVABLE

The total balance of employees' loans with the Corporation at September 30, 2022 is **\$13,169**.

(5) ADVANCES

The summary of the Corporation's advances at September 30, 2022 is as follows:

Total amount of advances	\$6,709
Allowance for doubtful accounts	<u>(3,042)</u>
Net	<u>3,667</u>

(6) INTEREST RECEIVABLE

The Corporation charges 15% on its direct loans and the loans from the defaulted guarantees. At September 30, 2022, 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, 2022 are as follows:

<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	22,407	1,286	(6,575)	17,119
Software	160,064	0	0	160,064
Total cost	<u>\$197,003</u>	<u>1,286</u>	<u>(6,575)</u>	<u>191,714</u>
 (Less) accumulated depreciation for:				
Vehicles				\$ (13,858)
Office equipment				(14,016)
Software				<u>(132,530)</u>
Total accumulated depreciation				<u>\$ (160,404)</u>
Capital assets, net				<u>31,310</u>

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(8) NOTES RECEIVABLE

A summary of the notes receivable at September 30, 2022 is as follows:

Description	Gross Amount	Allowance for Bad Debts	Net Amount
Micro Loan Program (51 accounts)	\$ 478,009	\$ (128,243)	\$ 349,766
Defaulted Loan Guarantees (2 accounts)	166,429	(166,429)	0.00
PDLF	254,297	(254,297)	0.00
Consumer Loan Program (518 accounts)	1,192,002	0.00	1,192,002
EDA Grant	188,207	0.00	188,207
Total	\$ 2,278,944	\$ (548,969)	\$ 1,729,975

(9) INTEREST INCOME

The amounts represent 9% interests earned on the direct loans under Micro Loan Program (MLP), loans issued under the grant received from the US Department of Commerce Economic Development Administration (EDA), the loans from the defaulted loan guarantees (DLG) and 13% interest earned on the Consumer Loan program for the year ended September 30, 2022.

(10) TRANSFERS-IN

The Pohnpei State Legislature appropriated \$107,000 to subsidize the Corporation's operation for the fiscal year 2022. The amount is recorded as non-operating revenue.

(11) GRANT CONTRIBUTION

The amount of \$264,962 represents portion of the grant received from US Department of Commerce Economic Development Administration (EDA) for the year.

(12) 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 of 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 as Pohnpei Development Loan Fund.

During the year, the Corporation recovered \$4,270 of the outstanding PDLF loans.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2022

(13) 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, 2022.

(14) 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 2022.

SMALL BUSINESS GUARANTEE & FINANCE CORPORATION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE &
CONTROL OVER FINANCIAL REPORTING**

YEAR ENDED SEPTEMBER 30, 2022



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

P.O. BOX 370

KOLONIA, POHNPEI STATE, FM 96941

TEL: (691) 320-2638 Hotline:320-8497

WEBSITE: www.opapni.fm E-MAIL: isoujoseph@gmail.com

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

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, 2022, and have issued our report thereon dated April 28, 2023. 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 an opinion. The result of our tests disclosed an instance of non-compliance, which is described in the accompanying Schedule of Findings and Recommendations (pages 22-24) as finding number 2022-002 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 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 22-24) as finding number 2022-001.

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 2022-001, 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.



Ihten K. Joseph
State Auditor
April 28, 2023

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Schedule of Findings and Recommendations
Year Ended September 30, 2022

Finding No. 2022-001 Lapse in Reconciliation of Accounts

Criteria: Best practice requires regular reconciliation of general ledger with related detail accounts to ensure the accuracy and completeness of Financial Statements.

Condition: Although there was improvement in this year's financial statements, we noted most of the reconciliation of accounts and GL is not performed regularly. We found the following:

- 1) Notes Receivable balance in the subsidiary ledger was different from the general ledger by more than \$36,000 due to misclassification e.g., Notes Receivable-EDA was recorded under Notes MLP.
- 2) Double entry of disbursements amounting to \$7,066 and \$5,619 deposit transactions that were mistakenly reversed under the Cash In-Bank Direct Loan Program account.
- 3) Accruals were not made for payroll and payroll related liabilities such as social security and withholding tax.
- 4) Depreciation expense was not recorded amounting to \$14,661.

During the fieldwork, management accepted all the proposed adjusting entries presented by the audit team.

Cause: We have recommended to the Management and the Board the need to carry out reconciliations of the Corporation's accounts for the last two years, i.e. for 2020 and 2021, and this is the third year that we are recommending the same issue again. The condition has been recurring due to the lack of qualified accountant to help the Corporation on its accounting matters.

Effect: The condition had the same effect on the financial statements as in the previous years prior to auditors' adjustments.

Recommendation: We recommend the Accountant to regularly reconcile all the accounts in the financial statements. This will help management identify and correct errors to ensure the financial statements are free of material misstatements.

Auditee Response: Please refer to Exhibit I on pages 26-27 of this report.

Auditor's Reply: We acknowledged that Management and Board have worked hard to recruit a qualified Accountant for the Corporation. The finding will be removed when there are no material reconciling items found during subsequent audits.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Schedule of Findings and Recommendations
Year Ended September 30, 2022

Finding No. 2022-002 Unresolved Prior Years' Findings

Criteria: Pohnpei State Law No. 10L-59-21, requires auditees to submit monthly 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 year.

Condition: The table below shows the status of the prior year's recommendations:

Audit Findings	Status of Resolution	Auditor's Remarks
<p>Finding No. 2018-004 Control Weaknesses in the Financial Reporting and Supporting Accounting Records</p> <p>Management should recruit a qualified person to account and report on the financial activities of the Corporation and train the current Accountant to eventually assume the duties and responsibilities.</p>	<p>This finding is partially resolved. Due to COVID-19, the Corporation could not bring in the CPA hired from the Philippines. Instead, the Corporation has recently hired an Accountant (local) who has worked to improve the internal controls over the Corporation's financial accounting and reporting.</p> <p>Even though reconciliation of accounts has improved, the auditors still found misclassification and unrecorded transactions. (see finding no. 2022-001)</p>	<p>Auditors commend management and the Accountant for the improvement of this year's internal controls in the Corporation's financial accounting and reporting. Reconciliation still needs to improve however to ensure timely reporting of reliable financial statements and information.</p>
<p>Finding No 2019-003 Payroll Related matters not in accord with Policies and Procedures</p> <p>Management should strictly implement the Corporation's policies and procedures regarding payroll related administrative matters including advances of salaries.</p>	<p>Partially resolved.</p> <p>Payroll advances have been already referred to the legal advisor. Employee with outstanding payroll advances has resigned but paying \$125 bi-weekly allotments toward his advance.</p> <p>Auditors found instances of leaves not approved but were paid; and, an employee who has exhausted his/her leaves but received payment.</p>	<p>Finding will be fully resolved once outstanding payroll advance is cleared; and, administration and payment of leaves are duly resolved.</p>
<p>Finding No. 2019-06 Lack of Proper Review and Documentation</p> <p>Executive Director and the Board to implement suitable internal control structure that enable improved review and documentation.</p>	<p>Partially resolved.</p> <p>Auditors noted improvements in documentation, still, there were disbursements found that lacked appropriate signatures.</p>	<p>Finding will be removed when subsequent audit will not find issues with disbursements documentation.</p>

Cause: The condition remain due to reconciliation not performed consistently by the former accountant, and also, management overlooked certain disbursements lacking proper documentation.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Schedule of Findings and Recommendations
Year Ended September 30, 2022

Finding No. 2022-002 Unresolved Prior Years' Findings, Continued

Effect: The non-resolution of prior years' audit findings will continue to hinder the effective maintenance of a suitable internal control system, as well as Corporation's compliance with applicable laws and regulations including lowering or preventing the risk of possible financial loss due to and as a result of deficient internal controls.

Recommendation: We recommend that the Board and management should ensure that the Corporation's corrective action plan is consistently implemented to fully resolve all prior years' audit findings. The Board should ensure that supervisory review and monitoring of work and related records continue to prevent recurring of audit citations.

Auditee Response: Please refer to Exhibit I on pages 26-27 of this report.

Auditor's Reply: In regards to Finding No. 2022-002 Unresolved Prior Years Finding:

- Finding No. 2019-003 Payroll Related Matters Not in Accord with Policies - the finding will be removed when the auditors can verify that payments for the payroll advance will not discontinue and the outstanding balance will be paid.
- Finding No. 2019-06 Lack of Proper Review and Documentation – on the contrary, the auditors found disbursements lacking proper documentation, e.g., no approving signature, no signature certifying availability of funds, no signature of preparer, or no signature acknowledging receiving payments. The finding will be removed when no significant issues found regarding proper review and documentation.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

**Exhibit I
AUDITEE RESPONSE**

YEAR ENDED SEPTEMBER 30, 2022



SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

P.O. Box 1751 Kolonia, Pohnpei FM 96941

Telephone Numbers: (691) 320-2968/3264 Fax: (691) 320-5082

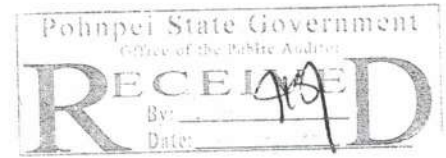


Exhibit I

SBGFC

May 30, 2023

Honorable Ihllen K. Joseph
State Public Auditor
Office of the State Public Auditor
Kolonia, Pohnpei FSM 96941

Ref. Auditee Response to FY2022 Audit Citations or Findings

Maing Mr. Joseph,

On behalf of the Board of Directors and Management of Small Business Guarantee and Finance Corporation, submit herein, our response to the two audit findings or citations mentioned in the audit of the corporation's financial statements for Fiscal Year 2022. The following are our responses and corrective measures;

1. Finding No. 2022-001 Lapse in Reconciliation of Accounts.

Auditee Response: We concur with the finding but wish to note that we did not agree that there was no action or attention given to this citation. Because of this finding, management and the Board of Directors acted in response to the finding by hiring a new accountant and creating a Senior accountant post. Although the appointment of the senior accountant has yet to be materialized, it is imperative to continue using the services of the State Financial Advisor, and of course, to provide the present accountant with the necessary and required training. Reconciliation of the accounts were and still continue to be performed on a daily basis. The overall improvement of the SBGFC's financial reports or records as compared to previous years is a clear indication that the board and management are collaboratively addressing the issue at hand.

2. Finding No. 2022-002 Unresolved Prior Years Findings

Finding No. 2018-004 Control Weakness in the Financial Reporting and Supporting Accounting Records

Auditee Response- We partially concur and wish to note the auditor's remarks

Finding No.2019-003 Payroll Related matters no in accord with Policies and Procedures

Exhibit I

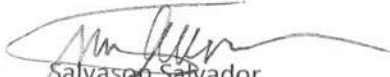
Auditee Response - We do not concur and believe that this finding should be remove from Prior Years Findings for the following reasons; Management requested the removal of this specific finding during a meeting with the Senior Auditor and the Auditor in charge because the finding's resolution had already been essentially completed and was now just a matter of time. The former employee who took out the payroll advance is currently paying the advance through bi-weekly payroll deduction. Accordingly, the use of leave in question was one of the factors leading to the disciplinary action taken against the former employee. In the exit conference on May 8, 2023, the board and management received assurance that the finding would be removed and recorded in the management letter for future reference.

Finding No. 2019-06 Lack of Proper Review and Documentation

Auditee Response – We do not concur and believe that this finding should be removed. The fact that the auditors noted the improvements in this area goes to show or a good justification that our Corrective Action Plan submitted to your office on September 07, 2022 is indeed good and working. Along with this, there is no citation for lack or improper documentation noted in the current year audit.

In closing, I wish to express our sincere gratitude and appreciation for your continued support and understanding. We certainly hope that the information provided is sufficient to address and hopefully resolve some of the audit findings enumerated above. We are also thankful for the removal of three (3) other prior year findings.

Ni Wahu Kalahngan,


Salvason Salvador
Chairman



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 a concern of everyone in Pohnpei. You can report allegations of fraud and abuse by contacting us at the address below:

Pohnpei Office of the Public Auditor
P.O Box 370
Kolonias, Pohnpei State, FM 96941
Phone: (691) 320-2638
Hotline: (691) 320-8497- (24/7)
Website: www.opapni.fm

MEHN KAPESEH KESEMPWAL

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

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