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Executive summary

This chapter sets out the results of our audits of the Saskatchewan Government Growth Fund Management Corporation and its eight venture capital fund companies.

The Government created the Saskatchewan Government Growth Fund Management Corporation (Management Corporation) to manage the monies it received under the Federal Government's Immigrant Investor Program.

Management Corporation and its fund companies have reliable financial statements for the year ended December 31, 2001. During 2001, Management Corporation had adequate rules and procedures to safeguard and control its assets and those of the fund companies. Management Corporation also complied with the authorities governing its activities and those of the fund companies except that it has not met all the requirements of the *Immigration Regulations (Canada)*. Specifically, Management Corporation has:

- ◆ not invested the required amount of monies in eligible businesses;
- ◆ invested some monies in ineligible businesses; and
- ◆ incorrectly determined the start date of the five-year holding period of securities it issued to some immigrant investors.

Management Corporation is taking steps to meet all the requirements of the *Immigration Regulations (Canada)*. The Federal Government is monitoring the progress.

Introduction

The Government created Saskatchewan Government Growth Fund Management Corporation (Management Corporation) to manage the monies it received under the Federal Government's Immigrant Investor Program. As of December 31, 2001, Management Corporation has created eight venture capital fund companies (fund companies) to manage the immigrant investors' monies. Management Corporation charges the fund companies for its services.

One of the desired outcomes of the Federal Immigrant Investor Program is to stimulate economic growth. The investment objectives of the fund companies range from investing in high-risk small to medium Saskatchewan businesses to investing in companies that lease assets to the Government of Saskatchewan. The required structure of the fund companies is set by the Immigrant Investor Program such that the immigrant investors bear all losses, if any.

Background

The Federal Immigrant Investor Program provides a mechanism by which investors may obtain, subject to meeting immigration requirements, an immigration visa once they have made a minimum investment of \$250,000. The investment must be for a period of at least five years and be made in Saskatchewan small business ventures that contribute to business expansion.

The eight venture capital fund companies are:

Saskatchewan Government Growth Fund Ltd. (SGGF I),
Saskatchewan Government Growth Fund II Ltd. (SGGF II),
Saskatchewan Government Growth Fund III Ltd. (SGGF III),
Saskatchewan Government Growth Fund IV Ltd. (SGGF IV),
Saskatchewan Government Growth Fund V (1997) Ltd. (SGGF V),
Saskatchewan Government Growth Fund VI Ltd. (SGGF VI),
Saskatchewan Government Growth Fund VII Ltd. (SGGF VII), and
Saskatchewan Government Growth Fund VIII Ltd. (SGGF VIII).

In 1997, to deal with increased competition for immigrant investor monies from other Canadian venture capital funds participating in the Immigrant

Investor Program, Management Corporation adjusted its marketing and investing strategies. Management Corporation reduced the financial risk to immigrants by investing in companies that leased assets to Saskatchewan Crown corporations. The reduced financial risk allowed Management Corporation to arrange financing for immigrant investors for a portion (up to \$175,000) of their \$250,000 investment in the fund companies. For example, Management Corporation marketed SGGF IV, SGGF V, SGGF VI, SGGF VII, and SGGF VIII on the basis that up to 50% of the immigrants' monies would be invested in companies that lease assets leased to Crown corporations, up to 30% would be invested in high-risk small or medium-sized businesses, and 20% would be in liquid securities.

In order to invest in leased assets to Crown corporations, Management Corporation set up and invested fund companies' monies in two numbered companies, 617275 Saskatchewan Ltd and 101005716 Saskatchewan Ltd. These two numbered companies borrowed monies from the fund companies to buy assets that they leased to Saskatchewan Crown corporations.

The fund companies were closed to new investors in 1999. As a result, the only new monies flowing into the fund companies are for immigrant investors who had put a deposit down prior to the closure of SGGF V through VIII and who have been accepted by the Federal Government as immigrants.

Effective October 1, 2000, the Board of Management Corporation and the Boards of the fund companies made a ten-year agreement with Crown Capital Partners Inc. (CCP). At that date, the staff of Management Corporation resigned and became the staff of CCP. CCP provides the Boards of Management Corporation and the fund companies with management, investment, and administrative services. CCP charges a fee to Management Corporation for these services. In addition, Crown Investments Corporation of Saskatchewan staff helps the Boards oversee operations, including the services provided by CCP.

Financial results

The annual reports of Management Corporation and those of its fund companies contain their respective financial statements. A summary of the financial results for the years ended December 31 is shown below.

	2001		2000	
	(in thousands of dollars)			
	Assets	Liabilities	Assets	Liabilities
Management Corporation	\$ 4,345	\$ 239	\$ 7,710	\$ 867
SGGF I	3,990	171	7,349	803
SGGF II	4,298	13,239	7,626	13,408
SGGF III	19,952	24,816	26,968	27,784
SGGF IV	34,270	33,236	35,882	34,059
SGGF V	29,695	29,040	29,965	28,706
SGGF VI	23,219	23,291	19,718	19,228
SGGF VII	22,317	22,585	16,895	16,564
SGGF VIII	15,598	15,591	9,716	9,625

The financial results of SGGF I are included with Management Corporation as all its security holders (i.e., immigrant investors) have been paid out. The immigrant investors' securities (bonds or notes) issued by SGGF II and SGGF III have matured or will mature shortly. Because of investment losses in these fund companies, Management Corporation cannot pay out the full amount to the remaining immigrant investors that these two fund companies owe them. Management Corporation has quit repaying investors in SGGF II and is making only partial payments to SGGF III investors until it liquidates all the investments held by these fund companies.

Separate audited financial statements do not exist for the two numbered companies. The financial results of 617275 Saskatchewan Ltd. are included in the financial results of SGGF III, SGGF IV, and SGGF V. The financial results of 101005716 Saskatchewan Ltd. are included in the financial results of SGGF V, SGGF VI, SGGF VII, and SGGF VIII.

Audit conclusions and findings

Our Office worked with Deloitte & Touche, the appointed auditor for Management Corporation, SGGF I, SGGF II, SGGF III, SGGF IV,

SGGF V, SGGF VI, SGGF VII, and SGGF VIII using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>). Deloitte & Touche and our Office formed the following opinions.

In our opinion:

- ♦ **The financial statements of Management Corporation, SGGF I, SGGF II, SGGF III, SGGF IV, SGGF V, SGGF VI, SGGF VII, and SGGF VIII for the year ended December 31, 2001 are reliable;**
- ♦ **Management Corporation had adequate rules and procedures to safeguard and control its and SGGF I, II, III, IV, V, VI, VII, and VIII's assets; and**
- ♦ **Management Corporation complied with authorities governing its and SGGF I, II, III, IV, V, VI, VII, and VIII's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described later in this report.**

We did not form separate opinions on the adequacy of control systems for 617275 Saskatchewan Ltd., and 1010051716 Saskatchewan Ltd. or on their compliance with governing authorities. The two numbered companies are operated as divisions of the fund companies.

Need to comply with investment rules

Management Corporation did not meet certain requirements of the *Immigration Regulations (Canada)* for SGGF III, SGGF IV, SGGF V, SGGF VI, SGGF VII, and SGGF VIII.

The Immigration Regulations and guidelines set out the requirements of the Immigrant Investor Program. These requirements also form part of the immigrant investors' security Offering Memoranda. These memoranda are legal contracts between the investors and the Government of Saskatchewan.

The *Immigration Regulations* and the offering memoranda require that 70% of the immigrant investors' monies be invested in eligible businesses within nine months from the date immigrant investors place their monies in a fund. Also, investors' monies are locked into the fund for a minimum period of five years. The Regulations define eligible business as a Saskatchewan small business that controls total assets of less than \$35 million.

We previously reported in our 1995, 1996, and 1997 Fall Reports that Management Corporation had not met the *Immigration Regulations* 70% investment threshold within the given time. The Standing Committee on Public Accounts (PAC) considered this matter and concluded that due to Management Corporation's need to do adequate due diligence in finding suitable investments, an unavoidable time lag may occur. Therefore, Management Corporation would not meet the 70% investment threshold within the nine-month timeframe.

We complied with PAC's request to inform the Office of the Auditor General of Canada about Management Corporation's non-compliance with the *Immigration Regulations*. The Auditor General wrote to us and said that the Department of Citizenship and Immigration was aware significant improvements needed to be made to the Immigrant Investor Program.

We did not report to the Legislative Assembly, Management Corporation's non-compliance with the *Immigration Regulations* or its contractual obligations under the security Offering Memoranda for the 1998, 1999, and 2000 fiscal years. However, we remained concerned that the problem continues to exist.

The intent of the *Immigrant Regulations* is to contribute to business expansion through investments in Canadian small businesses. In our 1999 Spring Report, we reported that the numbered companies existed to get around the *Immigration Regulations* of not permitting the investment of immigrants' monies in Crown corporations.

In 2000, the Federal Government audited Management Corporation's compliance with the Immigrant Investor Program and reported its results in 2001. It found that Management Corporation did not comply with

certain of the *Immigration Regulations*. Specifically, the Federal Government reported that:

- ◆ Management Corporation had not invested a minimum of 70% of the immigrant investors' monies in eligible businesses for SGGF V, SGGF VI, SGGF VII and SGGF VIII within nine months or receipt of investors' monies.
- ◆ Management Corporation invested immigrants' monies in ineligible businesses. The numbered companies, 617275 Saskatchewan Ltd., and 1010051716 Saskatchewan Ltd., are not eligible businesses as defined by the *Immigration Regulations*. Management Corporation invested \$39.9 million of SGGF III through SGGF VIII's monies in these numbered companies.

The Federal Government ruled that these investments were ineligible because of the Provincial Government's control of these companies and the fund companies. As a result, the numbered companies did not qualify as eligible Saskatchewan small businesses.

- ◆ Management Corporation incorrectly determined the start date of the minimum five-year holding period for the securities held by investors of SGGF V, SGGF VI, SGGF VII and SGGF VIII. The revised start date extends the length of time that fund companies hold immigrant investors' monies.

During 2001, Management Corporation and its fund companies took the following steps to comply with the *Immigration Regulations*.

1. Management Corporation and its fund companies made additional investments in eligible businesses. As of December 31, 2001, Management Corporation has not yet reached the 70% investment requirement for SGGF funds V, VI, VII, and VIII.
2. Based on legal advice, Management Corporation sold the leased assets owned by the numbered companies to two private investors, Cajon Leasing and R & R Leasing. The annual reports of the fund companies state these companies purchase assets for lease to Saskatchewan Crown corporations. The reports also show that these

companies buy the assets with monies they borrow from the fund companies.

3. Management Corporation and the fund companies recalculated the start date for the holding period of the securities for SGGF V, SGGF VI, SGGF VII, and SGGF VIII and informed the affected security holders of the changes.

In 2001, Cajon Leasing made two lease agreements with two Crown corporations (Saskatchewan Gaming Corporation and Saskatchewan Property Management Corporation) totalling \$9.3 million. These lease agreements transferred the risks and rewards of ownership of the leased assets from Cajon to the Crown. The *Immigration Regulations* do not deem these kinds of leases as eligible investments for the purpose of meeting with the 70% investment requirement.

Management Corporation has told us that it, Cajon Leasing, and the two Crown corporations are in the process of changing these lease agreements to ensure that these leases qualify as eligible investments. Also, we understand that by June 2002 the Federal Government is to review the corrective measures taken by Management Corporation's to comply with the *Immigration Regulations*.

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