

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND
LABRADOR**

ANNUAL REPORT 2011-12

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CHAIRPERSON'S MESSAGE

September 14, 2012

Hon. Joan Burke
Department of Advanced Education and Skills
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister:

In accordance with the *Transparency and Accountability Act*, please find enclosed the annual report of the Student Loan Corporation of Newfoundland and Labrador for the year ending March 31, 2012.

This is the first performance-based report to be presented under the corporation's business plan for 2011-2014. This document sets forth in clear language, how the corporation has addressed the goals and objectives that were outlined in the plan.

Readers of this report should note that the corporation serves as government's banker with respect to the financing and collection of the provincial portion of the Newfoundland and Labrador Student Financial Assistance Program. Loan eligibility is determined by the Department of Advanced Education and Skills' Student Financial Services Division. As such, issues related to the determination of eligibility are not included in this document. Readers are encouraged to consult the Department of Advanced Education and Skills' website for this type of information.

By way of this letter, signed on behalf of the Board of Directors of the corporation, I am indicating the Board's accountability for the actual results reported herein.

Sincerely,


Marilyn Field
Chairperson

1.0 OVERVIEW

The Student Loan Corporation of Newfoundland and Labrador was established on March 30, 2004 pursuant to the *Student Financial Assistance Act*. It is a category two government entity in accordance with the *Transparency and Accountability Act*. The corporation is responsible for financial administration of the Newfoundland and Labrador Student Financial Assistance Program.

The affairs of the corporation were managed by a Board of Directors, who report to the Minister of Advanced Education and Skills. The Board of Directors as of March 31, 2012 included:

- Deputy Minister of Advanced Education and Skills, who was chair, Ms. Marilyn Field;
- Deputy Minister of Finance, Mr. Terry Paddon;
- Comptroller General, Mr. Ron Williams;
- Assistant Deputy Minister of Advanced Education and Skills, Advanced Studies Branch, Mr. Bruce Belbin; and
- Assistant Deputy Minister of Advanced Education and Skills, Corporate Services Branch, Mr. Dave Lewis.

On March 31, 2012, the corporation employed 26 individuals as indicated in the table below. These staff members are also included within the Advanced Studies Branch of the Department of Advanced Education and Skills.

Table 1: Student Loan Corporation Staff:

Staff	Female	Male	Total
Management	1	1	2
Professional	9	7	16
Clerical	8	0	8
Total	18	8	26
Percentage	69%	31%	100%

The corporation's offices are located at:

Confederation Building, 4th Floor, West Block
P.O. Box 8700, St. John's, NL A1B 4J6
Phone: 729-6465 (local) or 1-877-520-8800
Fax: 729-2091, email: slcnl@gov.nl.ca
<http://www.aes.gov.nl.ca/postsecondary/slc/index.html>

1.1 MANDATE

The corporation was established to provide and facilitate repayment of loans, manage the debt and investment portfolio, and provide financial administration for the Newfoundland and Labrador Student Financial Assistance Program as set out in section 14 of the *Student Financial Assistance Act*.

1.2 VISION

The vision of the Student Loan Corporation is of a well-managed debt and investment portfolio and students with access to the best possible repayment services.

1.3 MISSION

By 2017, the corporation will have enhanced repayment services to student borrowers¹.

1.4 LINES OF BUSINESS

The corporation provides financial administration for the Newfoundland and Labrador Student Financial Assistance Program. Its lines of business include:

1. Portfolio Management:

The corporation acts as the province's "banker" in providing student loans, and in the administration and oversight of financial activities for the program. In completing these activities, the corporation oversees the work of its service provider which operates the National Student Loan Service Centre (NSLSC) in the day-to-day operations of loan administration. In addition, the corporation has partnered with the federal government through an Integration Agreement in the financial administration of this direct lending program.

2. Debt and Investment Services:

The corporation manages all debt-related activities pertaining to the purchase of the loans program in 2004, and short-term investments of the corporation's annual cash flows.

3. Repayment Services:

A loan is transferred for further repayment activities after it has been 270 days in arrears at the NSLSC. The corporation provides all repayment services for the

¹ Please refer to the 2011-14 Student Loan Corporation of Newfoundland and Labrador Business Plan for the full Mission, including measures and indicators, located at <http://www.aes.gov.nl.ca/publications/annualreport/slc/SLCNL2011-14BusinessPlan.pdf>

province's existing defaulted loans and for corporation and provincial loans which defaulted prior to February 1, 2007. The corporation monitors collection activities undertaken by the Canada Revenue Agency (CRA) on all defaulted loans post February 1, 2007 as per the federal-provincial Integrated Collections Agreement.

2.0 SHARED COMMITMENTS

During 2011-12, the corporation in collaboration with its partners, worked towards achieving the objectives, and their associated measures and indicators in the area of: Improved Repayment Services to Student Borrowers. This work also supported the strategic direction of the department for higher education.

2.1 DEPARTMENT OF ADVANCED EDUCATION AND SKILLS

The corporation is responsible to the Minister of Advanced Education and Skills and it operates under the *Student Financial Assistance Act and Regulations*. The student financial assistance program also operated under this legislative framework. The corporation works closely with the Department of Advanced Education and Skills' Student Financial Services Division to ensure financial administration mirrors program delivery. The corporation also worked with the Finance and General Operations Division of the Department of Advanced Education and Skills in the management of the department's defaulted loans portfolio. These loans are not owned by the corporation but by government (i.e., guaranteed and certain risk-shared defaulted loans purchased from Canadian Imperial Bank of Commerce). When government makes student financial assistance program decisions, the financial management activities of the corporation are affected.

2.2 FEDERAL GOVERNMENT

The corporation has partnered with the federal Department of Human Resources and Skills Development Canada (HRSDC) via the Canada-Newfoundland and Labrador Integration Agreement. One aim of this agreement is to ensure administrative integration of the federal and provincial student loan programs, which simplifies the administration of loans, particularly in the repayment process. The corporation worked with HRSDC to promote and enhance measures to further this initiative.

The NSLSC administers the loan process for both governments. D+H Limited Partnership operates the NSLSC and provided loan administration from disbursement to repayment; a one-stop approach to loan management. The corporation has worked closely with the NSLSC to provide advice, direction, inquiry and issue resolution to Newfoundland and Labrador students as they repay their student loans.

The corporation also partnered with the federal departments of HRSDC, Service Canada and the CRA to operate an integrated defaulted collections program. Administration of the collections process for provincial loans defaulting after February

1, 2007 was completed by CRA along with collections on defaulted federal loans. This agreement was designed to improve service to students who are experiencing difficulty repaying their student loans. Students are now contacted by the CRA, and have one repayment plan for both their federal and provincial defaulted student loans.

The corporation continues to participate in the CRA Refund Set-Off Program. Under this program, certain tax refunds are intercepted to repay defaulted student loans.

3.0 OUTPUTS

In consideration of government's strategic direction to enhance the province's post-secondary system for those seeking higher education, as well as the mandate and financial resources of the corporation, the following issue was identified as a key priority in the 2011-14 business plan. The goal identified for this issue reflects the result expected, while the objectives provide an annual focus. Measures and indicators are provided for the goal and objectives to assist both the corporation and the public in monitoring and evaluating success. Work completed by the corporation during the 2011-12 fiscal year was in line with the strategic direction of Higher Education, which has an outcome of "an enhanced post-secondary system benefits those seeking higher education".

The corporation's annual report outlines its progress in achieving the goals and objectives of the 2011-14 business plan.

3.1 ISSUE ONE: IMPROVED REPAYMENT SERVICES TO STUDENT BORROWERS

Goal: By March 31, 2014, the corporation will have improved its repayment services for student borrowers.

The corporation believes that with enhanced and increased communications, students in repayment will become more knowledgeable about their loan and better prepared to manage their debt. Furthermore, the disbursement of loan and grant funding should be as efficient and client friendly as possible.

Objective for 2011-12:

By March 31, 2012 the corporation will have improved communication with clients and promoted the corporation's online bill payment option.

Measure One: Improved communication with clients

Measure Two: Promoted online bill payment option

The following details the corporation's successful achievement of the objective for 2011-12.

Measure One: Improved communication with clients

Indicators:

Increased telephone calls to clients

Based on available data from December 2010 to April 2011 and December 2011 to April 2012, the corporation increased the number of outgoing calls over the previous year from 2,263 to 3,376 (49 per cent). As tracking of outgoing calls began in December 2010, there is insufficient data to compare the 2010-11 year to the 2011-12 year. However, the corporation will continue to monitor and increase its call frequency accordingly to ensure clients are as knowledgeable about their loans as possible.

Completed staff training in client communication

During 2011-12, two corporation staff members completed Service Excellence Training to improve their ability to communicate with clients. Also, frontline staff received training in telephone functionality, features and best practices. With this training completed, employees are better equipped to provide more efficient and client-friendly service.

Enhanced the Statement of Financial Affairs form

The corporation enhanced the Statement of Financial Affairs form by adding a field for clients to include their email address. This allows clients to provide additional, and possibly preferred, contact information, which may result in more expedient and effective communication between the client and the corporation.

Enhanced client statements

Work to enhance the corporation's client statements by adding year-to-date payment information in 2011-12 was not completed due to unexpected changes in the support methods and priority setting process. The corporation intends to complete the enhancement of client statements in 2012-13.

Measure Two: Promoted online bill payment option

Indicator:

Promoted online bill payment option to clients by including information on client statements

In 2011-12, the corporation promoted its new online bill payment option to clients by including a promotional message on client statements. This promotion informs clients of their option to make payments on their outstanding student loan balance online through their bank or by way of a telephone transfer. This payment method is more efficient than the post-dated cheque system, and may be more convenient for clients to submit their payments.

3.2 LOOKING FORWARD

2012-13 Objectives

By March 31, 2013 the corporation will have improved the corporation's website and continued to improve client statements.

Measure One: Improved corporation website

Indicator One: Simplified website address

Indicator Two: Updated corporation information available on website

Indicator Three: Reformatted website to improve accessibility

Measure Two: Improved client statements

Indicator One: Completed process to include year-to-date balances on client statements

Indicator Two: Updated client statements to improve accessibility for those with disabilities

4.0 HIGHLIGHTS AND SNAPSHOT FOR THE YEAR ENDING MARCH 31, 2012

- A total of \$10.5 million in up-front grants were disbursed in 2011-12, the fourth full year of the implementation of the up-front grants program; this represents a \$0.4 million (3 per cent) decrease from 2010-11 as a result of lower student uptake.
- The number of loans outstanding for the whole portfolio decreased by 1,424 (3 per cent) while the value of the portfolio decreased by \$21.2 million (10 per cent). Since March 31, 2007, the number of loans outstanding for the portfolio has decreased by 2,324 (6 per cent) while the value of the portfolio has decreased by a significant \$97.9 million (35 per cent). This reflects the impact of debt reduction measures taken by Government to reduce student debt, as well as continued improvement in repayment by students.
- Average levels of student debt continued to decline in 2011-12 for the majority of borrowers. For the average Memorial University undergraduate borrower, accumulated debt declined 6.9 per cent in 2010-11 from \$21,104 to \$19,716. Decreases have also been seen in the College of the North Atlantic and private college programs. More declines are expected in the next few years with the implementation of the debt reduction program from Budget 2007 and more recently, with the full impact of Budget 2009.
- In August 2011, the province adopted the student loan Repayment Assistance Plan (RAP) to align with the federal government's initiative. The RAP allows borrowers to repay their student loans based on what they can reasonably afford. Monthly payments are determined by a borrower's family income and size. Also, payments are limited to less than 20 per cent of a borrower's family income, and no borrower will have a repayment period of more than 15 years (10 years for borrowers with permanent disabilities). In some situations, a borrower may not be required to submit payments until their income increases.
- During the year the corporation began offering statements to clients upon request. Prior to this, client statements were provided only on a quarterly basis.

Table 2: Net Student Debt¹ by Institution 2003-04 to 2010-11 (federal and provincial debt)

		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Per cent Change from 09-10 to 10-11
CNA	1 Year	\$9,995	\$10,445	\$10,594	\$9,840	\$9,336	\$8,975	\$7,944	\$7,904	-0.5%
	2 Year	\$15,854	\$17,589	\$16,399	\$16,632	\$16,762	\$15,440	\$13,693	\$14,765	7.8%
	3 Year	\$20,991	\$26,022	\$21,959	\$21,896	\$22,241	\$22,512	\$20,347	\$18,745	-7.9%
Private College	1 Year	\$11,399	\$11,048	\$12,179	\$11,792	\$9,962	\$9,706	\$9,746	\$9,327	-4.3%
	2 Year	\$20,635	\$22,324	\$22,340	\$22,365	\$21,067	\$19,897	\$20,220	\$18,824	-6.9%
MUN	Undergraduate	\$26,592	\$31,218	\$26,299	\$27,114	\$26,582	\$25,874	\$21,104	\$19,716	-6.9%
	Marine	\$23,074	\$20,840	\$21,752	\$21,068	\$20,380	\$16,850	\$21,353	\$16,839	-21.1%

Source: Provincial student loan data, Department of Advanced Education and Skills 2011

Note¹ Includes net federal and provincial debt

During the year, approximately:

- \$11.6 million in new loans were disbursed to students; this is \$0.5 million (4 per cent) less than disbursed in 2010-11;
- 13,011 new loan certificates were issued to both returning and new students pursuing post-secondary education; this is 409 (3 per cent) fewer than issued in 2010-11;
- \$24.5 million was received from students who are in repayment (\$0.9 million was received in interest payments and \$23.6 million was received in principal payments); an additional \$1.9 million (\$0.5 million – interest; \$1.4 million – principal) was received for loans owned by the Department of Advanced Education and Skills;
- \$13.1 million in provincial grant payments were issued to students to assist with reducing their student loans (\$2.6 million in provincial debt reduction grant payments through 658 debt reduction grants issued and \$10.5 million in provincial up-front grant payments through 11,229 up-front grants issued). A total of \$0.1 million in grants were paid directly to students whose provincial loans were paid in full;
- \$0.7 million was paid by the corporation for administrative fees (\$0.5 million to HRSDC to support the service provider contract and \$0.2 million to CRA in administrative fees as per the integrated collections agreement); \$0.6 million was paid by the Department of Advanced Education and Skills to CIBC for administrative fees as per the guaranteed loans contract;
- \$0.2 million was earned by the corporation in interest revenue on bank balances which existed during the year;
- \$1.6 million was paid by the corporation in interest payments on its outstanding debt which totaled \$102 million at year end; during the year, interest was paid at rates ranging from 1.18 per cent to 1.28 per cent;

- \$5.3 million in default collections was received for 2011-12 (Corporation: \$3.4 million, Department of Advanced Education and Skills: \$1.9 million), an increase of 2 per cent from the approximately \$5.2 million collected by the corporation in 2010-11. Of this amount, almost \$2.5 million is attributable to CRA set-off, while the remaining \$2.8 million was collected by the corporation's and CRA's internal collection processes;
- Average monthly payments received from online/telephone banking increased 18 per cent from \$125,000 per month in 2010-11 to \$148,000 per month for a total of \$1.8 million during 2011-12; and
- Average monthly payments received from pre-authorized debit method of payment decreased 13 per cent from \$17,200 per month in 2010-11 to \$14,890 per month in 2011-12, for a total of \$178,677 during 2011-12.

Table 3: Student Loan Corporation Portfolio:

Portfolio	31-Mar-11				31-Mar-12			
	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)
Current								
Class A (In School & In Grace)	8,600	\$33.9	\$0.0	\$33.9	8,100	\$31.5	\$0.0	\$31.5
Class B (In Repayment)	20,400	\$84.3	\$0.1	\$84.4	19,500	\$72.3	\$0.1	\$72.4
Subtotal	29,000	\$118.2	\$0.1	\$118.3	27,600	\$103.8	\$0.1	\$103.9
Default								
Department of Advanced Education and Skills	3,300	\$22.4	\$4.7	\$27.1	2,900	\$19.8	\$3.7	\$23.5
Corporation	4,700	\$29.1	\$4.4	\$33.5	4,200	\$26.3	\$3.0	\$29.3
CRA	4,100	\$23.0	\$0.8	\$23.8	5,000	\$25.2	\$0.6	\$25.8
Subtotal	12,100	\$74.5	\$9.9	\$84.4	12,100	\$71.3	\$7.3	\$78.6
Total	41,100	\$192.7	\$10.0	\$202.7	39,700	\$175.0	\$7.4	\$182.5

5.0 OPPORTUNITIES AND CHALLENGES AHEAD

5.1 OPPORTUNITIES

The corporation has a number of opportunities available to improve financial administration of the program. These include:

- Continuing to work with the Student Financial Services Division and the federal government to implement the Electronic Confirmation of Enrolment and Master Student Financial Assistance Agreement to improve the student loan process for clients.
- Improving management of client files by implementing a Records Retention and Disposal Schedule.

5.2 CHALLENGES

As the corporation works toward achieving the objectives and goals as set out in the 2011-14 business plan, some challenges include:

- Improving student awareness of available debt-reduction resources, with an aim of ensuring students accumulate the least amount of student loan debt possible.
- Developing and implementing new systems, policies, procedures, and structures to support the work of the corporation in achieving its mandate.
- Continuing to develop tools that help borrowers develop effective debt management practices and improve their financial literacy.
- Making successful contact with defaulted borrowers in order to counsel them into an effective repayment schedule.

6.0 CONCLUSION

This annual report outlines the significant progress made in the first year of the business plan for 2011-14. By focusing its efforts on improved repayment services to student borrowers, the corporation continues to support the student loan program.

The provincial government demonstrated a strong commitment to students with the elimination of interest, implementation and expansion of up-front non-repayable grants, and most recently in August 2011, the launch of a provincial Repayment Assistance Plan to align with the federal initiative. The impact of these changes will become more evident in subsequent reporting periods. Through collaboration with students, the Government of Newfoundland and Labrador developed the best student aid package in the country and has taken solid steps to reduce student debt.

There are many challenges and opportunities that lie ahead and much work to complete in the upcoming year. This will require the support and co-operation of all stakeholders to improve services to the corporation's primary clients – students and government.

Copies of this document, as well as other corporation publications, are available on the corporation's website: <http://www.aes.gov.nl.ca/postsecondary/slc/index.html>.

7.0 FINANCIAL STATEMENTS

The audited financial statements show total revenues of \$31.4 million and total expenditures of \$17.4 million.

During the year, the corporation experienced a \$0.2 million increase in the use of the interest relief program, following a decrease of \$0.2 million in this program the previous year. The corporation recognized a decrease of \$1.4 million in loan repayments from the prior year as well as a \$0.6 million decrease in expenses due to lower uptake of provincial grant programs.

The corporation issued \$10.5 million in up-front needs-based grants and reported a decrease of \$0.05 million in interest revenue. Interest revenue has been much lower since the elimination of interest on student loans effective August 1, 2009.

Overall, the corporation experienced an accrual surplus of \$14.0 million as reflected on the Statement of Operations, which is an increase of \$19.8 million over the \$5.8 million deficit reflected in 2010-11. This increase can be attributed mainly to an increase in provincial grant revenue. As with the prior year, the corporation was able to also use existing cash reserves to fund operations in 2011-12 with no negative impact on services to students.

The corporation's cash position at year end, as reflected on its Statement of Cash Flows, was \$6.8 million in cash which represents a \$12.3 million decrease in cash and cash equivalents from 2010-11.

**STUDENT LOAN CORPORATION OF
NEWFOUNDLAND AND LABRADOR**

FINANCIAL STATEMENTS

31 MARCH 2012



OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

AUDITOR'S REPORT

To the Board of Directors
Student Loan Corporation of Newfoundland and Labrador
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Student Loan Corporation of Newfoundland and Labrador which comprise the statement of financial position as at 31 March 2012, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and 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 judgment, including the assessment of the 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Report (cont.)

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Student Loan Corporation of Newfoundland and Labrador as at 31 March 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in cursive script that reads "Sandra Russell".

SANDRA RUSSELL, CA
Deputy Auditor General (A)

13 July 2012
St. John's, Newfoundland and Labrador

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF FINANCIAL POSITION**

31 March

2012

2011

FINANCIAL ASSETS

Cash	\$ 6,768,247	\$ 19,053,015
Due from government (Note 3)	531,513	399,241
Student loans receivable (Note 4)	<u>118,428,817</u>	<u>132,233,057</u>
	<u>125,728,577</u>	<u>151,685,313</u>

LIABILITIES

Accounts payable and accrued liabilities (Note 5)	377,776	544,028
Employee future benefits (Note 6)	297,536	114,879
Due to government (Note 7)	60,606	33,282
Long-term debt (Note 8)	<u>102,000,000</u>	<u>142,000,000</u>
	<u>102,735,918</u>	<u>142,692,189</u>
Net financial assets	<u>22,992,659</u>	<u>8,993,124</u>

NON-FINANCIAL ASSETS

Tangible capital assets (Note 9)	74,199	97,269
Prepaid expense	-	2,010
	<u>74,199</u>	<u>99,279</u>
Accumulated surplus	<u>\$ 23,066,858</u>	<u>\$ 9,092,403</u>

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board:


Chairperson


Director

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the year ended 31 March

	2012 Budget	2012 Actual	2011 Actual
(Note 13)			
REVENUES			
Provincial grant revenue	\$ 30,675,000	\$ 28,842,761	\$ 7,148,383
Federal grant revenue	500,000	213,341	764
Recovery in value of student loan receivable	2,710,000	1,886,956	5,005,373
Interest revenue	400,000	193,412	209,661
Student loan interest	-	94,223	46,300
Other revenue	10,000	135,615	6,805
	34,295,000	31,366,308	12,417,286
EXPENSES			
Administrative fees	1,049,000	736,669	748,947
Amortization	30,000	28,806	31,661
Bank charges	-	11,477	11,916
Grant expense - Federal	500,000	213,341	764
Grant expense - Provincial	20,808,000	13,060,790	14,255,806
Interest expense on long-term debt	2,195,000	1,552,165	1,443,483
Interest relief expense	-	192,499	594
Operating expenses	297,500	122,696	105,680
Other expenses	1,000,000	30,000	-
Salaries	1,398,800	1,443,410	1,579,430
	27,278,300	17,391,853	18,178,281
Annual surplus (deficit)	7,016,700	13,974,455	(5,760,995)
Accumulated surplus, beginning of year	9,092,403	9,092,403	14,853,398
Accumulated surplus, end of year	\$ 16,109,103	\$ 23,066,858	\$ 9,092,403

*The accompanying notes are an
integral part of these financial statements.*

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the year ended 31 March

	2012 Budget	2012 Actual	2011 Actual
(Note 13)			
Annual surplus (deficit)	\$ 7,016,700	\$ 13,974,455	\$ (5,760,995)
Use of prepaid expense	-	2,010	852
Acquisition of tangible capital assets	(10,000)	(5,736)	(15,767)
<u>Amortization of tangible capital assets</u>	<u>30,000</u>	<u>28,806</u>	<u>31,661</u>
Increase (decrease) in net financial assets	7,036,700	13,999,535	(5,744,249)
Net financial assets, beginning of year	8,993,124	8,993,124	14,737,373
Net financial assets, end of year	\$ 16,029,824	\$ 22,992,659	\$ 8,993,124

*The accompanying notes are an
integral part of these financial statements.*

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**STATEMENT OF CASH FLOWS**

For the year ended 31 March

2012

2011

Operating transactions

Annual surplus (deficit)	\$ 13,974,455	\$ (5,760,995)
Adjustments for non-cash items		
Amortization	28,806	31,661
Recovery in value of student loan receivable	(1,886,956)	(5,005,373)
	12,116,305	(10,734,707)

Changes in non-cash operating items

Due from government	(132,272)	129,944
Prepaid expense	2,010	852
Accounts payable and accrued liabilities	(166,252)	92,925
Due to government	27,324	-
Employee future benefits	182,657	40,764

Cash provided from (applied to) operating transactions 12,029,772 (10,470,222)**Capital transactions**

Acquisition of tangible capital assets (5,736) (15,767)

Cash applied to capital transactions (5,736) (15,767)**Financing transactions**

Long-term debt issued	102,000,000	-
Repayment of long-term debt	(142,000,000)	(14,000,000)
Repayment of obligations under capital lease	-	(2,898)

Cash applied to financing transactions (40,000,000) (14,002,898)**Investing transactions**

Student loans receivable (Note 4)	16,671,004	18,107,262
Student loans written off to allowance	(979,808)	(1,046,045)

Cash provided from investing transactions 15,691,196 17,061,217**Decrease in cash** (12,284,768) (7,427,670)**Cash, beginning of year** 19,053,015 26,480,685**Cash, end of year** \$ 6,768,247 \$ 19,053,015

*The accompanying notes are an
integral part of these financial statements.*

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2012

1. Nature of operations

The Student Loan Corporation of Newfoundland and Labrador was established on 30 March 2004 under the authority of the *Student Financial Assistance Act*. The objective of the Corporation is to act as the lender for all Provincial student loans. The affairs of the Corporation are managed by a Board of Directors comprised of senior government officials.

The Corporation is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

(b) Employee future benefits

(i) The Corporation and its employees are subject to the *Public Service Pensions Act*. Employee contributions are matched by the Corporation and remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. This plan is a defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. The contribution of the Corporation to the plan is recorded as an expense for the year. The Corporation is not required to make contributions in respect of any actuarial deficiencies of the plan.

(ii) Severance is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. The right to be paid severance vests with employees with nine years of continual service, and accordingly a liability has been recorded by the Corporation for these employees. For employees with less than nine years of continual service, the Corporation has made a provision in the accounts for the payment of severance which is based upon the Corporation's best estimate of the probability of having to pay severance to the employees and current salary levels. In determining the best estimate of the probability that employees would be paid severance, the Corporation considered the rate of employee turnover since its inception. Employees with prior service with the Government of Newfoundland and Labrador or a Crown corporation or agency may be considered for severance provided the previous employer followed the same or an equivalent severance policy. Severance is payable when the employee ceases employment with the Corporation provided no severance has been paid by Government or another Crown corporation or agency for the same period and the employee has at least nine years of continual service. No provision has been made for contractual employees.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
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2. Significant accounting policies (cont.)

(b) Employee future benefits (cont.)

(iii) The Corporation provides accumulating non-vesting sick leave benefits to certain employees. The Corporation has made a provision in the accounts for the payment of accumulating non-vesting sick leave benefits which is based upon the Corporation's best estimate of the probability of the employees utilizing the benefits and current salary levels. The availability of accumulating non-vesting sick leave benefits ceases upon termination of employment with the Corporation and no payment is made by the Corporation.

(c) Student loans receivable

The corporation records student loans receivable at amortized cost. When loans are identified as impaired, the Corporation records an allowance to reduce their carrying values to their estimated realizable amounts. Interest is accrued on loans receivable to the extent it is deemed collectible.

(d) Tangible capital assets

Tangible capital assets are recorded at cost, including amounts that are directly related to the acquisition of the assets.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Office equipment	10 years
Computer software	7 years
Computer hardware	4 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations and accumulated surplus.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2012

2. Significant accounting policies (cont.)

(e) Prepaid expenses

Prepaid expenses include software maintenance and are charged to operations over the period in which the Corporation is expected to benefit.

(f) Revenues

Revenues are recorded on an accrual basis in the period in which the transactions or events which gave rise to the revenues occurred. When accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable, revenues are recorded as received.

The Corporation recognizes the receipt of government transfers as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability.

(g) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed, services received, and interest expense accrued during the year is expensed.

Program grants are recorded as expenses when they are authorized, eligibility criteria have been met by the recipient, and a reasonable estimate of the amount can be made.

(h) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include the useful life of a tangible capital assets, estimated employee benefits, rates for amortization and collectability of student loans received.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
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3. Due from government

	<u>2012</u>	<u>2011</u>
Federal government	\$ 296,134	\$ 168,465
Provincial government	235,379	230,776
	<u>\$ 531,513</u>	<u>\$ 399,241</u>

4. Student loans receivable

The student loan portfolio consists of Provincial loans issued on or after 1 August 2000 and Provincial loans issued prior to that date where the student was still in school and did not receive additional loans.

As at 31 March 2012 approximately 19,494 loans totalling \$72,331,682 (2011 - 20,391 loans totalling \$84,279,502) were being repaid as non-interest bearing for the period 1 April 2011 to 31 March 2012 (Class B loans) while 8,139 loans totalling \$31,315,297 (2011 - 8,597 loans totalling \$33,876,134) were not being repaid as the students were either still in attendance at an approved education institution or were within six months after the end of the study period (Class A loans).

As at 31 March 2012 approximately 9,231 loans totalling \$51,581,725 (2011 - 8,871 loans totalling \$52,123,799) were defaulted. These loans are defined as Class B loans delinquent for 270 days (nine months). These loans were non-interest bearing for the period 1 April 2011 to 31 March 2012.

Student loans receivable consist of the following:

	<u>2012</u>	<u>2011</u>
Loans receivable		
Class A principal	\$ 31,315,297	\$ 33,876,134
Class B principal	72,331,682	84,279,502
Loans defaulted	51,581,725	52,123,799
Interest receivable	3,637,178	5,257,451
	<u>158,865,882</u>	<u>175,536,886</u>
Less: allowance for doubtful accounts	<u>(40,437,065)</u>	<u>(43,303,829)</u>
	<u>\$ 118,428,817</u>	<u>\$ 132,233,057</u>

The allowance for doubtful accounts represents the Corporation's best estimate of future probable losses with respect to loans receivable. The estimation of an appropriate allowance involves significant judgment. These financial statements represent management's best estimates based on available information.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
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4. Student loans receivable (cont.)

The net decrease in student loans receivable during the year consists of the following:

	<u>2012</u>	<u>2011</u>
Student loan interest	\$ 94,223	\$ 46,300
Interest relief	(192,499)	(594)
Student loan grants	(2,678,322)	(3,281,919)
Student loans disbursed	11,554,578	12,090,262
Student loan payments	(24,469,176)	(25,915,266)
<u>Student loans written off</u>	<u>(979,808)</u>	<u>(1,046,045)</u>
	<u>\$ (16,671,004)</u>	<u>\$ (18,107,262)</u>

5. Accounts payable and accrued liabilities

	<u>2012</u>	<u>2011</u>
Trade payables and accrued liabilities	\$ 332,705	\$ 391,424
Salaries and benefits payable	15,377	10,574
<u>Accrued vacation pay</u>	<u>29,694</u>	<u>142,030</u>
	<u>\$ 377,776</u>	<u>\$ 544,028</u>

6. Employee future benefits

	<u>2012</u>	<u>2011</u>
Vested severance benefits	\$ 81,072	\$ 114,879
Provision for non-vested severance benefits	57,367	-
<u>Provision for accumulated non-vested sick leave</u>	<u>159,097</u>	<u>-</u>
	<u>\$ 297,536</u>	<u>\$ 114,879</u>

7. Due to government

	<u>2012</u>	<u>2011</u>
Federal government	\$ 10,000	\$ 33,282
<u>Provincial government</u>	<u>50,606</u>	<u>-</u>
	<u>\$ 60,606</u>	<u>\$ 33,282</u>

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2012

8. Long-term debt

Long-term liabilities reported on the statement of financial position are comprised of the following:

	<u>2012</u>	<u>2011</u>
Issue of floating rate notes dated 2 October 2006 maturing 30 September 2011 and bearing interest at the 3-month Canadian Bankers' Acceptance rate less 2 basis points, payable quarterly.	\$ -	\$ 142,000,000
Issue of floating rate notes dated 30 September 2011 maturing 30 September 2021 and bearing interest at the 3-month Canadian Bankers' Acceptance rate less 10 basis points, payable quarterly	102,000,000	-
	\$ 102,000,000	\$ 142,000,000

On 2 October 2006, the Corporation repaid \$206 million principal amount of floating rate notes by using available cash of \$8 million to reduce the principal balance to \$198 million, then arranging a new long-term borrowing to refinance this amount for a term of five years. The note payable was due on 30 September 2011, retiring the external Global Note. The Corporation signed a new floating note with the Crown to repay the outstanding principal and interest with terms as determined by the Debt Management Division of the Department of Finance. Principal payments to the debt, as determined by the Student Loan Corporation, and interest payments will be made quarterly, payable on 30 June, 30 September, 31 December and 31 March each year. The loan matures on 30 September 2021.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
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9. Tangible capital assets

	Office equipment	Computer software	Computer hardware	Total
Cost				
Balance, 31 March 2011	\$ 54,958	\$ 145,359	\$ 22,404	\$ 222,721
<u>Additions</u>	<u>5,736</u>	<u>-</u>	<u>-</u>	<u>5,736</u>
<u>Balance, 31 March 2012</u>	<u>60,694</u>	<u>145,359</u>	<u>22,404</u>	<u>228,457</u>
Accumulated amortization				
Balance, 31 March 2011	27,127	81,363	16,962	125,452
<u>Amortization expense</u>	<u>3,609</u>	<u>20,096</u>	<u>5,101</u>	<u>28,806</u>
<u>Balance, 31 March 2012</u>	<u>30,736</u>	<u>101,459</u>	<u>22,063</u>	<u>154,258</u>
<u>Net book value, 31 March 2012</u>	<u>\$29,958</u>	<u>\$ 43,900</u>	<u>\$ 341</u>	<u>\$ 74,199</u>
Net book value, 31 March 2011	\$27,831	\$ 63,996	\$ 5,442	\$ 97,269

10. Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash, due from government, student loans receivable, accounts payable and accrued liabilities, employee future benefits, due to government and long-term debt. The carrying values of cash, due from government, accounts payable and accrued liabilities, employee future benefits and due to government approximate current fair value due to their nature and the short-term maturity or current market rate associated with these instruments and no further risk exists. Student loans receivable is carried at amortized cost as disclosed in Note 4. Long-term debt is at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate less 10 basis points, maturing 30 September 2021. The Corporation may be subject to interest rate risk caused by changes in the interest rate.

Credit Risk

Credit risk is the risk of loss if a client cannot meet its obligations. The Corporation is exposed to credit risk with respect to its student loans receivable. The Corporation has policies and procedures for the monitoring and collection of its student loans receivable so as to mitigate potential credit losses. In addition, any estimated impairment of these loans has been provided for through an allowance for doubtful accounts, as disclosed in Note 4, and no further credit risk exists for these items.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
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11. Related party transactions

	<u>2012</u>	<u>2011</u>
<u>Grants from the Province</u>	<u>\$ 28,842,761</u>	<u>\$ 7,148,383</u>
	<u>\$ 28,842,761</u>	<u>\$ 7,148,383</u>

In addition to the above transactions, the Province holds the long-term debt of the Corporation totalling \$102,000,000.

12. Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

13. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors.