

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**

**ANNUAL REPORT 2010-11**

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CHAIRPERSON'S MESSAGE

October 31, 2011

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 ended March 31, 2011.

This is the third and final performance-based report to be presented under the corporation's business plan for 2008-2011. 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 Newfoundland and Labrador student financial assistance. Loan eligibility is determined by the Student Financial Services division, which in 2010-11, was part of the Department of Education. As such, issues related to the determination of eligibility are not included in this document. In October 2011, both the corporation and the Student Financial Services division became a part of the newly formed Department of Advanced Education and Skills.

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,

A handwritten signature in black ink, appearing to read 'B. Rose', written in a cursive style.

Baxter Rose  
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* and 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 responsible to the Minister of Education. The Board of Directors as of March 31, 2011 included:

- Deputy Minister of Education, who was chair, Mr. Darrin Pike;
- Deputy Minister of Finance, Mr. Terry Paddon;
- Comptroller General, Mr. Ron Williams;
- Assistant Deputy Minister of Education, Advanced Studies, Mr. Bruce Belbin; and
- Assistant Deputy Minister of Education, Corporate Services, Ms. Ramona Cole.

On March 31, 2011, the corporation employed 29 individuals as indicated in the table below. These staff members were also included within the advanced studies branch of the Department of Education.

Table 1: Student Loan Corporation Staff:

Staff	Female	Male	Total
Management	1	2	3
Professional	9	7	16
Clerical	10	0	10
Total	20	9	29
Percentage	69%	31%	100%

The corporation's offices are located at:

Confederation Building, 4<sup>th</sup> 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](mailto:slcnl@gov.nl.ca)  
<http://www.gov.nl.ca/edu/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 students with access to the best possible services with respect to accessing financial assistance while attending a post-secondary institution and subsequent services to assist during repayment.

## 1.3 MISSION

The corporation was successful in achieving its mission of improved services to student borrowers in repayment through improved communications and improved information provided to government through better reporting. Students now have improved access to information and forms, and half can receive grants electronically instead of manually. As well, information provided through the client profile and survey will prove beneficial in the development of future policies surrounding students in repayment. During this business cycle, the corporation made strides to improve its statistical tracking and forecasting system, providing improved quarterly statistical information to government on its loan portfolios.

In keeping with the vision and government's strategic direction respecting improved post-secondary programs, the corporation worked towards the successful achievement of the following mission:

*By 2011, the corporation will have improved services to student borrowers in repayment through improved communications and improved information provided to government through better reporting.*

During the development of the 2008-11 strategic plan, the corporation felt it was necessary to revise its mission and associated performance measures from the one developed for the 2006-08 planning cycle. As a result, this mission covers only the 2008-11 timeframe.

The following highlights the work the corporation completed over the 2008-11 planning cycle to meet its mission. Detailed information of this work is included in the Outputs section of this report. While one objective for the 2009-10 year was not met, as noted in the corporation's 2009-10 Annual Report, the corporation has nonetheless been able to improve its student services.

Measure One: Improved services to student borrowers

### Indicators:

#### **Improved website**

In 2008-09, the corporation improved its website to include more information and content for clients, updated the website in conjunction with the Department's new website and created a web email address for client inquiries.

#### **Enhanced provision of grants to eligible Memorial University students**

In 2008-09, the corporation enhanced provision of grants to eligible Memorial University students through the implementation of electronic disbursements of up-front, needs-based, non-repayable grants directly into students' bank accounts.

**Made online forms available**

In 2008-09, corporation forms were made available online for download in pdf format from the corporation website, allowing for improved client access to them. In 2009-10 the corporation planned to provide forms that could be completed online by clients, however, this was not completed. The ability for clients to now download on-line forms is an enhancement over the business cycle that improves services to students as they were not previously available in this format.

**Conducted a client survey**

In 2010-11, the corporation conducted a client survey to explore client concerns respecting repayment. The results of the survey were provided to the Board and the Department of Education for consideration.

Measure Two: Improved information to government

**Indicators:****Implemented portfolio reporting system**

In 2008-09, the corporation implemented a system to track portfolio statistics, such as default and current portfolio size/composition information and national trend information, which provides improved quarterly statistical information to the Board of Directors.

**Improved forecasting**

In 2009-10, the corporation hired a dedicated resource and implemented reporting which enhanced statistics provided to the Board of Directors for improved financial decision making.

**Developed client profiles**

In 2010-11, the corporation developed a detailed client profile report to further the corporation's understanding of borrowers' needs, in order to guide program decisions.

**Results:**

As indicated, the corporation achieved its mission of improved services to students and improved information to government. Through the improved website, online forms and automated grant processes, student accessibility and communications with government were improved. The client survey was used to identify student recommended improvements – enhancements to address these recommendations are included in the corporation's 2011-14 business plan. In developing better reporting, forecasting and performing a client profile analysis, the corporation improved the information provided to its Board and can be used to help with making future decisions.

## 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. The corporation has partnered with the federal government through an integration agreement in the administration of this direct lending program. In completing these activities, the corporation oversees the work of its service provider which operates the National Student Loan Service Centre (NSLSC) in loan administration. In addition, the corporation oversees the work of its other service provider, the Canada Revenue Agency (CRA) which provides collection services under the integrated collections agreement.

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 cash flows each year.

3. Repayment Services:

The corporation provides all repayment services for the province's existing defaulted loans and for the corporation's loans which defaulted prior to February 1, 2007. These activities begin at the corporation's offices once a loan is transferred for repayment after it has been 270 days in arrears at the NSLSC. Post February 1, 2007, defaulted loans are returned to the CRA for collection and the corporation continues to monitor all activities on these loans.

## 2.0 SHARED COMMITMENTS

During 2010-11, the corporation, in collaboration with its partners, worked towards achieving the objectives, and their associated measures and indicators, in the areas of its two issues: Improved Services to Student Borrowers; and Improved Information to Government.

### 2.1 DEPARTMENT OF EDUCATION

The corporation was responsible to the Minister of Education and it operated under the *Student Financial Assistance Act* and Student Financial Assistance Regulations. The student financial assistance program also operated under this legislative framework. The corporation worked closely with the Department of Education's Student Financial Services division to ensure financial administration mirrors program delivery. The corporation also worked with the finance division of the Department of Education 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. Resolve Corporation 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 income tax interception set-off program with the CRA. Under this program, certain tax refunds are intercepted to repay defaulted student loans.



## 3.0 OUTPUTS

In consideration of government's strategic direction to improve post-secondary programs and public post-secondary institutions, as well as the mandate and financial resources of the corporation, the following areas were identified as the key priorities in the 2008-11 business plan. The goal identified for each issue reflects the results 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 2010-11 fiscal year was in line with the strategic direction of "improved post-secondary programs and public post-secondary institutions benefit students and the province" under the category of student financial assistance.

The corporation completed all objectives planned for the 2010-11 year. This, in addition to the work completed over the 2008-11 cycle, has allowed the corporation to meet its goals of improving its services to assist students with loan repayment issues and improving reporting to assist government in its decision-making process.

### 3.1 ISSUE ONE: IMPROVED SERVICES TO STUDENT BORROWERS

**Goal:** By March 31, 2011 the corporation will have improved its services to assist students with loan repayment issues.

Over the 2008-11 cycle, the corporation successfully improved its services to students with repayment issues by enhancing and increasing communications with them. Through these efforts, the corporation can assist students to become more knowledgeable about their loan, and be better prepared to manage their debt. Also, disbursement of grants was made more efficient and client friendly with the implementation of electronic disbursement.

The following details the corporation's work over the 2008-11 cycle to improve services to student borrowers.

Measure One: Improved services to student borrowers

#### Indicators:

##### Improved website

In 2008-09, the corporation improved its website through a number of initiatives. These included an updated website, which was released on March 2, 2009 in conjunction with the Department's new website, the addition of a comprehensive list of relevant contacts and links to stakeholders in the student loan program for students, a new frequently asked questions section, and a new web email address ([slcnl@gov.nl.ca](mailto:slcnl@gov.nl.ca)) to facilitate client enquiries.

##### Enhanced provision of grants to eligible Memorial University students

In 2008-09, the corporation enhanced the provision of grants to eligible Memorial University students through delivery via electronic disbursement directly into students' bank accounts via the NSLSC.

Previously, all up-front, needs-based, non-repayable grants introduced in August 2007 were distributed manually through cheque during 2007-08. In having payments applied directly to bank accounts, Memorial University students were able to access funds more quickly.

#### **Made online forms available**

In 2008-09, corporation forms were made available online for download in pdf format from the corporation website, allowing clients to access them immediately rather than having to wait to receive them in the mail or by fax. In 2009-10, the corporation planned to provide forms that could be completed online by clients; this was not completed. With the continued decline in the number of students remaining in the internal default portfolio, this initiative will not be completed in the future. The corporation improved overall accessibility to its forms through on-line download availability.

#### **Conducted a client survey**

In 2010-11, the corporation conducted a client survey to explore client concerns respecting repayment and the results were submitted to the Board and department. For additional detail, please refer to the objective for 2010-11 section below.

#### **Objective for 2010-11:**

By March 31, 2011 the corporation will have developed and delivered a client survey to explore client concerns with respect to repayment.

Measure: Survey developed and delivered.

The following details the corporation's successful achievement of the objective for 2010-11.

#### **Indicators:**

##### **Survey developed and delivered**

In August 2010, the corporation developed and delivered a client mail-out survey to determine overall client satisfaction and to identify areas for improvement in client repayment servicing. The survey was randomly distributed to 480 clients with their annual statements. While the response rate was low (5%), some important feedback related to client services was obtained. The corporation used this feedback in the development of its 2011-14 business plan.

##### **Identified client concerns with respect to repayment services provided by the corporation**

The survey completed by clients (identified above) showed a high level of satisfaction with the level of communication and ability to contact the corporation. A total of 88% of respondents rated the ability of staff to address issues, courteousness of staff and overall quality of service as good or better, and 85% rated the variety of payment methods available as good or better. Smaller improvements were noted including: request for increased telephone contact and enhanced client statements. The corporation used these results and recommendations to develop its business plan for 2011-14.

### **3.2 ISSUE TWO: IMPROVED INFORMATION TO GOVERNMENT**

**Goal:** By March 31, 2011 the corporation will have improved reporting to assist government in its decision-making process.

Over the 2008-11 period, the corporation successfully improved its reporting to government. The improvements will assist government in making better decisions in relation to repayment processes and programs available for students as well as assisting in future planning.

Measure: Reporting on portfolio trends and forecasts

The following details the corporation's work over the 2008-11 cycle to provide improved information to government.

**Indicators:**

**Implemented portfolio reporting system**

In 2008-09, the corporation implemented a system to track portfolio statistics to provide improved trend analysis information to the Board of Directors so that it can make better decisions on financial program management.

**Improved forecasting**

In 2009-10, the corporation improved forecasting by recruiting a dedicated resource and implementing statistical reporting for the Board of Directors. The Board receives enhanced statistics related to the provincial portfolio and can use this information for improved financial management decision making.

**Developed client profiles**

In 2010-11, the corporation developed a detailed client profile report to further the corporation's understanding of borrowers' needs, in order to guide program decisions.

**Objective for 2010-11:**

By March 31, 2011 the corporation will have developed a profile of clients with repayment difficulties.

Measure: Client profile developed.

The following details the corporation's successful achievement of the objective for 2010-11.

**Indicator:**

**Identified clients with repayment difficulties**

In March 2011, the corporation identified clients with repayment difficulties through the development of a detailed client profile report. This report used July 2010 data retrieved from the Department's financial assistance database. The purpose of the report was to further the corporation's understanding of borrowers' needs, in order to guide program decisions. The report outlined characteristics of the total of all loans outstanding portfolio and defaulted loans outstanding portfolio, and examined the demographic and academic profile of students in the province, who have, or have had, an outstanding student loan. The report was provided to the Board.

## 4.0 HIGHLIGHTS AND SNAPSHOT FOR THE YEAR ENDED MARCH 31, 2011

### HIGHLIGHTS

- A total of \$10.8 million in up-front grants was disbursed in 2010-11, the third full year of the implementation of the up-front grants program; this represents a \$0.6 million (5%) decrease from 2009-10 as a result of lower student uptake.
- The number of loans outstanding for the whole portfolio increased by 1,100 (3%) while the value of the portfolio decreased by \$21.9 million (10%). Since March 31, 2007, the number of loans outstanding for the portfolio decreased by 900, while the value of the portfolio decreased by \$76.7 million (27%). This reflects the impact of debt reduction measures taken by government to reduce student debt, overall decreases in the number of students borrowing, as well as continued improvement in repayment by students.
- Average levels of student debt started to decline. For the average Memorial University undergraduate borrower, accumulated debt declined 18.4% in 2009-10 from \$25,874 to \$21,104. 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.

Table 2: Net Student Debt<sup>1</sup> by Institution 2003-04 to 2009-10 (federal and provincial debt)

		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	% Change from 08-09 to 09-10
CNA	1 Year	\$9,995	\$10,445	\$10,594	\$9,840	\$9,336	\$8,975	\$7,944	-11.5%
	2 Year	\$15,854	\$17,589	\$16,399	\$16,632	\$16,762	\$15,440	\$13,693	-11.3%
	3 Year	\$20,991	\$26,022	\$21,959	\$21,896	\$22,241	\$22,512	\$20,347	-9.6%
Private College	1 Year	\$11,399	\$11,048	\$12,179	\$11,792	\$9,962	\$9,706	\$9,746	0.4%
	2 Year	\$20,635	\$22,324	\$22,340	\$22,365	\$21,067	\$19,897	\$20,220	1.6%
MUN	Undergraduate	\$26,592	\$31,218	\$26,299	\$27,114	\$26,582	\$25,874	\$21,104	-18.4%
	Marine	\$23,074	\$20,840	\$21,752	\$21,068	\$20,380	\$16,850	\$21,353	26.7%

Source: Provincial student loan data, Department of Education, 2010

Note<sup>1</sup> Includes net federal and provincial debt

During the year, approximately:

- \$12.1 million in new loans was disbursed to students; this is \$1.1 million (8%) less than disbursed in 2009-10;
- 13,400 new loan certificates were issued to both returning and new students pursuing a post-secondary education; this is 1,200 (8%) fewer than issued in 2009-10;
- \$25.9 million was received from students who are in repayment (\$1.1 million - interest; \$24.8 million - principal); an additional \$2.2 million (\$0.6 million - interest; \$1.6 million - principal) (*unaudited*) was received by the Department of Education;
- \$14.2 million in provincial grant payments was issued (\$3.4 million in provincial debt reduction payments (860 grants) was made to reduce provincial loans outstanding and \$10.8 million in non-repayable provincial up-front payments (11,600 grants)); an additional \$0.1 million in grants was paid directly to students whose provincial loans were paid in full;

- \$0.7 million was paid by the corporation for administrative fees (\$0.6 million to HRSDC and \$0.1 million to CRA); an additional \$0.7 million (*unaudited*) was paid on behalf of the Department of Education for old financial institution contract administrative fees;
- \$0.2 million was earned by the corporation in interest revenue on bank balances which existed during the year;
- \$1.4 million was paid by the corporation in interest payments on its outstanding debt which totaled \$142.0 million at year end; during the year, interest was paid at rates ranging from 0.52% to 1.28%;
- \$6.9 million in default collections was received for 2010-11 (\$4.7 million - corporation; \$2.2 million (*unaudited*) - Department of Education), a decrease of 3% from the approximately \$7.1 million collected by the corporation in 2009-10. Of this amount, almost \$3.5 million was attributable to CRA set-off, while the remaining \$3.4 million was collected under the corporation's internal collection process;

Table 3: Student Loan Corporation Portfolio:

Portfolio	31-Mar-10				31-Mar-11			
	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)
<b>Current</b>								
Class A (In School & In Grace)	9,100	\$37.7	\$0.0	\$37.7	8,600	\$33.9	\$0.0	\$33.9
Class B (In Repayment)	20,700	\$97.0	\$0.1	\$97.1	20,400	\$84.3	\$0.1	\$84.4
Subtotal	29,800	\$134.7	\$0.1	\$134.8	29,000	\$118.2	\$0.1	\$118.3
<b>Default</b>								
Department of Advanced Education and Skills <sup>1</sup>	3,700	\$25.0	\$6.0	\$31.0	3,300	\$22.4	\$4.7	\$27.1
Corporation	5,300	\$32.0	\$5.4	\$37.4	4,700	\$29.1	\$4.4	\$33.5
CRA	3,400	\$20.4	\$1.0	\$21.4	4,100	\$23.0	\$0.8	\$23.8
Subtotal	12,400	\$77.4	\$12.4	\$89.8	12,100	\$74.5	\$9.9	\$84.4
<b>Total</b>	<b>42,200</b>	<b>\$212.1</b>	<b>\$12.5</b>	<b>\$224.6</b>	<b>41,100</b>	<b>\$192.7</b>	<b>\$10.0</b>	<b>\$202.7</b>

Note 1 – Unaudited.

## 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:

- Improving the efficiency of client payment and grant refund processes.
- Reducing red tape for clients by working with the Student Financial Services division and the federal government to improve the loan agreement process.
- Improving services and financial options available to clients experiencing financial hardship and repayment difficulties.

### 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.

## 6.0 CONCLUSION

Significant progress was made in fiscal 2010-11 as outlined in this annual report. As a result, the corporation successfully met its objectives for the year. These accomplishments could not have been achieved without the dedication and hard work of corporation employees.

This annual report outlines the progress made in the final year of the business plan for 2008-11 as well as the work completed during this planning cycle. Despite not meeting an objective in 2009-10, the corporation met its mission for the cycle through other work completed. By focusing its efforts on improving services to student borrowers and providing better information to government, the corporation continues to support the student loan program.

The provincial government demonstrated a strong commitment to students with the elimination of interest and implementation and expansion of up-front non-repayable grants. 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.gov.nl.ca/edu/postsecondary/slc/index.html>.

## 7.0 FINANCIAL STATEMENTS

The audited financial statements show total revenues of \$12.4 million and total expenditures of \$18.2 million.

During the year, the corporation experienced a \$0.2 million decrease in the use of the interest relief program, following a decrease of \$0.8 million in this program last year. The corporation recognized a decrease of \$0.4 million in loan repayments from the prior year as well as a \$7.3 million decrease in expenses due to decreased federal grant funding and lower uptake of provincial grant programs.

The corporation issued \$10.8 million in up-front needs-based grants and reported a decrease of \$1.4 million in interest revenue, mostly the result of the elimination of interest on student loans effective August 1, 2009.

Overall, the corporation experienced an accrual deficit of \$5.8 million as reflected on the Statement of Operations, which is an increase of \$3.7 million over the \$2.1 million deficit reflected in 2009-10. This increase can be attributed mainly to a planned reduction in provincial grant revenue. As with the prior year, the corporation was able to use existing cash reserves to fund operations in 2010-11 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 \$19.1 million in cash which represents a \$7.4 million decrease in cash and cash equivalents from 2009-10.



**STUDENT LOAN CORPORATION OF  
NEWFOUNDLAND AND LABRADOR**

**FINANCIAL STATEMENTS**

**31 MARCH 2011**



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 2011, the statement of operations, the statement of changes in net financial assets and the statement of 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 generally accepted accounting principles, 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.

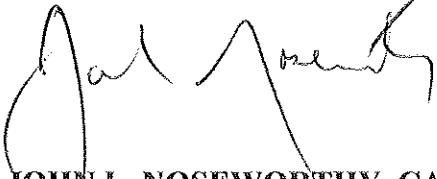
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "John L. Noseworthy". The signature is written in a cursive style with a large initial "J" and "N".

**JOHN L. NOSEWORTHY, CA**  
**Auditor General**

21 June 2011  
St. John's, Newfoundland and Labrador

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

**31 March**

**2011**

**2010**

**FINANCIAL ASSETS**

Cash	\$ 19,053,015	\$ 26,480,685
Accounts receivable	399,241	529,185
Student loans receivable (Note 3)	132,233,057	144,288,901
<b>Total Financial Assets</b>	<b>151,685,313</b>	<b>171,298,771</b>

**LIABILITIES**

Accounts payable and accrued liabilities	435,280	413,655
Accrued vacation pay	142,030	70,730
Current portion - long-term debt (Note 4)	142,000,000	14,000,000
Current portion - obligation under capital lease (Note 5)	-	2,898
Long-term debt (Note 4)	-	142,000,000
Accrued severance pay	114,879	74,115
<b>Total Liabilities</b>	<b>142,692,189</b>	<b>156,561,398</b>

<b>NET FINANCIAL ASSETS</b>	<b>8,993,124</b>	<b>14,737,373</b>
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**NON-FINANCIAL ASSETS**

Capital assets (Note 6)	97,269	113,163
Prepaid expense	2,010	2,862
<b>Total Non-Financial Assets</b>	<b>99,279</b>	<b>116,025</b>

<b>ACCUMULATED SURPLUS</b>	<b>\$ 9,092,403</b>	<b>\$ 14,853,398</b>
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Contingent liability - Note 7

*See accompanying notes*

Signed on behalf of the Board:



Chairperson



Director

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**STATEMENT OF OPERATIONS**

For the year ended 31 March

2011

2010

	Actuals	Budget	Actuals
<b>REVENUES</b>			
Provincial grant revenue	\$ 7,148,383	\$ 17,595,800	\$ 13,574,691
Federal grant revenue	764	500,000	5,312,941
Recovery in value of student loan receivable	5,005,373	-	2,842,223
Interest revenue	209,661	400,000	253,600
Student loan interest	46,300	-	1,404,770
Other revenue	6,805	10,000	11,708
	<b>12,417,286</b>	<b>18,505,800</b>	<b>23,399,933</b>
<b>EXPENSES</b>			
Administrative fees	748,947	3,100,000	753,783
Amortization	31,661	25,000	32,460
Bad debt expense	-	1,300,000	-
Bank charges	11,916	25,000	14,190
Grant expense - Federal	764	500,000	5,312,941
Grant expense - Provincial	14,255,806	21,200,000	16,926,182
Interest expense on long-term debt	1,443,483	1,900,000	768,934
Interest relief expense	594	-	178,931
Operating expenses	105,680	249,500	141,952
Other expenses	-	600,000	-
Salaries	1,579,430	1,346,300	1,366,244
	<b>18,178,281</b>	<b>30,245,800</b>	<b>25,495,617</b>
<b>ANNUAL DEFICIT</b>	<b>(5,760,995)</b>	<b>(11,740,000)</b>	<b>(2,095,684)</b>
<b>ACCUMULATED SURPLUS, beginning of year</b>	<b>14,853,398</b>	<b>14,853,398</b>	<b>16,949,082</b>
<b>ACCUMULATED SURPLUS, end of year</b>	<b>\$ 9,092,403</b>	<b>\$ 3,113,398</b>	<b>\$ 14,853,398</b>

*See accompanying notes*

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR  
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS**

**For the year ended 31 March**

**2011**

**2010**

	<b>Actuals</b>	<b>Budget</b>	<b>Actuals</b>
<b>Annual deficit</b>	<b>\$ (5,760,995)</b>	<b>\$ (11,740,000)</b>	<b>\$ (2,095,684)</b>
Change in prepaid expense	852	-	250
Acquisition of tangible capital assets	(15,767)	(25,000)	-
<u>Amortization of tangible capital assets</u>	<u>31,661</u>	<u>25,000</u>	<u>32,460</u>
<b>Change in Net Financial Assets</b>	<b>(5,744,249)</b>	<b>(11,740,000)</b>	<b>(2,062,974)</b>
<u><b>Net Financial Assets, beginning of year</b></u>	<u><b>14,737,373</b></u>	<u><b>14,737,373</b></u>	<u><b>16,800,347</b></u>
<u><b>Net Financial Assets, end of year</b></u>	<u><b>\$ 8,993,124</b></u>	<u><b>\$ 2,997,373</b></u>	<u><b>\$ 14,737,373</b></u>

*See accompanying notes*

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

For the year ended 31 March

2011

2010

**Cash flows from operating activities**

Annual deficit	\$ (5,760,995)	\$ (2,095,684)
Add (deduct) non-cash items		
Amortization	31,661	32,460
Recovery in value of student loan receivable	(5,005,373)	(2,842,223)
	(10,734,707)	(4,905,447)
Changes in non-cash operating items		
Interest receivable on investments	-	139,623
Accounts receivable	129,944	(101,940)
Prepaid expense	852	250
Student loans receivable (Note 3)	18,107,262	22,487,137
Student loans written off to allowance	(1,046,045)	(88,536)
Accounts payable and accrued liabilities	21,625	2,135
Accrued vacation pay	71,300	(18,661)
	6,550,231	17,514,561
Accrued severance pay	40,764	8,651
	6,590,995	17,523,212

**Cash flows from capital activities**

Acquisition of tangible capital assets	(15,767)	-
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**Cash flows from financing activities**

Repayment of long-term debt	(14,000,000)	(14,000,000)
Repayment of capital lease obligation	(2,898)	(4,348)
	(14,002,898)	(14,004,348)

**Increase (Decrease) in cash** (7,427,670) 3,518,864

**Cash, beginning of year** 26,480,685 22,961,821

**Cash, end of year** \$ 19,053,015 \$ 26,480,685

*See accompanying notes*

# STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

## NOTES TO FINANCIAL STATEMENTS

31 March 2011

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### Authority

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.

### 1. Summary of significant accounting policies

These financial statements have been prepared by the Board's management in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB). Outlined below are the significant accounting policies followed:

(a) Accounts receivable

The Corporation's accounts receivable mainly relate to timing differences which are generally resolved quickly. As a result, an allowance against this amount has not been established.

(b) Severance pay

The calculation of severance pay is based on years of service and current salary levels. The entitlement to severance pay vests with employees after nine years of continuous service, and accordingly no provision has been made in the accounts for employees with less than nine years of continuous service. The amount is payable when the employee ceases employment with the Corporation. If the employee transfers to another entity included in the public service, then the liability is transferred with the employee to the other entity.

(c) Capital assets

All capital assets are recorded at cost at the time of acquisition. Amortization is calculated using the straight-line method based on the expected future life of all assets as follows:

Office equipment	10 years
Computer software	7 years
Computer hardware	4 years
Capital photocopier lease	5 years

### 2. Change in accounting policy

The Corporation has adopted generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) for the year ended 31 March 2011. Accordingly, a Statement of Changes in Net Financial Assets has been prepared for the current year as well as comparative figures for 2009-10.



**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2011**

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**3. 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 2011 approximately 20,391 loans totalling \$84,279,502 (2010 - 20,645 loans totalling \$97,014,294) were being repaid as non-interest bearing for the period 1 April 2010 to 31 March 2011 (Class B loans) while 8,597 loans totalling \$33,876,134 (2010 - 9,115 loans totalling \$37,707,863) were not being repaid as the students were either still in attendance at an approved education institution or were within 6 months after the end of the study period (Class A loans).

As at 31 March 2011 approximately 8,871 loans totalling \$52,123,799 (2010 - 8,694 loans totalling \$52,401,527) 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 2010 to 31 March 2011.

Student loans receivable consist of the following:

	<u>2011</u>	<u>2010</u>
<b>Loans receivable</b>		
Class A principal	\$ 33,876,134	\$ 37,707,863
Class B principal	84,279,502	97,014,294
Loans defaulted	52,123,799	52,401,527
Interest receivable	5,257,451	6,520,464
	<u>175,536,886</u>	<u>193,644,148</u>
Less: allowance for doubtful accounts	<u>(43,303,829)</u>	<u>(49,355,247)</u>
	<u>\$ 132,233,057</u>	<u>\$ 144,288,901</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.

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

	<u>2011</u>	<u>2010</u>
Student loan interest	\$ 46,300	\$ 1,404,770
Interest relief	(594)	(178,931)
Student loan grants	(3,281,919)	(10,486,042)
Student loans disbursed	12,090,262	13,197,200
Student loan payments	(25,915,266)	(26,335,598)
Student loans written off	(1,046,045)	(88,536)
	<u>\$ (18,107,262)</u>	<u>\$ (22,487,137)</u>

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR  
 NOTES TO FINANCIAL STATEMENTS

31 March 2011

4. Long-term debt

	<u>2011</u>	<u>2010</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	\$ 156,000,000
Less: current portion	<u>142,000,000</u>	<u>14,000,000</u>
<b>Obligation, end of year</b>	<b>\$ -</b>	<b>\$ 142,000,000</b>

A principal payment of \$14,000,000 will be made on 30 September 2011. Interest is payable on 30 June and 30 September.

As the debt matures on 30 September 2011, the Corporation will be reviewing its debt strategy for the upcoming year.

5. Obligation under capital lease

The following is a schedule of future minimum lease payments under the capital lease which expired in December 2010.

	<u>2011</u>	<u>2010</u>
Obligation, beginning of year	\$ -	\$ 2,898
Less: current portion	<u>-</u>	<u>2,898</u>
<b>Obligation, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

6. Capital assets

	<u>2011</u>			<u>2010</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	\$ 33,219	\$ 5,388	\$ 27,831	\$ 14,598
Computer software	145,359	81,363	63,996	84,761
Computer hardware	22,404	16,962	5,442	10,543
Capital photocopier lease	21,739	21,739	-	3,261
	<u>\$ 222,721</u>	<u>\$ 125,452</u>	<u>\$ 97,269</u>	<u>\$ 113,163</u>

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**

**31 March 2011**

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**7. Contingent liability**

The Corporation is contingently liable for approved sick leave encountered by its employees. Employee sick leave benefits accrue annually but do not vest and are not payable at the end of the employment. As at 31 March 2011, the accumulated balance of employee sick leave benefits available for drawdown totalled \$412,326 (2010 - \$355,022).

**8. Related party transactions**

The Province unconditionally guarantees the principal and interest outstanding on long-term debt of \$142,000,000.

**9. Economic dependence**

As a result of its reliance on the Government of Newfoundland and Labrador to address the future funding requirements of the student loans program, the Corporation's ability to continue operations is dependent upon the decisions of Government.

**10. Financial instruments**

The Corporation's short-term financial instruments recognized on the statement of financial position consist of cash, accounts receivable, accounts payable and accrued liabilities, accrued vacation pay and current portion of long-term debt. The Corporation's current portion of long-term debt is at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate less 2 basis points, maturing in September 2011. This may subject the Corporation to interest rate risk caused by changes in the interest rate. The carrying values of short-term financial instruments approximate current fair value due to their nature and short-term maturity associated with them.

The Corporation's long-term financial instruments recognized on the balance sheet consist of student loans receivable and accrued severance pay. The student loans receivable are reported at cost with provision being made for any decline in their value. Therefore, no further credit risk exists relating to these loans. The carrying values of these long-term financial instruments approximate their current fair value.

**11. Income taxes**

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.