STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

Annual Report 2017-18

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Chairperson's Message

Honourable Al Hawkins
Department of Advanced Education, Skills and Labour
P.O. Box 8700
St. John's NL, A1B 4J6

Dear Minister Hawkins:

In accordance with the **Transparency and Accountability Act**, please find enclosed the annual performance report of the Student Loan Corporation of Newfoundland and Labrador (the Corporation) for the year ending March 31, 2018.

This is the first performance-based report to be presented under the Corporation's business plan for 2017-20. This document sets forth in clear language how the Corporation has addressed the goal and objectives that were outlined in the plan.

The Corporation is responsible for the disbursement and collection of Newfoundland and Labrador Student Financial Assistance. Eligibility for student financial assistance is determined by the Department of Advanced Education, Skills and Labour's Division of Student Financial Services. As such, issues related to the determination of eligibility are not included in this document. For information relating to the determination of financial eligibility, readers should refer to the Department of Advanced Education, Skills and Labour's website.

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,

R Gardiner

ROBERT GARDINER
Chairperson (A)

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 the financial administration of the Newfoundland and Labrador Student Financial Assistance Program, which includes disbursement of student financial assistance and receipt of loan repayments. Readers should note eligibility is determined by the Department of Advanced Education, Skills and Labour's Student Financial Services Division.

The affairs of the Corporation are managed by a Board of Directors who report to the Minister of Advanced Education, Skills and Labour. The Board of Directors as of March 31, 2018, included:

- Deputy Minister of the Department of Advanced Education, Skills and Labour, Chair, Ms. Genevieve Dooling;
- Deputy Minister of the Department of Finance, Ms. Denise Hanrahan;
- Comptroller General, Ms. Ann Marie Miller;
- Assistant Deputy Minister of the Department of Advanced Education, Skills and Labour, Post-Secondary Education, Ms. Candice Ennis-Williams; and
- Assistant Deputy Minister of the Department of Advanced Education, Skills and Labour, Corporate Services and Policy, Ms. Deborah Dunphy.

On April 1, 2018, the Corporation employed 11 individuals as per the following table. These staff members are also included as employees of the Department of Advanced Education, Skills and Labour under the Post-Secondary Education Branch.

Table 1: Student Loan Corporation Staff

Staff	Female	Male	Total
Management	0	2	2
Collections	4	1	5
Financial	2	2	4
Total	6	5	11

The Corporation’s offices are located on the fourth floor of the West Block of Confederation Building in St. John’s.

Each year the Provincial Government, subject to the annual Budget process, provides the Corporation with an operating grant. The grant budgeted for 2018-19 is $5,683,000; this is the same amount budgeted in 2017-18.

2.0 Highlights and Partnerships

During 2017-18, the Corporation, in collaboration with its partners, worked towards achieving the objectives and indicators in the area of improved repayment services.

In 2007, the Corporation entered an agreement with the Government of Canada for repayment services for loans issued after January 31, 2007 to be provided by the National Student Loans Service Centre and the Canada Revenue Agency. The Corporation continued to manage the collection of provincial student loan accounts in default status prior to February 1, 2007. It also monitored repayment services undertaken by the Canada Revenue Agency on defaulted loans post January 31, 2007, as per the Memorandum of Understanding With Respect To Costs and Allocation of Recoveries Respecting Defaulted Canada-Newfoundland and Labrador Integrated Student Loans (the Memorandum of Understanding).

On November 1, 2016, the Corporation terminated the Memorandum of Understanding with Canada Revenue Agency as part of the plan to increase collections. The Corporation now manages repayment services for all defaulted Newfoundland and Labrador student loans. A small number of defaulted loans remain within the management of Canada Revenue Agency until they can be transferred to the Corporation.

Highlights:

- As of March 31, 2018, there were 27,342 loans outstanding for the entire portfolio (loans owned by the Corporation and by the Department of Advanced Education, Skills and Labour) totaling $91.9 million ($88.6 million principal and $3.3 million interest receivable). Loans outstanding refer to all loans not paid in full, which include those in good standing and those in default.

- 9,519 loans totaling $6.4 million were disbursed to students during 2017-18; a decrease from 10,645 loans totaling $7.6 million disbursed in 2016-17.

- In 2017-18, student loan payments received from student borrowers who are in repayment status totaled $10.5 million, a decrease from $13.0 million from 2016-17. Of the student loan payments received, $9.8 million ($12.0 million in 2016-17) were related to loans owned by the Corporation and $0.7 million ($1.0 million in 2016-17) for loans owned by the Department of Advanced Education, Skills and Labour (see Note 5 to Table 2).

- During 2017-18, the Corporation issued 8,487 upfront grants totaling $9.1 million to students to assist with educational costs and 622 debt reduction grants totaling $1.3 million to former students, to assist with student loan repayments. This is a decrease from 2016-17 when 11,404 upfront grants were issued that totaled $14.5 million and an increase from 514 debt reduction grants issued that totaled $1.2 million. In addition, 44 part-time incentive grants totaling $19,625 were issued in 2017-18 to further assist part-time borrowers while lessening their financial burden. This is an increase from 31 part-time incentive grants issued in 2016-17 that totaled $12,248.

- The number of clients availing of the provincial Repayment Assistance Plan increased from 3,254 totaling $0.63 million in 2016-17 to 3,301 totaling $0.69 million in 2017-18.

- Since March 31, 2007, the number of loans outstanding for the portfolio has decreased by 14,658 while the value of the portfolio has decreased by $188 million. This reflects the impact of debt reduction measures taken by the Government of Newfoundland and Labrador. Such debt reduction measures include upfront grants, the repayment assistance program, and the elimination of interest on provincial student loans.

Table 2 provides a summary of the changes to the number of loans and value of the current and defaulted portfolios from March 31, 2017 to March 31, 2018.

Table 2: Student Loan Corporation Portfolio[1]

Portfolio	31-Mar-17				31-Mar-18			
	Number of Loans	Principal ($ in millions)	Interest and Fees ($ in millions)	Total Value ($ in millions)	Number of Loans	Principal ($ in millions)	Interest and Fees ($ in millions)	Total Value ($ in millions)
Current Portfolio Class A (In School and In Grace) [2]	6,537	$15.1	$0.0	$15.1	5,910	$14.8	$0.0	$14.8
Class B and Interest (In Repayment) [3]	12,152	$31.5	$0.0	$31.5	11,569	$27.6	$0.0	$27.6
Subtotal	18,689	$46.6	$0.0	$46.6	17,479	$42.4	$0.0	$42.4
Default Portfolios [4] Department of Advanced Education, Skills and Labour[5]	1,670	$11.7	$2.2	$13.9	1,275	$9.1	$1.6	$10.7
Corporation [6]	8,366	$38.1	$1.6	$39.7	8,489	$36.6	$1.7	$38.3
Canada Revenue Agency [7]	420	$2.2	$0.1	$2.3	99	$0.5	$0.0	$0.5
Subtotal	10,456	$52.0	$3.9	$55.9	9,863	$46.2	$3.3	$49.5
Total	**29,145**	**$98.6**	**$3.9**	**$102.5**	**27,342**	**$88.6**	**$3.3**	**$91.9**

Source: Department of Advanced Education, Skills and Labour, 2018

Note 1 – Unaudited.

Note 2 – In Grace is defined as a loan within the six-month period that begins from the student's end of study date, during which the student is not required to make any payments.

Note 3 – Class B and Interest is defined as loans that are currently in repayment.

Note 4 – Default portfolios consist of loans that are in default status due to the borrower not making a payment for at least 270 days.

Note 5 – Loans owned by Provincial Government issued before the Corporation was established in 2004.

Note 6 – Loans owned and issued by the Corporation that defaulted.

Note 7 – Loans issued by the Corporation that have defaulted since January 31, 2007, formerly collected by Canada Revenue Agency and in the process of being transferred to the Corporation.

Partnerships:

- The Corporation is responsible to the Minister of Advanced Education, Skills and Labour and operates under the **Student Financial Assistance Act** and **Regulations**. The provincial Student Financial Assistance Program also operates under this legislative framework. The Corporation works closely with the department's Student Financial Services Division to ensure financial administration is consistent with program delivery requirements. The Corporation works with the Finance Division in the management of the department's defaulted loans portfolio. These loans are owned by the Provincial Government and were issued to students prior to the existence of the Corporation (i.e., guaranteed and certain risk-shared defaulted loans purchased from Canadian Imperial Bank of Commerce). When the Provincial Government makes student financial assistance program decisions, the financial management activities of the Corporation are affected.

- The Corporation partners with the federal Department of Employment and Social Development Canada via the Integration Agreement. One goal of this agreement is to simplify the administration of loans, particularly in the repayment process. The Corporation works with the Department of Employment and Social Development Canada to promote and enhance measures to further this initiative.

- The National Student Loans Service Centre administers the loan process for both governments. D+H Limited Partnership operates the National Student Loans Service Centre and provides loan administration from disbursement to repayment; a one-stop approach to loan management. The Corporation works closely with the National Student Loans Service Centre to provide advice and direction, as well as inquiry and issue-resolution to Newfoundland and Labrador students as they repay their student loans.

- During 2017-18, the Corporation continued to participate in the Canada Revenue Agency Refund Set-Off Program. Under this program, certain tax refunds are intercepted to repay defaulted student loans.

3.0 Report on Performance

The Corporation's annual report outlines its progress in achieving the 2017-18 objective of the 2017-20 business plan. Improving repayment services is important as loan repayments will be maximized, provincial student loan accounts will be resolved effectively, and the Newfoundland and Labrador Student Financial Assistance Program will benefit from continued reinvestment of existing resources.

3.1 Report on 2017-18 Annual Objective

Goal:
By March 31, 2020, the Corporation will have improved its repayment services.

Objective for 2017-18:
By March 31, 2018, the Corporation will have enhanced processes for assessing financial capacity of borrowers and completing appropriate repayment arrangements.

Indicator 1: Developed financial assessment templates.

In 2017-18, the Corporation developed a new financial assessment template to be completed by borrowers. The new template has implemented several recommendations from the accessibility guidelines set forth by the Government of Newfoundland and Labrador's Disability Policy Office.

The new template also includes information for the borrower regarding the collection, use, and disclosure of their personal information.

Indicator 2: Drafted and implemented a policy for identifying student borrowers eligible for repayment assistance.

A policy was drafted and implemented in 2017-18 to assist borrowers attending a post-secondary program who had defaulted loans that were being, at the time, serviced by the Canada Revenue Agency. If the loans were eligible for rehabilitation, the Corporation would rehabilitate them to the National Student Loans Service Centre where the borrower could apply for repayment assistance.

Indicator 3: Updated the collections manual for revised policies and procedures.

The collections manual was updated during 2017-18 to reflect that:

- the Corporation will immediately register new accounts it receives in the Canada Revenue Agency's Set-Off program while trying to establish a repayment arrangement with the debtor;
- accounts will no longer be transferred to the Canada Revenue Agency for collection activities as the Corporation will now service newly defaulted loans; and,
- loan data will no longer be stored with the Canada Revenue Agency as the Corporation will store this data.

Objective for 2018-19:
By March 31, 2019, the Corporation will have improved processes for the enforcement of repayment arrangements.

Indicator 1: Eliminated inefficient procedures to improve the collection of outstanding debts.

4.0 Opportunities and Challenges Ahead

4.1 Opportunities

The Corporation has the opportunity to:

- Increase collections revenue and improve client account management through a review of client files transferred in 2017-18 from the Canada Revenue Agency.

4.2 Challenges

As is the nature of most work involved with collecting defaulted loans, there are several challenges facing the Corporation to ensure the successful recovery of funds owed. Challenges include:

- Developing and implementing systems, policies, procedures, and structures to support the work of the Corporation in achieving its mandate.
- Making successful contact with defaulted borrowers in order to counsel them on establishing an effective repayment schedule.

5.0 Conclusion

This annual report outlines the progress made in the first year of the business plan for 2017-20. By focusing its efforts on improved repayments services, the Corporation continues to provide support for the student loan program.

Copies of this document are available at the following online location: http://www.aesl.gov.nl.ca/publications/annual.html.

6.0 Financial Statements

The audited financial statements show total revenues of $2.4 million ($16.3 million in the previous year) and total expenditures of $12.2 million ($24.2 million incurred in the previous year).

Overall, the Corporation experienced a deficit of $9.8 million, which is an increase of $1.8 million over the $8.0 million deficit reported in 2016-17. This is further explained in the discussion below.

Revenue

The main change in revenue is the decrease in the provincial operating grant from $15.9 million in 2016-17 to $1.8 million in 2017-18. The Corporation utilized existing cash reserves for operations during the year.

Expenses

The Corporation recognized a $12.0 million decrease in total expenses which was largely attributable to:

- A decrease of $5.4 million in provincial upfront grants awarded, due to a change in the Student Financial Assistance funding model so that Federal grants (the Canada Study Grants) are now provided up to the maximum before provincial grants are awarded.
- A decrease of $9.2 million in the bad debt expense (i.e., an allowance for accounts that may not be collectible). In 2016-17, there was a one-time, significant increase in the bad debt expense as a result of the transfer of Corporation-owned loans from Canada Revenue Agency. A substantial portion of these loans were either statute barred (i.e., too old to be collected) or bankrupt accounts and considered as bad debt. The bad debt expense in 2017-18 is more consistent with trends prior to 2016-17.
- Decreases in bad debt expenses were offset by an increase in loan write-off expenses of $2.3 million for the year (compared to $0.2 million in 2016-17), which resulted in a net change of $6.9 million.

The Corporation's cash position at year end, as reported in its Statement of Cash Flows, was $6.8 million which represents a $5.4 million decrease from 2016-17. The decrease is mainly attributable to the decrease in operating grant funds from the Provincial Government and the utilization of existing cash reserves during 2017-18.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

FINANCIAL STATEMENTS

MARCH 31, 2018

Office of the Auditor General

Management's Report

Management's Responsibility for the Student Loan Corporation of Newfoundland and Labrador Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial information periodically and external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Board in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Student Loan Corporation of Newfoundland and Labrador.

On behalf of the Student Loan Corporation of Newfoundland and Labrador.

Ms. Alicia Sutton
Director of Portfolio Management

AUDITOR GENERAL
of Newfoundland and Labrador

INDEPENDENT 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 March 31, 2018, the statements of operations, 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.

Independent 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 March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

JULIA MULLALEY, CPA, CA
Auditor General

September 20, 2018
St. John's, Newfoundland and Labrador

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF FINANCIAL POSITION

As at March 31	2018	2017
FINANCIAL ASSETS		
Cash	$ 6,770,501	$ 12,246,888
Due from government (Note 4)	387,005	161,541
Student loans receivable (Note 5)	51,295,898	55,885,882
	58,453,404	68,294,311
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	174,216	193,935
Employee future benefits (Note 7)	202,721	195,993
Due to government (Note 8)	-	56,962
	376,937	446,890
Net financial assets	58,076,467	67,847,421
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 9)	6,741	10,559
	6,741	10,559
Accumulated surplus	$ 58,083,208	$ 67,857,980

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

Signed on behalf of the Board: R. Gardiner, Chairperson — Debbie Dunphy, Director

Office of the Auditor General

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

	2018 Budget (Note 12)	2018 Actual	2017 Actual
REVENUES			
Provincial grant (Note 11)	$ 5,683,000	$ 1,838,938	$ 15,942,030
Recovery in value of student loan receivable	502,000	221,370	-
Interest	275,000	105,004	115,799
Student loan interest	-	180,574	202,725
Other	50,000	34,925	12,836
	6,510,000	2,380,811	16,273,390
EXPENSES (Note 13)			
Portfolio management	11,386,646	11,527,714	23,586,911
Repayment services	262,359	267,261	384,817
General administration	353,995	360,608	247,423
	12,003,000	12,155,583	24,219,151
Annual deficit	(5,493,000)	(9,774,772)	(7,945,761)
Accumulated surplus, beginning of year	67,857,980	67,857,980	75,803,741
Accumulated surplus, end of year	$ 62,364,980	$ 58,083,208	$ 67,857,980

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

Office of the Auditor General

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

	2018 Budget (Note 12)	2018 Actual	2017 Actual
Annual deficit	$ (5,493,000)	$ (9,774,772)	$ (7,945,761)
Amortization of tangible capital assets	4,000	3,818	3,817
Decrease in net financial assets	(5,489,000)	(9,770,954)	(7,941,944)
Net financial assets, beginning of year	67,847,421	67,847,421	75,789,365
Net financial assets, end of year	$ 62,358,421	$ 58,076,467	$ 67,847,421

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

Office of the Auditor General

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF CASH FLOWS

For the year ended March 31	2018	2017
Operating transactions		
Annual deficit	$ (9,774,772)	$ (7,945,761)
Adjustments for non-cash items		
Amortization	3,818	3,817
Recovery in value of student loan receivable	(221,370)	-
Bad debt expense	-	6,649,069
	(9,992,324)	(1,292,875)
Changes in non-cash operating items		
Due from government	(225,464)	143,770
Accounts payable and accrued liabilities	(19,719)	5,422
Employee future benefits	6,728	(170,619)
Due to government	(56,962)	(4,685)
Cash applied to operating transactions	(10,287,741)	(1,318,987)
Financing transactions		
Repayment of long-term debt	-	(1,804,000)
Cash applied to financing transactions	-	(1,804,000)
Investing transactions		
Net decrease in student loans receivable (Note 5)	7,313,438	6,169,067
Student loans written off to allowance	(2,502,084)	(177,539)
Cash provided from investing transactions	4,811,354	5,991,528
Increase (decrease) in cash	(5,476,387)	2,868,541
Cash, beginning of year	12,246,888	9,378,347
Cash, end of year	$ 6,770,501	$ 12,246,888

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

Office of the Auditor General

1. Nature of operations

The Student Loan Corporation of Newfoundland and Labrador (the Corporation) was established on March 30, 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

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements have been prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Corporation does not prepare a statement of remeasurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by that statement. Outlined below are the significant accounting policies followed.

(b) 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 and due to government. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash and due from government. Student loans receivable is measured at amortized cost as disclosed in notes 2(e) and 5. Financial liabilities measured at cost include accounts payable and accrued liabilities and due to government.

The carrying values of cash, due from government, accounts payable and accrued liabilities and due to government approximate current fair value due to their nature and the short-term maturity associated with these instruments. The carrying value of student loans receivable is considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations.

2. Summary of significant accounting policies (cont.)

(c) Cash

Cash includes cash in bank.

(d) Employee future benefits

Employee benefits include severance pay and accumulating, non-vesting, sick leave benefits.

(i) Severance is accounted for on an accrual basis and is calculated based upon years of service and current salary levels.

(ii) The Corporation has made a provision in the accounts for the payment of accumulating, non-vesting, sick leave benefits to certain employees which is based upon the Corporation's best estimate of the probability of the employees utilizing the benefits and current salary levels.

The employees of the Corporation are subject to the *Public Services Pensions Act, 1991*. Employee contributions are matched by the Corporation and remitted to Provident[10] from which pensions will be paid to employees when they retire. This plan is a multi-employer, defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and the average of their best six years of earnings for service on or after January 1, 2015, and, for service before January 1, 2015, the higher of the average of the frozen best 5 years of earnings up to January 1, 2015, or the average of the best 6 years of earnings for all service.

Employee future benefits expenses are included with salaries in the Corporation's financial statements.

(e) Student loans receivable

The Corporation records student loans receivable at amortized cost. Student loans receivable are tested annually for impairment. A loan is classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of a portion of principal or interest related to the loan. 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. Changes in the allowance are recognized on the statement of operations. Loan balances determined to be uncollectible are written off by the Corporation.

2. Summary of significant accounting policies (cont.)

(f) 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	3 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.

(g) Revenues

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

Interest income is accounted for on the accrual basis for bank interest and student loans receivable other than the impaired portion of the loans. Recognition of interest in accordance with the terms of the original loan agreement ceases when a loan becomes impaired.

Government transfers (grants from the Province) are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulations related to the liabilities are settled.

2. Summary of significant accounting policies (cont.)

(h) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

Transfers, which include grants-provincial and interest relief-repayment assistance, are recorded as expenses when the grant is authorized, eligibility criteria have been met by the recipient and a reasonable estimate of the amount can be made.

(i) 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 and collectability of student loans issued.

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.

3. Changes in accounting policies

(a) New accounting standards

On April 1, 2017, the Corporation adopted the following five new CPSAS Handbook Sections:

PS 2200 Related Party Disclosures - a new standard defining related parties and establishing disclosure requirements for related party transactions.

PS 3210 Assets - a new standard providing guidance for applying the definition of assets and establishing general disclosure requirements for assets but does not provide guidance for the recognition and disclosure of specific types of assets.

PS 3320 Contingent Assets - a new standard defining and establishing disclosure requirements for contingent assets but does not include disclosure standards for specific types of contingent assets.

PS 3380 Contractual Rights - a new standard defining and establishing disclosure requirements for contractual rights but does not include disclosure standards for specific types of contractual rights.

3. Changes in accounting policies (cont.)

(a) New accounting standards (cont.)

PS 3420 Inter-entity Transactions - a new standard on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

These accounting changes had no significant impact on the financial statements.

(b) Accounting pronouncement

The PSAB has issued *PS 3430 Restructuring Transactions* which is effective April 1, 2018. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. The standard has not been applied in these financial statements.

The Corporation plans to adopt this standard by the effective date and is currently analyzing the impact the standard will have on the financial statements.

4. Due from government

	2018	2017
Federal government	$ 53,680	$ 60,986
Provincial government	333,325	100,555
	$ 387,005	$ 161,541

Amounts due from the Federal government relate to recoveries on student loans made by the Canada Revenue Agency. Amounts due from the Provincial government are related to payments received by the Province from defaulted loans.

5. Student loans receivable

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

As at March 31, 2018, approximately 11,603 loans totaling $27,481,811 (2017 - 12,181 loans totaling $31,540,625) were being repaid as non-interest bearing for the period April 1, 2017 to March 31, 2018 (Class B loans) while 5,914 loans totaling $14,808,376 (2017 - 6,549 loans totaling $15,091,199) 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). Generally, the maximum repayment period for Class B loans is 10 years. Upon graduation, students who meet certain criteria are eligible to have a portion of their loan forgiven through a debt reduction grant.

5. Student loans receivable (cont.)

As at March 31, 2018, approximately 8,588 loans totaling $37,497,594 (2017 - 8,786 loans totaling $40,388,738) 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 April 1, 2017 to March 31, 2018.

Student loans receivable consist of the following:

	2018	2017
Loans receivable		
Class A principal	$ 14,808,376	$ 15,091,199
Class B principal	27,481,811	31,540,625
Loans defaulted	37,497,594	40,388,738
Interest receivable	1,509,925	1,590,582
	81,297,706	88,611,144
Less: allowance for doubtful accounts	(30,001,808)	(32,725,262)
	$ 51,295,898	$ 55,885,882

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:

	2018	2017
Student loan interest	$ 180,574	$ 202,725
Interest relief - repayment assistance	(685,606)	(628,538)
Student loan grants	(1,286,050)	(1,192,080)
Student loans disbursed	6,699,072	7,583,750
Student loan payments	(9,719,344)	(11,957,385)
Student loans written off to allowance	(2,502,084)	(177,539)
	$ (7,313,438)	$ (6,169,067)

6. Accounts payable and accrued liabilities

	2018	2017
Trade payables and accrued liabilities	$ 106,968	$ 93,852
Salaries and benefits payable	21,785	24,005
Accrued vacation pay	45,463	76,078
	$ 174,216	$ 193,935

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7. Employee future benefits

		2018		2017
Vested severance benefits	$	187,308	$	136,256
Provision for non-vested severance benefits		-		40,621
Provision for accumulating, non-vesting, sick leave		15,413		19,116
	$	202,721	$	195,993

(a) Severance pay

Severance is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. During the year, the Province of Newfoundland and Labrador signed a new collective agreement with the union representing the Corporation's unionized employees. The Corporation's unionized employees with at least one year of service are entitled to one week of salary for each complete year of service as at March 31, 2018, to a maximum of 20 weeks. Unionized employees have the option of receiving their severance entitlement prior to March 31, 2019 or they may defer receiving their entitlement to a later date. Unionized employees would receive any remaining entitlement when they cease employment with the Corporation unless the employee transfers to another entity in the public service in which case any remaining entitlement is transferred with the employee to the other entity. Unionized employees will not accrue severance after March 31, 2018.

The right to be paid severance vests with non-unionized employees with nine years of continuous service. Severance is payable when the non-unionized employee ceases employment with the Corporation provided no severance has been paid by Government or another Crown corporation or agency for the same period.

On May 31, 2018, the Province of Newfoundland and Labrador enacted legislation affecting severance pay for executive, managers, non-management/non-union employees as outlined in Note 15.

(b) Accumulating, non-vesting, sick leave benefits

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.

7. Employee future benefits (cont.)

(c) Pension contributions

The Corporation and its employees are subject to the *Public Service Pensions Act, 1991*. Employee contributions are matched by the Corporation and remitted to Provident[10], as administrator of the plan, from which pensions will be paid to employees when they retire. The plan provides a pension to employees upon retirement based on the member's age at retirement, their length of service and rates of pay. The maximum contribution rate for eligible employees was 11.85% (2017 - 11.85%). The Corporation's share of pension contributions and the total expense for 2018 was $63,130 (2017 - $73,135).

8. Due to government

	2018	2017
Federal government	$ -	$ 32,751
Provincial government	-	24,211
	$ -	$ 56,962

The amount due to the Provincial government is related to payments received by the Corporation for non-integrated student loans that are administered by the Corporation on behalf of the Province.

9. Tangible capital assets

	Office equipment	Computer software	Computer hardware	Total
Cost				
Balance, March 31, 2017	$ 38,955	$ 145,359	$ 22,404	$ 206,718
Additions/Disposals	-	-	-	-
Balance, March 31, 2018	38,955	145,359	22,404	206,718
Accumulated amortization				
Balance, March 31, 2017	28,396	145,359	22,404	196,159
Amortization expense	3,818	-	-	3,818
Balance, March 31, 2018	32,214	145,359	22,404	199,977
Net book value, March 31, 2018	**$ 6,741**	**$ -**	**$ -**	**$ 6,741**
Net book value, March 31, 2017	$ 10,559	$ -	$ -	$ 10,559

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10. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change in the Corporation's exposure to these risks or its processes for managing these risks from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash, due from government, and student loans receivable. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank. The Corporation is not exposed to significant credit risk with the amount due from government because of its nature.

The Corporation is exposed to credit risk related 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. The Corporation classifies its student loans receivable in accordance with notes 2(e) and 5. Any estimated impairment of student loans receivable has been provided for through an allowance for decline in value.

As at March 31, 2018, Class B loans in repayment amounted to $27,481,811. A total balance of $2,852,917 of these loans was overdue as follows:

Days Overdue					
1 - 30	31 - 60	61 - 90	91 - 270	>270	Total
$12,569	$1,071,517	$149,242	$790,031	$829,558	$2,852,917

As well, as at March 31, 2018, the balance of defaulted loans subject to collection procedures was $37,497,594.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities. In the event that the Corporation does not believe that it has sufficient liquidity to meet its current obligations, consideration will be given to obtaining additional funds through borrowing or requesting additional funding from the Province.

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10. Financial risk management (cont.)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange, interest or other price risk.

11. Related party transactions

	2018	2017
Grants from the Province	$ 1,838,938	$ 15,942,030
	$ 1,838,938	$ 15,942,030

12. Budgeted figures

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

13. Expenses by object

	2018 Budget (Note 12)	2018 Actual	2017 Actual
Administrative fees	$ 600,000	$ 308,535	$ 471,977
Amortization	4,000	3,818	3,817
Bad debt expense	-	-	6,649,069
Bank charges	10,000	8,449	7,268
Grant-Provincial	9,528,000	10,349,426	15,691,929
Interest on long-term debt	-	-	3,598
Interest relief-repayment assistance	600,000	685,606	628,538
Operating	61,000	37,610	43,204
Salaries and benefits	1,200,000	762,139	719,751
Total	$ 12,003,000	$ 12,155,583	$ 24,219,151

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14. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Corporation. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Corporation's objectives.

15. Subsequent event

On May 31, 2018, the Province of Newfoundland and Labrador enacted legislation affecting severance pay for executives, managers, and non-management/non-union employees. Effective June 1, 2018, these non-union employees with at least one year of continuous service will be entitled to one week of salary for each complete year of service to a maximum of 20 weeks. The value of severance will be based on an employee's rate of pay as of May 31, 2018, and no additional severance will accrue beyond May 31, 2018. Employees may elect to receive all of their entitlement by March 31, 2019, or they may defer receiving their entitlement to a later date. The Corporation has included the impact of the legislation in the estimate of its severance pay liability for the year ended March 31, 2018.

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