

**STUDENT LOAN CORPORATION OF  
NEWFOUNDLAND AND LABRADOR**

**ANNUAL REPORT 2005-06**

# TABLE OF CONTENTS

<b>Chairperson's Message</b> .....	i
<b>Overview</b> .....	1
<b>AUTHORITY AND ADMINISTRATION</b> .....	1
<b>MANDATE</b> .....	1
<b>LINES OF BUSINESS</b> .....	1
<b>EMPLOYEES</b> .....	1
<b>LOCATION</b> .....	1
<b>Shared Commitments</b> .....	2
<b>DEPARTMENT OF EDUCATION</b> .....	2
<b>HUMAN RESOURCES AND SOCIAL DEVELOPMENT CANADA</b> .....	2
<b>CANADA REVENUE AGENCY</b> .....	2
<b>Highlights and Accomplishments</b> .....	3
<b>ESTABLISHMENT OF THE CORPORATION</b> .....	3
<b>PORTFOLIO MANAGEMENT</b> .....	3
<b>COLLECTION SERVICES</b> .....	3
<b>PROGRAM DEVELOPMENT</b> .....	3
<b>Outputs</b> .....	4
<b>PORTFOLIO MANAGEMENT AND STATISTICS</b> .....	4
<b>DEBT AND INVESTMENT SERVICES</b> .....	5
<b>DEFAULT COLLECTIONS</b> .....	5
<b>Opportunities and Challenges Ahead</b> .....	7
<b>OPPORTUNITIES</b> .....	7
<b>CHALLENGES</b> .....	7
<b>Financial Statements</b> .....	8

## Chairperson's Message

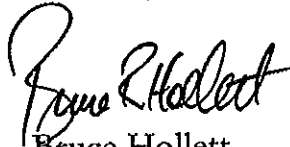
July 21, 2006

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

Dear Minister:

I am pleased to submit the 2005-06 Annual Report of the Student Loan Corporation of Newfoundland and Labrador. This report covers the period of April 1, 2005 to March 31, 2006. 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,



Bruce Hollett  
Chairperson

## Overview

### AUTHORITY AND ADMINISTRATION

The Student Loan Corporation of Newfoundland and Labrador (SLCNL) was established on March 30, 2004 pursuant to the *Student Financial Assistance Act*. The affairs of the SLCNL are managed by a board of directors responsible to the Minister of Education.

### MANDATE

The Corporation was established to provide and collect loans, and manage the debt and investment portfolio of the Newfoundland and Labrador Student Financial Assistance Program (NLSFAP).

### LINES OF BUSINESS

The following are the lines of business of the SLCNL:

- Portfolio management of the NLSFAP;
- Debt and investment services for the portfolio; and
- Default collection services for the NLSFAP – including collection activities for defaulted loans of the SLCNL and the Department of Education.

### EMPLOYEES

As at March 31, 2006, the SLCNL had 16 employees including: a director of portfolio management; two managers of financial operations; eight financial collection officers; an accountant; an administrative officer; a clerk IV; a clerk III; and a clerk-typist. Staff are included in the staff complement for the Department of Education.

### LOCATION

The location and contact information for the SLCNL is:

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**

## Shared Commitments

### DEPARTMENT OF EDUCATION

The SLCNL is responsible to the Minister of Education and operates under the *Student Financial Assistance Act* and Regulations. The Student Financial Assistance Program also operates under this legislative framework. The SLCNL works closely with the Student Financial Services Division within the department to ensure financial administration mirrors program delivery. The SLCNL also works closely with the Finance Division of the Department of Education in relation to the management of the department's defaulted loans portfolio. These loans are not owned by the SLCNL but are owned by government (i.e. loans in repayment prior to August 1, 2000). When government makes student financial assistance program decisions, the financial management activities of the SLCNL are affected.

### HUMAN RESOURCES AND SOCIAL DEVELOPMENT CANADA

The SLCNL partners with Human Resources and Social 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 SLCNL has worked with HRSDC to promote and enhance measures to further this initiative.

The National Student Loans Service Centre (NSLSC) administers the loan process for both governments. Under two Memorandum of Understandings, two service providers Edulinx (public institutions) and Resolve (private institutions) operate the NSLSC and provide loan administration from disbursement to repayment. It is a one-stop approach to loan management. The SLCNL works closely with the NSLSC to provide advice, direction, inquiry and issue resolution to Newfoundland and Labrador students as they repay their student loans.

### CANADA REVENUE AGENCY

In February 2005, the SLCNL was one of three programs to enter into the Income Tax Interception Setoff program with the Canada Revenue Agency (CRA). Under this program, certain tax refunds are intercepted and used to pay down defaulted student loans. SLCNL has worked with CRA to establish a system for the implementation of this program.

## Highlights and Accomplishments

### ESTABLISHMENT OF THE CORPORATION

In 2005-06 work continued with respect to the creation and development of the SLCNL structure; including further development of the SLCNL financial infrastructure, changes and development of new staff, and refinement of policies and procedures.

### PORTFOLIO MANAGEMENT

During the year, the SLCNL: finalized some eight detailed financial guidelines for use by the service providers in the management of student files; developed a draft set of internal financial procedures; and further refined its financial reconciliation processes.

### COLLECTION SERVICES

There has been an enhanced focus on collection efforts during the year. In addition to increasing the complement of financial collection officers which had begun in 2004-05, the SLCNL has made strides in further developing more formalized collection procedures. It has also completed further review and implementation of statistical tracking of the collection caseload and implemented a new information technology infrastructure which enhanced development of a more extensive reporting process.

### PROGRAM DEVELOPMENT

In 2005-06, the SLCNL continued its implementation of the CRA setoff program. Under this program, income taxes and GST payments are intercepted and used to pay outstanding defaulted student loans.

## Outputs

### PORTFOLIO MANAGEMENT AND STATISTICS

The board of directors for the SLCNL met five times during fiscal year 2005-06 and addressed a variety of issues including structural, policy, financial and corporate concerns. As part of its portfolio management activities, the board monitored: the preparation and audit of the SLCNL 2004-05 financial statements; attest audits of the two service providers, to ensure all service standards were being met; and the interim reporting, budget and financial management of the SLCNL.

The SLCNL manages both a current portfolio, administered by the National Student Loans Service Centre (NSLSC), and a default portfolio, administered by the SLCNL. Loans are administered by the NSLSC until they reach nine months in arrears at which time they are transferred back to the SLCNL for internal collections.

The SLCNL provides financial management on the current portfolio, which totals \$200.3 million, consisting of both student loans in repayment and loans provided to students still in school who are not currently required to make payments. In addition, the SLCNL also performs collection activities and financial management of defaulted student loans owned by both the Department of Education and the SLCNL totaling \$71.0 million. The following chart provides a breakdown of each of the portfolios administered by the SLCNL.

Portfolio	31-Mar-05		31-Mar-06	
	Value (\$ in millions)	Number of Loans (rounded)	Value (\$ in millions)	Number of Loans (rounded)
<b>Current Portfolio</b>				
Class A (In School & In Grace)	\$83.1	13,300	\$81.7	11,700
Class B & Interest (In Repayment)	\$117.0	20,100	\$118.6	18,900
<b>Subtotal</b>	<b>\$200.1</b>	<b>33,400</b>	<b>\$200.3</b>	<b>30,600</b>
<b>Defaulted Portfolios</b>				
Department of Education <sup>1</sup>	\$36.0	4,700	\$35.4	4,700
SLCNL	\$22.3	3,300	\$35.6	5,400
<b>Subtotal</b>	<b>\$58.3</b>	<b>8,000</b>	<b>\$71.0</b>	<b>10,100</b>
<b>Total</b>	<b>\$258.4</b>	<b>41,400</b>	<b>\$271.3</b>	<b>40,700</b>

Note <sup>1</sup> – Un-audited

During the year, approximately:

- \$31.8 million in new loans were disbursed to students;
- 20,000 new loan certificates were issued to both returning and new students entering post-secondary education;
- \$17.4 million was received from students who are in repayment (\$6.0 million was received in interest payments and \$11.4 million was received in principal payments);

- Accrued interest for the year totaled \$11.6 million (\$9.7 million on the current portfolio and \$1.9 million on the SLCNL default portfolio). A total of \$1.9 million (*un-audited*) was accrued in interest on the Department of Education's default portfolio;
- \$10.1 million in provincial and federal grant payments were issued to students to assist with reducing their student loans (\$7.3 in provincial grant payments and \$2.8 million in federal grant payments); and
- \$1.4 million was paid by SLCNL to HRSDC for administrative fees.

## DEBT AND INVESTMENT SERVICES

The SLCNL issued floating rate notes totaling \$213 million dated March 31, 2004 which matured on September 30, 2005. These notes bore interest at the 3-month Canadian Bankers Acceptance (BA) rate plus 3 basis points. Interest was payable quarterly. On September 30, 2005, the SLCNL paid the notes in full. At that time, the SLCNL re-issued notes payable in the amount of \$206 million which bear interest at the 3-month BA rate. Interest is payable quarterly and the notes will mature on October 2, 2006.

The rate of interest paid by the SLCNL during 2005-06 ranged from 3.0% to 3.6%. During 2005-06, approximately \$6.2 million was paid in interest on the notes payable.

The SLCNL receives interest revenue on bank balances which exist during the year. During 2005-06, approximately \$237,000 was received in interest revenue on those balances.

## DEFAULT COLLECTIONS

The eight SLCNL financial collection officers contact defaulted students directly via telephone, mail, and e-mail to collect outstanding debt. The CRA Setoff program and the 1-800 SLCNL contact number are mechanisms used to assist in debt collections.

The collection officers work with defaulted students to determine their individual ability to repay their student loan before establishing repayment arrangements and/or placing a student on the CRA Setoff program.

The following default collection outputs were achieved by year-end:

- Revenues attributable to direct transfers from CRA Setoff program totaled approximately \$1.1 million during 2005-06;
- Approximately 72 per cent of the SLCNL default caseload have been placed in the setoff program with another 8 per cent pending review for possible interception. A further 20% are either students currently in repayment or not in active recovery (ie. deceased, permanently disabled, etc.);



- A total of 9,400 client calls were addressed by collection officers during the year; and
- Collections for 2005-06 were approximately \$2.9 million, an increase of over 250 per cent from the approximately \$800,000 collected in 2004-05.

At year-end the following statistics were noted for the default caseload:

- Total default balance was \$71.0 million;
- Total number of accounts was over 10,000 (including loans recalled and rehabilitated back to the service provider); and
- Average default caseload was approximately 1,300 cases per collector.

## Opportunities and Challenges Ahead

### OPPORTUNITIES

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

- The SLCNL is exploring further integration opportunities with the Federal government, expanding on the one-stop student loan approach to further improve services to students; and
- The SLCNL is continually revising and communicating its collection procedures to better serve the needs of students and the Government of Newfoundland and Labrador. Improvements in collection mechanisms, policy development, and communications with new graduates regarding repayment requirements will increase awareness, and assist in expanding further collections improvements.

### CHALLENGES

The challenges facing the SLCNL include:

- Implementation of new systems, policies, procedures, and structures to support the work of the SLCNL in achieving its mandate;
- Implementation of new collection mechanisms to reduce the administration necessary for the collection of funds;
- Reaching students and ensuring they are aware of programs and services available to assist them in repaying their student loans;
- Establishing an appropriate organizational structure to support the financial management responsibilities and the collection responsibilities of the SLCNL; and
- Continuing to improve the financial and other reporting requirements of the SLCNL.

## Financial Statements

The audited financial statements show total revenues of \$42,850,824 and total expenditures of \$33,582,064.

During the year, the SLCNL experienced an increased usage of the interest relief program and increased value of loans disbursed over the year prior. These were anticipated as the White Paper recommendations take effect. The default and current collections revenue continued to increase over the year prior.

**STUDENT LOAN CORPORATION OF  
NEWFOUNDLAND AND LABRADOR**

**FINANCIAL STATEMENTS**

**31 MARCH 2006**



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

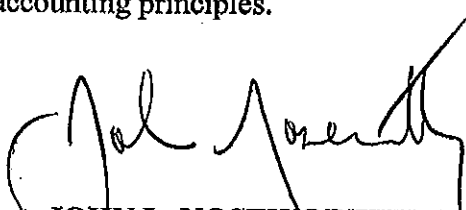
**AUDITOR'S REPORT**

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

I have audited the balance sheet of the Student Loan Corporation of Newfoundland and Labrador as at 31 March 2006 and the statements of revenues, expenses and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**JOHN L. NOSEWORTHY, C.A.**  
Auditor General

St. John's, Newfoundland and Labrador  
9 June 2006

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR  
BALANCE SHEET**

31 March

2006

2005

**ASSETS**

Cash	\$ 5,442,542	\$ 4,063,817
Accounts receivable	219,376	-
Prepaid expense	2,383	-
Student loans receivable (Note 2)	186,086,093	185,229,195
	<b>191,750,394</b>	<b>189,293,012</b>
<b>Capital assets (Note 3)</b>	<b>62,229</b>	<b>43,880</b>
	<b>\$ 191,812,623</b>	<b>\$ 189,336,892</b>


**LIABILITIES AND DEFICIT**

Accounts payable and accrued liabilities	\$ 348,552	\$ 245,452
Accrued vacation pay	44,737	-
Notes payable (Note 4)	206,000,000	213,000,000
Current portion – Obligation under capital lease (Note 5)	4,348	-
	<b>206,397,637</b>	<b>213,245,452</b>
<b>Accrued severance pay</b>	<b>38,844</b>	<b>-</b>
<b>Obligation under capital lease (Note 5)</b>	<b>15,942</b>	<b>-</b>
	<b>206,452,423</b>	<b>213,245,452</b>
<b>Deficit</b>	<b>(14,639,800)</b>	<b>(23,908,560)</b>
	<b>\$ 191,812,623</b>	<b>\$ 189,336,892</b>

*See accompanying notes*

Signed on behalf of the Board:

  
Chairperson

  
Director

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**STATEMENT OF REVENUES, EXPENSES AND DEFICIT**

For the year ended 31 March

2006

2005

**REVENUES**

Provincial grant revenue	\$ 28,246,951	\$ 16,624,719
Federal grant revenue	2,803,427	2,906,896
Student loan interest	11,553,910	9,525,669
Interest revenue	236,736	175,004
Other revenue	9,800	794
	<b>42,850,824</b>	<b>29,233,082</b>

**EXPENSES**

Administrative fees	1,367,349	1,471,188
Amortization	7,739	851
Bad debt expense	12,688,590	8,368,655
Bank charges	15,305	12,299
Grant expense – Federal	2,800,509	2,906,896
Grant expense – Provincial	7,298,216	4,277,914
Interest expense	6,247,532	5,032,092
Interest relief expense	2,320,681	1,861,293
Miscellaneous expenses	1,164	488
Operating expenses	157,040	143,015
Salaries	677,939	390,067
Transition fees	-	533,837
	<b>33,582,064</b>	<b>24,998,595</b>

<b>Excess of revenues over expenses</b>	<b>9,268,760</b>	<b>4,234,487</b>
<b>Deficit, beginning of year</b>	<b>(23,908,560)</b>	<b>(28,143,047)</b>
<b>Deficit, end of year</b>	<b>\$ (14,639,800)</b>	<b>\$ (23,908,560)</b>

*See accompanying notes*

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

For the year ended 31 March

2006

2005

**Cash flows from operating activities**

Excess of revenues over expenses	\$ 9,268,760	\$ 4,234,487
Add non-cash items		
Amortization	7,739	851
Bad debt expense	12,688,590	8,368,655
	21,965,089	12,603,993
Changes in non-cash operating items		
Accounts receivable	(219,376)	3,015,004
Prepaid expense	(2,383)	-
Student loans receivable (Note 2)	(13,545,488)	(16,694,866)
Accounts payable and accrued liabilities	103,100	185,085
Accrued vacation pay	44,737	-
	8,345,679	(890,784)
Accrued severance pay	38,844	-
	8,384,523	(890,784)
<b>Cash flows from investing activities</b>		
Acquisition of capital assets	(4,349)	(44,731)
<b>Cash flows from financing activities</b>		
Repayment of notes payable	(7,000,000)	-
Repayment of capital lease obligation	(1,449)	-
	(7,001,449)	-
<b>Increase (decrease) in cash</b>	<b>1,378,725</b>	<b>(935,515)</b>
<b>Cash, beginning of year</b>	<b>4,063,817</b>	<b>4,999,332</b>
<b>Cash, end of year</b>	<b>\$ 5,442,542</b>	<b>\$ 4,063,817</b>

*See accompanying notes*



**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 MARCH 2006**

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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. Significant accounting policies**

These financial statements have been prepared by the Board's management in accordance with Canadian generally accepted accounting principles. Outlined below are the significant accounting policies followed:

(a) 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:

Computer software	7 years
Computer hardware	4 years
Capital photocopier lease	5 years

(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.

**2. Student loans receivable**

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

As at 31 March 2006 approximately 18,903 loans totalling \$117,969,897 (2005 - 20,100 loans totalling \$116,195,273) were being repaid at an average interest rate of prime plus 2.5% (Class B loans) while 11,749 loans totalling \$81,682,375 (2005 - 13,300 loans totalling \$83,061,338) were not being repaid as the student was either still in attendance at an approved education institution or was within 6 months after the end of the study period (Class A loans).

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 MARCH 2006**

**2. Student loans receivable (cont.)**

Student loans receivable consist of the following:

	<u>2006</u>	<u>2005</u>
<b>Loans receivable</b>		
Class B principal	\$ 117,969,897	\$ 116,195,273
Class A principal	81,682,375	83,061,338
Loans defaulted	31,822,379	20,488,903
Interest receivable	4,467,203	2,650,852
	<u>235,941,854</u>	<u>222,396,366</u>
Less: allowance for doubtful accounts	<u>(49,855,761)</u>	<u>(37,167,171)</u>
	<u>\$ 186,086,093</u>	<u>\$ 185,229,195</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 increase in student loans receivable during the year consists of the following:

	<u>2006</u>	<u>2005</u>
Student loan interest	\$ 11,553,910	\$ 9,525,669
Interest relief	(2,320,681)	(1,861,293)
Student loan grants	(10,098,725)	(7,184,810)
Student loans disbursed	31,848,900	30,258,439
Student loan payments	(17,437,916)	(14,043,139)
	<u>\$ 13,545,488</u>	<u>\$ 16,694,866</u>

**3. Capital assets**

	<u>2006</u>			<u>2005</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	\$ 44,901	\$ 6,776	\$ 38,125	\$ 41,882
Computer hardware	4,179	727	3,452	1,998
Capital photocopier lease	21,739	1,087	20,652	-
	<u>\$ 70,819</u>	<u>\$ 8,590</u>	<u>\$ 62,229</u>	<u>\$ 43,880</u>

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 MARCH 2006**

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**4. Notes payable**

	<u>2006</u>	<u>2005</u>
Issue of floating rate notes dated 30 September 2005 maturing 2 October 2006 and bearing interest at the 3-month Canadian Bankers' Acceptance rate, payable quarterly.	\$ 206,000,000	\$ 213,000,000

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**5. Obligation under capital lease**

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

Year Ended March 31	
2007	\$ 4,348
2008	4,348
2009	4,348
2010	4,348
2011	2,898
	<hr/> 20,290
Less: current portion	4,348
	<hr/> \$ 15,942

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**6. Related party transactions**

The Province unconditionally guarantees the principal and interest outstanding on the notes payable of \$206,000,000.

**7. 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 is dependent upon the decisions of Government.

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 MARCH 2006**

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**8. Financial instruments**

The Corporation's short-term financial instruments recognized on the balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities, and accrued vacation pay. The carrying values of these 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, notes payable 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 Corporation's notes payable is at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate, maturing in October 2006. This may subject the Corporation to interest rate risk caused by changes in the interest rate. The carrying values of these long-term financial instruments approximate their current fair value.

**9. 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.