

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND
LABRADOR**

ANNUAL REPORT 2012-13

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CHAIRPERSON'S MESSAGE

September 12, 2013

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

Dear Minister:

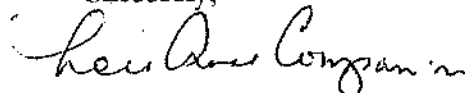
In accordance with the *Transparency and Accountability Act*, please find enclosed the annual report of the Student Loan Corporation of Newfoundland and Labrador for the year ending March 31, 2013.

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

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

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

Sincerely,



Lori Anne Companion
Chairperson

1.0 OVERVIEW

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

The affairs of the corporation were managed by a Board of Directors, who report to the Minister of Advanced Education and Skills. The Board of Directors as of March 31, 2013 included:

- Deputy Minister of Advanced Education and Skills;
- Deputy Minister of Finance;
- Comptroller General;
- Assistant Deputy Minister of Advanced Education and Skills, Advanced Studies Branch; and
- Assistant Deputy Minister of Advanced Education and Skills, Corporate Services Branch.

On March 31, 2013, the corporation employed 22 individuals as indicated in the table below. These staff members are also included within the Advanced Studies Branch of the Department of Advanced Education and Skills.

Table 1: Student Loan Corporation Staff:

Staff	Female	Male	Total
Management	0	3	3
Collections	8	2	10
Financial	1	2	3
Administrative	6	0	6
Total	15	7	22

The corporation's offices are located at:

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

1.1 MANDATE

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

1.2 VISION

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

1.3 MISSION

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

1.4 LINES OF BUSINESS

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

1. Portfolio Management:

The corporation acts as the province's "banker" in providing student loans, and in the administration and oversight of financial activities for the program. In completing these activities, the corporation oversees the work of its service provider which operates the National Student Loan Service Centre (NSLSC) in the day-to-day operations of loan administration. In addition, the corporation has partnered with the federal government through an Integration Agreement in the financial administration of this direct lending program. The student loan portfolio includes loans issued by government prior to 2004 and owned by the Department of Advanced Education and Skills along with the loans issued through the direct lending program and owned by the corporation.

2. Debt and Investment Services:

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

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

3. Repayment Services:

A loan is considered defaulted and transferred for further repayment activities after it has been 270 days in arrears at the NSLSC. The corporation provides repayment services for loans owned by the corporation and loans owned by the Department of Advanced Education and Skills which defaulted prior to February 1, 2007. The corporation monitors collection activities undertaken by the Canada Revenue Agency (CRA) on all defaulted loans post February 1, 2007 as per the federal-provincial Integrated Collections Agreement.

2.0 SHARED COMMITMENTS

During 2012-13, the corporation in collaboration with its partners, worked towards achieving the objectives, and their associated measures and indicators in the area of: Improved Repayment Services to Student Borrowers. This work also supported the strategic direction of the department for higher education, specifically, the marketing/promoting component of the strategy.

2.1 DEPARTMENT OF ADVANCED EDUCATION AND SKILLS

The corporation is responsible to the Minister of Advanced Education and Skills and it operates under the *Student Financial Assistance Act and Regulations*. The student financial assistance program also operates under this legislative framework. The corporation works closely with the Department of Advanced Education and Skills' Student Financial Services Division to ensure financial administration mirrors program delivery. The corporation also works with the Finance and General Operations Division of the Department of Advanced Education and Skills in the management of the department's defaulted loans portfolio. These loans are not owned by the corporation but are owned by 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).

2.2 FEDERAL GOVERNMENT

The corporation partners with the federal Department of Employment and Social Development (formerly the Department of Human Resources and Skills Development Canada) 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 works with the Department of Employment and Social Development to promote and enhance measures to further this initiative.

The NSLSC administers the loan process for both governments. D+H Limited Partnership operates the NSLSC and provides loan administration from disbursement to repayment; a one-stop approach to loan management. The corporation works 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 partners with the federal departments Employment and Social Development, 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 is completed by CRA along with collections on

defaulted federal loans. This agreement is designed to improve service to students who are experiencing difficulty repaying their student loans. Students are now contacted by the CRA, and have one repayment plan for both their federal and provincial defaulted student loans.

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

3.0 OUTPUTS

In consideration of government's strategic direction to enhance the province's post-secondary system for those seeking higher education, as well as the mandate and financial resources of the corporation, the following issue was identified as a key priority in the 2011-14 business plan. The goal identified for this issue reflects the result expected, while the objectives provide an annual focus. Measures and indicators are provided for the goal and objectives to assist both the corporation and the public in monitoring and evaluating success. Work completed by the corporation during the 2012-13 fiscal year was in line with the strategic direction of Higher Education, which has an outcome of "an enhanced post-secondary system benefits those seeking higher education".

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

3.1 ISSUE ONE: IMPROVED REPAYMENT SERVICES TO STUDENT BORROWERS

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

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

Objective for 2012-13:

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

Measure One: Improved corporation's website

Measure Two: Improved client statements

The following details the corporation's successful achievement of the objective for 2012-13.

Measure One: Improved corporation website

Indicators:

Simplified website address

The SLCNL online presence consists of web pages on the Department of Advanced Education and Skills website. In February 2013, the address for the corporation's landing page was changed from

<http://www.gov.nl.ca/edu/postsecondary/slc/index.html>

to <http://www.aes.gov.nl.ca/postsecondary/slc/index.html>. This change was made to reflect the corporation's transition from the Department of Education to the Department of Advanced Education and Skills and to reduce the number of pages in the web address from four to three.

Updated corporation information available on website

Throughout the 2012-13 year, the corporation updated information available on its web pages. The Frequently Asked Questions section was updated to include more questions and answers, providing clients with access to more information without having to contact the corporation. Online forms were updated to improve accessibility and staff contact information was updated to reflect staffing changes throughout the year.

Reformatted website to improve accessibility

The corporation's web pages were reformatted in 2012-13 to improve accessibility. Previously, the corporation's landing page was not available from the Department of Advanced Education and Skills website's sidebar menu. A link has now been added to this menu to allow users to quickly find the corporation's landing page and navigate to all of the corporation's web pages. Online forms were updated according to guidelines provided by Department of Advanced Education and Skills' Disability Policy Office for improving accessibility for individuals with vision impairments.

Measure Two: Improved client statements

Indicators:

Completed process to include year-to-date balances on client statements

The corporation added year-to-date balances on client statements in 2012-13. This enhances client statements by providing clients with the most up-to-date standing on their loan, making it easier to track their repayment progress.

Updated client statements to improve accessibility for those with disabilities

Client statements were updated in 2012-13 to improve accessibility for clients with disabilities, specifically, persons who experience difficulty reading certain printed materials. The updates to client statements included increasing font size, changing serif

fonts to sans serif fonts, removing italic type and removing color. Guidelines for improving document accessibility were provided by the Department of Advanced Education and Skills' Disability Policy Office.

3.2 LOOKING FORWARD

2013-14 Objectives

By March 31, 2014 the corporation will have promoted its website, increased client statement frequency and completed a client survey.

Measure One: Promoted corporation website

Indicator One: Advertised the corporation's web pages on client statements.

Measure Two: Increased client statement frequency

Indicator One: Increased the frequency with which statements are issued for clients eligible for short-term hardship.

Measure Three: Completed client survey

Indicator One: Developed, distributed and compiled results of a mail-out client survey.

4.0 HIGHLIGHTS AND SNAPSHOT FOR THE YEAR ENDING MARCH 31, 2013

- A total of \$10.0 million in up-front grants were disbursed in 2012-13, a decrease of \$0.5 million (4 per cent) from 2011-12 as a result of lower student uptake. This is the fifth year of implementation of the up-front grants program.
- The number of loans outstanding for the whole portfolio (loans owned by the corporation and by the Department of Advanced Education and Skills) decreased by 1,886 (5 per cent) while the value of the portfolio decreased by \$19.7 million (11 per cent). Since March 31, 2007, the number of loans outstanding for the portfolio has decreased by 4,210 (10 per cent) while the value of the portfolio has decreased by a significant \$116.6 million (42 per cent). This reflects the impact of debt reduction measures taken by Government to reduce student debt, as well as continued improvement in repayment by students.
- Accumulated debt continued to decrease in 2012-13 for borrowers in one-year programs at College of the North Atlantic, one-year private institution programs and Memorial University Marine Institute borrowers. However, there were slight increases in average debt for borrowers in two and three-year programs at College of the North Atlantic, three-year programs at private institutions and undergraduate borrowers at Memorial University. Student debt levels are expected to continue to decline in the future resulting from the debt reduction program from Budget 2007, and the full impact of Budget 2009.
- The number of clients availing of the provincial Repayment Assistance Plan program increased from 896 in 2011-12 to 997 in 2012-13.

Table 2: Net Student Debt¹ by Institution 2003-04 to 2011-12 (federal and provincial debt)

		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Per cent Change from 10-11 to 11-12
CNA	1 Year	\$9,995	\$10,445	\$10,594	\$9,840	\$9,336	\$8,975	\$7,944	\$7,904	\$7,422	-6.1%
	2 Year	\$15,854	\$17,589	\$16,399	\$16,632	\$16,762	\$15,440	\$13,693	\$14,765	\$15,029	1.8%
	3 Year	\$20,991	\$26,022	\$21,959	\$21,896	\$22,241	\$22,512	\$20,347	\$18,745	\$19,258	2.7%
Private College	1 Year	\$11,399	\$11,048	\$12,179	\$11,792	\$9,962	\$9,706	\$9,746	\$9,327	\$8,855	-5.1%
	2 Year	\$20,635	\$22,324	\$22,340	\$22,365	\$21,067	\$19,897	\$20,220	\$18,824	\$19,073	1.3%
MUN	Undergraduate	\$26,592	\$31,218	\$26,299	\$27,114	\$26,582	\$25,874	\$21,104	\$19,716	\$20,595	4.5%
	Marine	\$23,074	\$20,840	\$21,752	\$21,068	\$20,380	\$16,850	\$21,353	\$16,839	\$15,030	-10.7%

Source: Provincial student loan data, Department of Advanced Education and Skills 2012

Note¹ Includes net federal and provincial debt

During the year, approximately:

- \$11.1 million in new loans were disbursed to students; this is \$0.5 million (4 per cent) less than disbursed in 2011-12;
- 12,216 new loan certificates were issued to both returning and new students pursuing post-secondary education; this is 795 (6 per cent) fewer than issued in 2011-12;
- \$24.0 million was received from students who are in repayment (\$0.6 million was received in interest payments and \$23.4 million was received in principal payments); an additional \$1.9 million (\$0.4 million – interest; \$1.5 million – principal) was received for loans owned by the Department of Advanced Education and Skills;
- \$12.6 million in provincial grant payments were issued to students to assist with reducing their student loan balances (\$2.6 million in provincial debt reduction grant payments through 746 debt reduction grants issued and \$10.0 million in provincial up-front grant payments through 10,547 up-front grants issued). A total of \$0.1 million in grants were paid directly to students whose provincial loans were paid in full;
- \$0.7 million was paid by the corporation for administrative fees (\$0.5 million to the Department of Employment and Social Development to support the service provider contract and \$0.2 million to CRA in administrative fees as per the integrated collections agreement); \$0.4 million was paid by the Department of Advanced Education and Skills to CIBC for administrative fees as per the guaranteed loans contract;
- \$0.1 million was earned by the corporation in interest revenue on bank balances which existed during the year;
- \$1.1 million was paid by the corporation in interest payments on its outstanding debt which totaled \$73 million at year end; during the year, interest was paid at rates ranging from 1.18 per cent to 1.21 per cent;
- \$5.5 million in default collections was received for 2012-13 (Corporation: \$3.6 million, Department of Advanced Education and Skills: \$1.9 million), an increase of 2 per cent from the approximately \$5.3 million collected by the corporation in 2011-12. Of this amount, almost \$2.3 million is attributable to CRA set-off, while the remaining \$3.2 million was collected by the corporation's and CRA's internal collection processes;
- Average monthly payments received from online/telephone banking increased 18 per cent from \$148,000 per month in 2011-12 to \$174,000 per month for a total of \$2.1 million during 2012-13; and
- Average monthly payments received from pre-authorized debit method of payment increased 4 per cent from \$14,890 per month in 2011-12 to \$15,484 per month in 2012-13, for a total of \$185,810 during 2012-13.

Table 3: Student Loan Corporation Portfolio

Portfolio	31-Mar-12				31-Mar-13			
	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)
Current Portfolio								
Class A (In School & In Grace)	8,100	\$31.5	\$0.0	\$31.5	7,600	\$28.6	\$0.0	\$28.6
Class B & Interest (In Repayment)	19,500	\$72.3	\$0.1	\$72.4	18,500	\$62.3	\$0.0	\$62.3
Subtotal	27,600	\$103.8	\$0.1	\$103.9	26,100	\$90.9	\$0.0	\$90.9
Default Portfolios								
Department of Advanced Education and Skills	2,900	\$19.8	\$3.7	\$23.5	2,600	\$17.6	\$3.1	\$20.7
Corporation	4,300	\$26.3	\$3.0	\$29.3	3,700	\$22.8	\$2.0	\$24.8
CRA	5,000	\$25.2	\$0.6	\$25.8	5,500	\$25.8	\$0.6	\$26.4
Subtotal	12,200	\$71.3	\$7.3	\$78.6	11,800	\$66.2	\$5.7	\$71.9
Total	39,800	\$175.1	\$7.4	\$182.5	37,900	\$157.1	\$5.7	\$162.8

5.0 OPPORTUNITIES AND CHALLENGES AHEAD

5.1 OPPORTUNITIES

The corporation has the opportunity to improve management of client files by implementing a Records Retention and Disposal Schedule. This will support the efficient administration of files related to thousands of accounts managed by the corporation.

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.
- Continuing to develop tools that help borrowers develop effective debt management practices and improve their financial literacy.
- Making successful contact with defaulted borrowers in order to counsel them into an effective repayment schedule.

6.0 CONCLUSION

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

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 web page: <http://www.aes.gov.nl.ca/postsecondary/slc/index.html>.

7.0 FINANCIAL STATEMENTS

The audited financial statements show total revenues of \$30.9 million and total expenditures of \$16.6 million.

During the year, the corporation experienced a \$0.2 million increase in the use of the Repayment Assistance Plan, following another increase of \$0.2 million in this program the previous year. The corporation recognized a decrease of \$0.5 million in loan repayments from the prior year as well as a \$0.7 million decrease in expenses due to lower uptake of provincial grant programs, as well as decreased interest payments on debt.

The corporation issued \$10.0 million in up-front needs-based grants and \$2.6 million in debt reduction grants for a total provincial grant expense of \$12.6 million. Interest expense on long-term debt decreased by \$0.4 million as a result of the corporation's decreasing debt balance.

Overall, the corporation experienced an accrual surplus of \$14.3 million as reflected on the Statement of Operations and Accumulated Surplus, which is an increase of \$0.3 million over the \$14.0 million surplus reflected in 2011-12. This increase can be attributed mainly to a decrease in grant and interest expense. As with the prior year, the corporation was able to also use existing cash reserves to fund operations in 2011-12 with no negative impact on services to students.

The corporation's cash position at year end, as reflected on its Statement of Cash Flows, was \$5.4 million in cash which represents a \$1.4 million decrease in cash and cash equivalents from 2011-12.



OFFICE OF THE AUDITOR GENERAL
St. John's, 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, 2013, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2013, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'T. Paddon', with a long horizontal line extending to the right.

TERRY PADDON, CA
Auditor General

July 18, 2013
St. John's, Newfoundland and Labrador

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

As at March 31

2013

2012

FINANCIAL ASSETS

Cash	\$ 5,404,347	\$ 6,768,247
Due from government (Note 3)	476,680	531,513
Student loans receivable (Note 4)	105,197,372	118,428,817
	<u>111,078,399</u>	<u>125,728,577</u>

LIABILITIES

Accounts payable and accrued liabilities (Note 5)	383,180	377,776
Employee future benefits (Note 6)	366,744	297,536
Due to government (Note 7)	45,073	60,606
Long-term debt (Note 8)	73,000,000	102,000,000
	<u>73,794,997</u>	<u>102,735,918</u>

Net financial assets	<u>37,283,402</u>	<u>22,992,659</u>
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NON-FINANCIAL ASSETS

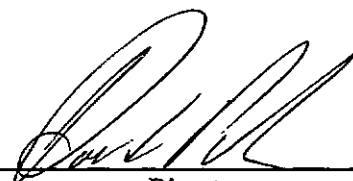
Tangible capital assets (Note 9)	55,303	74,199
	<u>55,303</u>	<u>74,199</u>

Accumulated surplus	\$ 37,338,705	\$ 23,066,858
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*The accompanying notes are an
integral part of these financial statements.*

Signed on behalf of the Board:


Chairperson


Director

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

	2013 Budget	2013 Actual	2012 Actual
	(Note 12)		
REVENUES			
Provincial grant	\$ 35,000,000	\$ 28,150,810	\$ 28,842,761
Federal grant	-	5,662	213,341
Recovery in value of student loan receivable	2,160,000	2,371,552	1,886,956
Interest	100,000	138,954	193,412
Student loan interest	-	128,838	94,223
Other	10,000	135,523	135,615
	37,270,000	30,931,339	31,366,308
EXPENSES			
Administrative fees	996,000	746,827	736,669
Amortization	20,000	18,896	28,806
Bank charges	-	8,624	11,477
Grant - Federal	-	5,151	213,341
Grant - Provincial	20,687,500	12,632,485	13,060,790
Interest on long-term debt	1,050,000	1,146,208	1,552,165
Interest relief - repayment assistance	20,000	359,889	192,499
Operating	287,500	141,731	122,696
Other	-	-	30,000
Salaries	1,586,900	1,599,681	1,443,410
	24,647,900	16,659,492	17,391,853
Annual surplus	12,622,100	14,271,847	13,974,455
Accumulated surplus, beginning of year	23,066,858	23,066,858	9,092,403
Accumulated surplus, end of year	\$ 35,688,958	\$ 37,338,705	\$ 23,066,858

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

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

For the year ended March 31

	2013 Budget	2013 Actual	2012 Actual
	(Note 12)		
Annual surplus	\$ 12,622,100	\$ 14,271,847	\$ 13,974,455
Use of prepaid expense	-	-	2,010
Acquisition of tangible capital assets	(10,000)	-	(5,736)
<u>Amortization of tangible capital assets</u>	<u>20,000</u>	<u>18,896</u>	<u>28,806</u>
Increase in net financial assets	12,632,100	14,290,743	13,999,535
<u>Net financial assets, beginning of year</u>	<u>22,992,659</u>	<u>22,992,659</u>	<u>8,993,124</u>
<u>Net financial assets, end of year</u>	<u>\$ 35,624,759</u>	<u>\$ 37,283,402</u>	<u>\$ 22,992,659</u>

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

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

For the year ended March 31

2013

2012

Operating transactions

Annual surplus	\$ 14,271,847	\$ 13,974,455
Adjustments for non-cash items		
Amortization	18,896	28,806
Recovery in value of student loan receivable	(2,371,552)	(1,886,956)
	11,919,191	12,116,305

Changes in non-cash operating items

Due from government	54,833	(132,272)
Prepaid expense	-	2,010
Accounts payable and accrued liabilities	5,404	(166,252)
Due to government	(15,533)	27,324
Employee future benefits	69,208	182,657

Cash provided from operating transactions 12,033,103 12,029,772

Capital transactions

Acquisition of tangible capital assets - (5,736)

Cash applied to capital transactions - (5,736)

Financing transactions

Long-term debt issued - 102,000,000
 Repayment of long-term debt (29,000,000) (142,000,000)

Cash applied to financing transactions (29,000,000) (40,000,000)

Investing transactions

Net decrease in student loans receivable (Note 4) 16,810,272 16,671,004
 Student loans written off to allowance (1,207,275) (979,808)

Cash provided from investing transactions 15,602,997 15,691,196

Decrease in cash (1,363,900) (12,284,768)

Cash, beginning of year 6,768,247 19,053,015

Cash, end of year \$ 5,404,347 \$ 6,768,247

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

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

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. 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, due to government and long-term debt. 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 4. Financial liabilities measured at cost include accounts payable and accrued liabilities and due to government. Long-term debt is measured at amortized cost as disclosed in note 8.

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 and long-term debt are considered to approximate market value.

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

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

2. Summary of significant accounting policies

(c) Cash

Cash includes cash in bank.

(d) Employee future benefits

Employee benefits include severance pay and accumulating, non-vested, 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 Corporation and its employees are subject to the *Public Service Pensions Act*. Employee contributions are matched by the Corporation and remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. The contribution of the Corporation to the plan is recorded as an expense for the year. The Corporation is not required to make contributions in respect of any actuarial deficiencies of the plan.

(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.

(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	7 years
Computer hardware	4 years

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

2. Significant accounting policies (cont.)

(f) Tangible capital assets (cont.)

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

(g) Prepaid expenses

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

(h) 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 and Government of Canada) 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 stipulation liabilities are settled.

(i) 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.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

2. Significant accounting policies (cont.)

(i) Expenses (cont.)

Transfers, which include grants 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.

(j) Measurement uncertainty

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

	<u>2013</u>	<u>2012</u>
Federal government	\$ 271,037	\$ 296,134
Provincial government	<u>205,643</u>	<u>235,379</u>
	<u>\$ 476,680</u>	<u>\$ 531,513</u>

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.

4. 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.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

4. Student loans receivable (cont.)

As at March 31, 2013 approximately 18,473 loans totaling \$62,264,948 (2012 - 19,494 loans totaling \$72,331,682) were being repaid as non-interest bearing for the period April 1, 2012 to March 31, 2013 (Class B loans) while 7,625 loans totaling \$28,573,240 (2012 - 8,139 loans totaling \$31,315,297) 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.

As at March 31, 2013 approximately 9,175 loans totaling \$48,590,280 (2012 - 9,231 loans totaling \$51,581,725) 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, 2012 to March 31, 2013.

Student loans receivable consist of the following:

	<u>2013</u>	<u>2012</u>
Loans receivable		
Class A principal	\$ 28,573,240	\$ 31,315,297
Class B principal	62,264,948	72,331,682
Loans defaulted	48,590,280	51,581,725
<u>Interest receivable</u>	<u>2,627,142</u>	<u>3,637,178</u>
	142,055,610	158,865,882
<u>Less: allowance for doubtful accounts</u>	<u>(36,858,238)</u>	<u>(40,437,065)</u>
	<u>\$ 105,197,372</u>	<u>\$ 118,428,817</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>2013</u>	<u>2012</u>
Student loan interest	\$ 128,838	\$ 94,223
Interest relief - repayment assistance	(359,889)	(192,499)
Student loan grants	(2,449,400)	(2,678,322)
Student loans disbursed	11,060,139	11,554,578
Student loan payments	(23,982,685)	(24,469,176)
<u>Student loans written off to allowance</u>	<u>(1,207,275)</u>	<u>(979,808)</u>
	<u>\$ (16,810,272)</u>	<u>\$ (16,671,004)</u>

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
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5. Accounts payable and accrued liabilities

	<u>2013</u>	<u>2012</u>
Trade payables and accrued liabilities	\$ 242,377	\$ 332,705
Salaries and benefits payable	13,730	15,377
Accrued vacation pay	127,073	29,694
	<hr/> \$ 383,180	<hr/> \$ 377,776

6. Employee future benefits

	<u>2013</u>	<u>2012</u>
Vested severance benefits	\$ 118,115	\$ 81,072
Provision for non-vested, severance benefits	79,609	57,367
Provision for accumulating, non-vested, sick leave	169,020	159,097
	<hr/> \$ 366,744	<hr/> \$ 297,536

(a) Severance pay

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

(b) Accumulating, non-vested, 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.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

6. Employee future benefits (cont.)

(c) Pension contributions

The Corporation and its employees are subject to the *Public Service Pensions Act*. Employee contributions are matched by the Corporation and remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. This plan is a defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. The maximum contribution rate for eligible employees was 8.6%. The Corporation's share of pension contributions and the total expense for 2013 was \$88,621. The Corporation is not required to make contributions in respect of any actuarial deficiencies of the Plan.

7. Due to government

	<u>2013</u>	<u>2012</u>
Federal government	\$ -	\$ 10,000
Provincial government	<u>45,073</u>	<u>50,606</u>
	<u>\$ 45,073</u>	<u>\$ 60,606</u>

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.

8. Long-term debt

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

	<u>2013</u>	<u>2012</u>
Issue of floating rate notes dated September 30, 2011, maturing September 30, 2021, and bearing interest at the 3-month Canadian Bankers' Acceptance rate less 10 basis points, payable quarterly	<u>\$ 73,000,000</u>	<u>\$ 102,000,000</u>
	<u>\$ 73,000,000</u>	<u>\$ 102,000,000</u>

The Corporation signed a floating rate note with the Crown to repay the outstanding principal and interest with terms as determined by the Debt Management Division of the Department of Finance. Principal payments on the debt, as determined by the Student Loan Corporation, and interest payments will be made quarterly, payable on June 30, September 30, December 31 and March 31 each fiscal year. The loan matures on September 30, 2021.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
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9. Tangible capital assets

	Office equipment	Computer software	Computer hardware	Total
Cost				
Balance, March 31, 2012	\$ 60,694	\$ 145,359	\$ 22,404	\$ 228,457
Additions	-	-	-	-
Balance, March 31, 2013	60,694	145,359	22,404	228,457
Accumulated amortization				
Balance, March 31, 2012	30,736	101,459	22,063	154,258
Amortization expense	3,896	14,659	341	18,896
Balance, March 31, 2013	34,632	116,118	22,404	173,154
Net book value, March 31, 2013	\$ 26,062	\$ 29,241	\$ -	\$ 55,303
Net book value, March 31, 2012	\$ 29,958	\$ 43,900	\$ 341	\$ 74,199

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.

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.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

10. Financial risk management (cont.)

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 4. Any estimated impairment of student loans receivable has been provided for through an allowance for decline in value.

As at March 31, 2013 Class B loans in repayment amounted to \$62,264,948. A total balance of \$8,834,306 of these loans was overdue as follows:

Days Overdue					
1 - 30	31 - 60	61 - 90	91 - 270	>270	Total
\$50,817	\$3,183,618	\$684,580	\$2,133,573	\$2,781,718	\$8,834,306

As well, as at March 31, 2013, the balance of defaulted loans subject to collection procedures was \$48,590,280.

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, not yet disbursed loans, grants and long-term debt. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its contractual obligations and 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.

Market risk

Market risk is the risk that the fair value of expected 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 risk. The Corporation is not exposed to significant foreign exchange or other risk.

The Corporation is exposed to interest rate risk. Long-term debt is at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate less 10 basis points, maturing September 30, 2021. An increase/decrease of 1% in the interest rate would result in an increase/decrease of \$730,000 in interest expense on long-term debt. The Corporation is not exposed to significant interest rate risk on its student loans receivable as most are non-interest bearing loans.

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

	<u>2013</u>	<u>2012</u>
<u>Grants from the Province</u>	<u>\$ 28,150,810</u>	<u>\$ 28,842,761</u>
	<u>\$ 28,150,810</u>	<u>\$ 28,842,761</u>

In addition to the above transactions, the Province holds the long-term debt of the Corporation totaling \$73,000,000.

12. Budgeted figures

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