

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

ANNUAL REPORT 2013-14

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CHAIRPERSON'S MESSAGE

Honourable Kevin O'Brien
Minister of Advanced Education and Skills

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, 2014.

This is the final 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 plan should note that the corporation acts as the provincial banker with respect to the disbursement and collection of Newfoundland and Labrador Student Financial Assistance. Eligibility for student financial assistance is determined by the Department of Advanced Education and Skills' Division of Student Financial Services. 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' publications 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 (corporation) 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 that eligibility is determined by the Department of Advanced Education and Skills' Student Financial Services Division.

In 2007, the corporation entered an agreement with the federal government 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 continues to manage provincial student loan accounts in default status prior to February 1, 2007 and monitors repayment services undertaken by the Canada Revenue Agency on defaulted loans post February 1, 2007 as per the federal-provincial Integrated Collections Agreement.

The affairs of the corporation are managed by a Board of Directors, who report to the Minister of Advanced Education and Skills. The Board of Directors as of March 31, 2014 included:

- Deputy Minister of Advanced Education and Skills, Chair, Ms. Lori Anne Companion;
- Deputy Minister of Finance, Ms. Donna Brewer;
- Comptroller General, Ms. Ann Marie Miller;
- Assistant Deputy Minister of Advanced Education and Skills, Post-Secondary Education, Mr. Bob Gardiner; and
- Assistant Deputy Minister of Advanced Education and Skills, Corporate Services, Mr. David Pike.

On April 1, 2014, the corporation employed 16 individuals as per the table below. These staff members are also included as employees by the Department of Advanced Education and Skills under the Corporate Services Branch.

Table 1: Student Loan Corporation Staff:

| Staff | Female | Male | Total |
|----------------|--------|------|-------|
| Management | 0 | 2 | 2 |
| Collections | 5 | 2 | 7 |
| Financial | 2 | 2 | 4 |
| Administrative | 3 | 0 | 3 |
| Total | 10 | 6 | 16 |

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: slcni@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 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>

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

2. Debt and Investment Services:

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

3. Repayment Services:

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

2.0 SHARED COMMITMENTS

During 2013-14, 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.

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 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 mirrors program delivery. The corporation also 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.

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 simplify 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 National Student Loan Service Centre (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 Canada Revenue Agency (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, specifically, the marketing/promoting component, 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 2013-14 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 goal 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 to student borrowers.

Measure: Improved repayment services to student borrowers.

Indicators:

- Improved website
- Improved communications with clients
- Enhanced client statements
- Completed client survey

In the 2011-14 planning cycle, the corporation was successful in enhancing and increasing communications with student borrowers providing student borrowers with more relevant and helpful information to help them become more knowledgeable about their loan and better prepared to manage their debt. During 2011-12, training in client communications was provided to staff, resulting in improved quality of communications. In addition, telephone contact with student borrowers increased by 49 per cent during 2011-12, resulting in more direct and timely information provided to student borrowers. Positive feedback on communications was received in a client survey completed during 2013-14. During 2012-13, the corporation revised client statements to include

more up-to-date information so student borrowers could better track their repayment progress and updated statements to improve accessibility for clients, specifically those experiencing difficulty reading certain printed materials. During 2012-13, the corporation simplified its website address and updated the “frequently asked questions” section of the website to include more questions and answers, providing student borrowers with access to more information. Positive feedback was received in responses to a survey provided to student borrowers during 2013-14. More details of the survey feedback is provided on page 8.

Objective for 2013-14:

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.

The following details the corporation’s successful achievement of the objective for 2013-14.

Measure One: Promoted corporation website

Indicator:

Advertise the corporation’s web pages on client statements

The corporation advertised its web pages in 2013-14 by adding the web address for its index page to client statements in 2013-14. This was done to promote the corporation’s web pages as a useful resource for clients that may have questions or concerns regarding repayment services.

Measure Two: Increased client statement frequency

Indicator:

Increase the frequency with which statements are issued for clients eligible for short-term hardship

Short-term hardship refers to temporary circumstances that result in a student borrower experiencing financial hardship, thus making it difficult to make payments on the student loan. In 2013-14, the corporation increased the frequency with which statements are issued to clients eligible for short-term hardship. Previously, clients would receive these statements annually. In January 2014, the corporation changed its frequency of sending these statements from annually to every six months to coincide with its internal policy for short-term hardship. The first of these statements was sent in June 2014, and will be sent again in December 2014.

Measure Three: Completed client survey

Indicator:

Developed, distributed and compiled results of a mail-out client survey

In 2013-14, the corporation developed a mail-out client survey to 560 clients that had, at that time, existing repayment arrangements with the corporation. A total of 80 clients (14 per cent) responded to the survey. The results of the responses received were then compiled by the corporation. Feedback received indicated high levels of satisfaction with repayment services. Such feedback from respondents included:

- 96 per cent satisfaction with the contact during the previous three years.
- 98 per cent of respondents were satisfied with the repayment method alternatives available with the corporation, with 83 per cent rating them good or excellent.

The survey did indicate that the corporation's website is not often used by student borrowers and only 22 per cent of respondents were aware of the website. This substantiates the corporation's continued efforts to promote the website through reference on client statements and future correspondence with student borrowers. Of those using the website, 79 per cent rated it good or excellent.

4.0 HIGHLIGHTS AND SNAPSHOT FOR THE YEAR ENDING MARCH 31, 2014

- 12,109 loan certificates totaling \$10.9 million were disbursed to students during 2013-14, a slight decrease from the 12,216 totaling \$11.0 million disbursed in 2012-13.
- 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 1,867 (4 per cent) while the value of the portfolio decreased by \$10.2 million (6 per cent).
- \$23.7 million in student loan payments was received from student borrowers who are in repayment status; \$22.0 million related to loans owned by the corporation and \$1.7 million was received for loans owned by the Department of Advanced Education and Skills.
- To assist student borrowers with reducing their student loan debt, 10,527 up-front grants totaling \$10.2 million and 1,074 debt reduction grants totaling \$3.9 million were disbursed in 2013-14.
- The number of clients availing of the provincial Repayment Assistance Plan program increased from 2,369 in 2012-13 to 2,573 in 2013-14.
- Since March 31, 2007, the number of loans outstanding for the portfolio has decreased by 2,048 (5 per cent) while the value of the portfolio has decreased by a significant \$125.8 million (45 per cent). This reflects the impact of debt reduction measures taken by Government. Such debt reduction measures include up-front grants, repayment assistance program and the elimination of interest on provincial student loans. In addition, the elimination of provincial student loans to be replaced by provincial student grants was announced in the 2014 Budget.

Table 2: Student Loan Corporation Portfolio

| Portfolio | 31-Mar-13 | | | | 31-Mar-14 | | | |
|---|---------------------|----------------|-------------------|------------------------|-----------------|----------------|-------------------|------------------------|
| | Number of Loans | Principal | Interest and Fees | Total Value (millions) | Number of Loans | Principal | Interest and Fees | Total Value (millions) |
| Current Portfolio | | | | | | | | |
| Class A (In School & In Grace) | 7,625 | \$28.6 | \$0.0 | \$28.6 | 7,187 | \$26.6 | \$0.0 | \$26.6 |
| Class B & Interest (In Repayment) | 18,799 ¹ | \$62.3 | \$0.0 | \$62.3 | 16,909 | \$51.8 | \$0.0 | \$51.8 |
| Subtotal | 24,464 | \$90.9 | \$0.0 | \$90.9 | 24,096 | \$78.4 | \$0.0 | \$78.4 |
| Default Portfolios | | | | | | | | |
| Department of Advanced Education and Skills ² | 2,607 | \$18.0 | \$3.2 | \$21.2 | 2,355 | \$15.5 | \$2.6 | \$18.1 |
| Corporation | 3,785 | \$23.2 | \$2.2 | \$25.4 | 3,260 | \$19.0 | \$1.4 | \$20.4 |
| CRA | 5,447 | \$25.8 | \$0.6 | \$26.4 | 5,846 | \$26.0 | \$0.6 | \$26.6 |
| Subtotal | 11,839 | \$67.0 | \$6.0 | \$73.0 | 11,461 | \$60.5 | \$4.6 | \$65.1 |
| Total | 38,263 | \$157.9 | \$6.0 | \$163.9 | 35,557 | \$138.9 | \$4.6 | \$143.5 |

Note 1 – Revised from 2012-13 report to reflect information identified after report was published.

Note 2 – Unaudited

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 goals and objectives as set out in the 2014-17 business plan, some challenges include:

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

6.0 CONCLUSION

This annual report outlines the significant progress made in the third year of the business plan for 2011-14. The corporation has been able to achieve the goal and objectives as set out in the 2011-14 planning cycle, particularly by improving repayment services through enhanced communications with student borrowers. By focusing its efforts on improved repayment services to student borrowers, the corporation continues to support the student loan program.

Copies of this document, as well as other corporation publications, are available on the corporation's webpage:

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

7.0 FINANCIAL STATEMENTS

The audited financial statements show total revenues of \$32.1 million and total expenditures of \$17.0 million.

During the year, the corporation experienced a \$0.1 million increase in the use of the Repayment Assistance Plan, following an increase of \$0.2 million in this program the previous year. The corporation recognized a decrease of \$2.0 million in loan repayments from the prior year as well as a \$0.3 million decrease in expenses due to lower uptake of provincial grant programs and decreased interest payments on debt, offset by increased uptake of the provincial debt reduction grant program.

The corporation issued \$10.2 million in up-front needs-based grants and \$3.9 million in debt reduction grants for a total provincial grant expense of \$14.1 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 \$15.1 million as reflected on the Statement of Operations, which is an increase of \$0.8 million over the \$14.3 million surplus reflected in 2012-13. 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 2013-14 with no negative impact on services to students.

The corporation's cash position at year end, as reflected on its Statement of Cash Flows, was \$6.4 million in cash which represents a \$1.0 million increase in cash and cash equivalents from 2012-13.



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, 2014, 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, 2014, 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 'Terry Paddon', with a horizontal line extending to the right.

TERRY PADDON, CA
Auditor General

July 2, 2014
St. John's, Newfoundland and Labrador

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF FINANCIAL POSITION

As at March 31

2014

2013

FINANCIAL ASSETS

| | | |
|-----------------------------------|-------------------|--------------------|
| Cash | \$ 6,375,837 | \$ 5,404,347 |
| Due from government (Note 3) | 309,301 | 476,680 |
| Student loans receivable (Note 4) | 92,171,139 | 105,197,372 |
| | 98,856,277 | 111,078,399 |

LIABILITIES

| | | |
|---|-------------------|-------------------|
| Accounts payable and accrued liabilities (Note 5) | 282,696 | 383,180 |
| Employee future benefits (Note 6) | 331,526 | 366,744 |
| Due to government (Note 7) | 61,956 | 45,073 |
| Long-term debt (Note 8) | 45,744,000 | 73,000,000 |
| | 46,420,178 | 73,794,997 |
| Net financial assets | 52,436,099 | 37,283,402 |

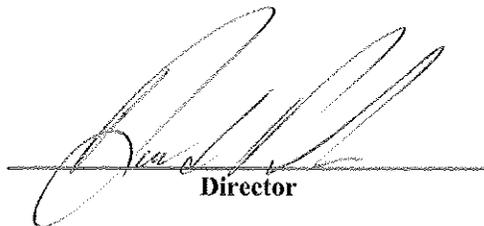
NON-FINANCIAL ASSETS

| | | |
|----------------------------------|----------------------|----------------------|
| Tangible capital assets (Note 9) | 37,256 | 55,303 |
| | 37,256 | 55,303 |
| Accumulated surplus | \$ 52,473,355 | \$ 37,338,705 |

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
For the year ended March 31

| | 2014 Budget | 2014 Actual | 2013 Actual |
|---|----------------------|----------------------|----------------------|
| | (Note 13) | | |
| REVENUES | | | |
| Provincial grant (Note 11) | \$ 29,997,500 | \$ 29,583,538 | \$ 28,150,810 |
| Federal grant | - | - | 5,662 |
| Recovery in value of student loan receivable | 2,780,000 | 1,937,611 | 2,371,552 |
| Interest | 100,000 | 118,103 | 138,954 |
| Student loan interest | - | 199,818 | 128,838 |
| Other | 10,000 | 272,408 | 135,523 |
| | 32,887,500 | 32,111,478 | 30,931,339 |
| EXPENSES | | | |
| Administrative fees | 1,030,300 | 575,918 | 746,827 |
| Amortization | 20,000 | 18,047 | 18,896 |
| Bank charges | - | 9,211 | 8,624 |
| Grant - Federal | - | - | 5,151 |
| Grant - Provincial | 14,500,000 | 14,096,593 | 12,632,485 |
| Interest on long-term debt | 790,000 | 759,265 | 1,146,208 |
| Interest relief - repayment assistance | 400,000 | 440,753 | 359,889 |
| Operating | 220,000 | 88,852 | 141,731 |
| Salaries | 1,194,300 | 988,189 | 1,599,681 |
| | 18,154,600 | 16,976,828 | 16,659,492 |
| Annual surplus | 14,732,900 | 15,134,650 | 14,271,847 |
| Accumulated surplus, beginning of year | 37,338,705 | 37,338,705 | 23,066,858 |
| Accumulated surplus, end of year | \$ 52,071,605 | \$ 52,473,355 | \$ 37,338,705 |

*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

| | 2014 Budget | 2014 Actual | 2013 Actual |
|--|------------------------|------------------------|------------------------|
| | (Note 13) | | |
| Annual surplus | \$ 14,732,900 | \$ 15,134,650 | \$ 14,271,847 |
| Amortization of tangible capital assets | 20,000 | 18,047 | 18,896 |
| Increase in net financial assets | 14,752,900 | 15,152,697 | 14,290,743 |
| Net financial assets, beginning of year | 37,283,402 | 37,283,402 | 22,992,659 |
| Net financial assets, end of year | \$ 52,036,302 | \$ 52,436,099 | \$ 37,283,402 |

*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

2014

2013

Operating transactions

| | | |
|--|---------------|---------------|
| Annual surplus | \$ 15,134,650 | \$ 14,271,847 |
| Adjustments for non-cash items | | |
| Amortization | 18,047 | 18,896 |
| Recovery in value of student loan receivable | (1,937,611) | (2,371,552) |

13,215,086 11,919,191

Changes in non-cash operating items

| | | |
|--|-----------|----------|
| Due from government | 167,379 | 54,833 |
| Accounts payable and accrued liabilities | (100,484) | 5,404 |
| Due to government | 16,883 | (15,533) |
| Employee future benefits | (35,218) | 69,208 |

Cash provided from operating transactions 13,263,646 12,033,103

Financing transactions

Repayment of long-term debt (27,256,000) (29,000,000)

Cash applied to financing transactions (27,256,000) (29,000,000)

Investing transactions

Net decrease in student loans receivable (Note 4) 16,679,226 16,810,272
 Student loans written off to allowance (1,715,382) (1,207,275)

Cash provided from investing transactions 14,963,844 15,602,997

Increase (decrease) in cash 971,490 (1,363,900)

Cash, beginning of year 5,404,347 6,768,247

Cash, end of year \$ 6,375,837 \$ 5,404,347

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

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

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.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

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 | 3 years |
| Computer hardware | 4 years |

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.

(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 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.

(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 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.

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March 31, 2014

2. Significant accounting policies (cont.)

(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, 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>2014</u> | <u>2013</u> |
|-----------------------|-------------------|-------------------|
| Federal government | \$ 168,279 | \$ 271,037 |
| Provincial government | 141,022 | 205,643 |
| | <u>\$ 309,301</u> | <u>\$ 476,680</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.

As at March 31, 2014 approximately 16,511 loans totaling \$51,793,971 (2013 - 18,473 loans totaling \$62,264,948) were being repaid as non-interest bearing for the period April 1, 2013 to March 31, 2014 (Class B loans) while 7,187 loans totaling \$26,581,507 (2013 - 7,625 loans totaling \$28,573,240) 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.

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March 31, 2014

4. Student loans receivable (cont.)

As at March 31, 2014 approximately 9,093 loans totaling \$45,369,874 (2013 - 9,175 loans totaling \$48,590,280) 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, 2013 to March 31, 2014.

Student loans receivable consist of the following:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------|----------------------|-----------------------|
| Loans receivable | | |
| Class A principal | \$ 26,581,507 | \$ 28,573,240 |
| Class B principal | 51,793,971 | 62,264,948 |
| Loans defaulted | 45,369,874 | 48,590,280 |
| Interest receivable | 1,631,032 | 2,627,142 |
| | <u>125,376,384</u> | <u>142,055,610</u> |
| Less: allowance for doubtful accounts | <u>(33,205,245)</u> | <u>(36,858,238)</u> |
| | <u>\$ 92,171,139</u> | <u>\$ 105,197,372</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>2014</u> | <u>2013</u> |
|--|------------------------|------------------------|
| Student loan interest | \$ 199,818 | \$ 128,838 |
| Interest relief - repayment assistance | (440,753) | (359,889) |
| Student loan grants | (3,617,831) | (2,449,400) |
| Student loans disbursed | 10,901,192 | 11,060,139 |
| Student loan payments | (22,006,270) | (23,982,685) |
| Student loans written off to allowance | (1,715,382) | (1,207,275) |
| | <u>\$ (16,679,226)</u> | <u>\$ (16,810,272)</u> |

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NOTES TO FINANCIAL STATEMENTS
March 31, 2014

5. Accounts payable and accrued liabilities

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| Trade payables and accrued liabilities | \$ 212,999 | \$ 242,377 |
| Salaries and benefits payable | 8,122 | 13,730 |
| Accrued vacation pay | 61,575 | 127,073 |
| | <u>\$ 282,696</u> | <u>\$ 383,180</u> |

6. Employee future benefits

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| Vested severance benefits | \$ 143,715 | \$ 118,115 |
| Provision for non-vested, severance benefits | 74,124 | 79,609 |
| Provision for accumulating, non-vested, sick leave | 113,687 | 169,020 |
| | <u>\$ 331,526</u> | <u>\$ 366,744</u> |

(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.

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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% (2013 - 8.6%). The Corporation's share of pension contributions and the total expense for 2014 was \$71,598 (2013 - \$88,621). The Corporation is not required to make contributions in respect of any actuarial deficiencies of the Plan.

7. Due to government

| | <u>2014</u> | <u>2013</u> |
|-----------------------|------------------|------------------|
| Federal government | \$ 23,232 | \$ - |
| Provincial government | 38,724 | 45,073 |
| | <u>\$ 61,956</u> | <u>\$ 45,073</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>2014</u> | <u>2013</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 | \$ 45,744,000 | \$ 73,000,000 |

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.

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9. Tangible capital assets

| | Office equipment | Computer software | Computer hardware | Total |
|---------------------------------------|---------------------|----------------------|----------------------|------------------|
| Cost | | | | |
| Balance, March 31, 2013 | \$ 60,694 | \$ 145,359 | \$ 22,404 | \$ 228,457 |
| Additions | - | - | - | - |
| Balance, March 31, 2014 | 60,694 | 145,359 | 22,404 | 228,457 |
| Accumulated amortization | | | | |
| Balance, March 31, 2013 | 34,632 | 116,118 | 22,404 | 173,154 |
| Amortization expense | 3,896 | 14,151 | - | 18,047 |
| Balance, March 31, 2014 | 38,528 | 130,269 | 22,404 | 191,201 |
| Net book value, March 31, 2014 | \$ 22,166 | \$ 15,090 | \$ - | \$ 37,256 |
| Net book value, March 31, 2013 | \$ 26,062 | \$ 29,241 | \$ - | \$ 55,303 |

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.

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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, 2014 Class B loans in repayment amounted to \$51,793,971. A total balance of \$6,641,590 of these loans was overdue as follows:

| Days Overdue | | | | | |
|---------------------|--------------|------------|--------------|--------------|--------------|
| 1 - 30 | 31 - 60 | 61 - 90 | 91 - 270 | >270 | Total |
| \$ 85,953 | \$ 1,917,550 | \$ 380,941 | \$ 1,534,007 | \$ 2,723,139 | \$ 6,641,590 |

As well, as at March 31, 2014, the balance of defaulted loans subject to collection procedures was \$45,369,874.

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, 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 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 or other price 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 \$457,440 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.

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11. Related party transactions

| | <u>2014</u> | <u>2013</u> |
|--------------------------|----------------------|----------------------|
| Grants from the Province | \$ 29,583,538 | \$ 28,150,810 |
| | <u>\$ 29,583,538</u> | <u>\$ 28,150,810</u> |

In addition to the above transactions, the Province holds the long-term debt of the Corporation totaling \$45,744,000.

12. Future changes to the Provincial Student Loan Program

In its 2014 Budget, the Province announced that \$50.6 million will be allocated over the next 5 years to eliminate the Provincial portion of student loans, replacing them with non-repayable, upfront grants. The elimination of the Provincial portion of student loans may have a significant impact on the Corporation’s future operations.

13. Budgeted figures

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

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.