

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

Annual Report 2016-17



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Chairperson's Message

September 29, 2017

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

Dear Minister Hawkins:

In accordance with the *Transparency and Accountability Act*, please find enclosed the annual performance report of the Student Loan Corporation of Newfoundland and Labrador (the Corporation) for the year ending March 31, 2017.

This is the final performance-based report to be presented under the Corporation's business plan for 2014-17. This document sets forth in clear language how the Corporation has addressed the goal and objectives that were outlined in the plan.

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, Skills and Labour's Division of Student Financial Services. As such, issues related to the determination of eligibility are not included in this document. For information relating to the determination of financial eligibility, readers should refer to the Department of Advanced Education, Skills and Labour website.

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

Sincerely,



GENEVIEVE (GIG) DOOLING
Chairperson

1.0 Overview

The Student Loan Corporation of Newfoundland and Labrador was established on March 30, 2004, pursuant to the *Student Financial Assistance Act* and is a category two government entity in accordance with the Transparency and Accountability Act. The Corporation is responsible for 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, Skills and Labour's Student Financial Services Division.

The affairs of the Corporation are managed by a Board of Directors, who report to the Minister of Advanced Education, Skills and Labour. The Board of Directors as of March 31, 2017, included:

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

On April 1, 2017, the Corporation employed 13 individuals as per the table below. These staff members are also included as employees by the Department of Advanced Education, Skills and Labour under the Post-Secondary Education Branch.

Table 1: Student Loan Corporation Staff:

Staff	Female	Male	Total
Management	0	2	2
Collections	5	1	6
Financial	3	2	5
Total	8	5	13

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

Each year the Provincial Government, subject to the annual Budget process, provides the Corporation with an operating grant. The grant for 2017-18 is \$5,683,000.

2.0 Highlights and Partnerships

During 2016-17, the Corporation, in collaboration with its partners, worked towards achieving the objectives and their associated measures and indicators in the area of: Improved Portfolio Management.

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

On November 1, 2016, the Corporation terminated the Memorandum of Understanding with Canada Revenue Agency as part of the plan to increase collections. The Corporation now manages repayment services for all defaulted Newfoundland and Labrador student loans. A small number of defaulted loans will be managed by the Canada Revenue Agency until they are transferred to the Corporation in 2017-18.

- There are 29,145 loans outstanding for the whole portfolio (loans owned by the Corporation and by the Department of Advanced Education, Skills and Labour) totaling \$102.5 million (\$98.6 million principal and \$3.9 million interest receivable). Loans outstanding include all loans not paid off in full, including those in good standing and those in default.
- 10,645 loans totaling \$7.6 million, were disbursed to students during 2016-17; an increase from the 2,696 loans totaling \$1.5 million

disbursed in 2015-16. For 2015-16, the Province had only disbursed grants to Newfoundland and Labrador students enrolled in post-secondary educational institutions in the Province and eligible programs in other provinces. Loans were re-introduced in 2016-17 for that same group of students. Loans continued to be provided to eligible residents of Newfoundland and Labrador who enrolled in various programs outside the Province during 2015-16 and 2016-17 and a similar program was available within this Province.

- \$13 million in student loan payments was received from student borrowers who are in repayment status; \$12 million related to loans owned by the Corporation and \$1 million was received for loans owned by the Department of Advanced Education, Skills and Labour (see Note 5 to Table 2).
- The Corporation issued 11,404 grants totaling \$14.5 million to students to assist with educational costs and 514 debt reduction grants totaling \$1.2 million to former students to assist with student loan repayments in 2016-17. In addition, 31 part-time incentive grants totaling \$12,248 were issued in 2016-17 to further assist part-time borrowers while lessening their financial burden.
- The number of clients availing of the provincial Repayment Assistance Plan increased from 2,901 totaling \$0.57M in 2015-16 to 3,254 totaling \$0.63M in 2016-17.
- Since March 31, 2007, the number of loans outstanding for the portfolio has decreased by 12,855 (30 per cent) while the value of the portfolio has decreased by \$177 million (63 per cent). This reflects the impact of debt reduction measures taken by the Government of Newfoundland and Labrador. Such debt reduction measures include up-front grants, the repayment assistance program and the elimination of interest on provincial student loans.

- Table 2 provides a summary of the changes to the number of loans and value of the current and defaulted portfolios from March 31, 2016 to March 31, 2017.

Table 2: Student Loan Corporation Portfolio¹

Portfolio	March 31, 2016				March 31, 2017			
	Number of Loans	Principal (\$ in millions)	Interest and Fees (\$ in millions)	Total Value (\$ in millions)	Number of Loans	Principal (\$ in millions)	Interest and Fees (\$ in millions)	Total Value (\$ in millions)
Current Portfolio								
Class A (In School & In Grace) ²	4,442	\$13.7	\$0.0	\$13.7	6,537	\$15.1	\$0.0	\$15.1
Class B and Interest (In Repayment) ³	13,734	\$37.9	\$0.0	\$37.9	12,152	\$31.5	\$0.0	\$31.5
Subtotal	18,176	\$51.6	\$0.0	\$51.6	18,689	\$46.6	\$0.0	\$46.6
Default Portfolios⁴								
Department of Advanced Education, Skills and Labour ⁵	1,997	\$12.7	\$2.3	\$15.0	1,670	\$11.7	\$2.2	\$13.9
Corporation ⁶	2,594	\$14.2	\$1.2	\$15.4	8,366	\$38.1	\$1.6	\$39.7
Canada Revenue Agency ⁷	6,528	\$27.3	\$0.5	\$27.8	420	\$2.2	\$0.1	\$2.3
Subtotal	11,119	\$54.2	\$4.0	\$58.2	10,456	\$52.0	\$3.9	\$55.9
Total	29,295	\$105.8	\$4.0	\$109.8	29,145	\$98.6	\$3.9	\$102.5

Source: Department of Advanced Education, Skills and Labour, 2017

Note 1 – Unaudited.

Note 2 – In Grace is defined as a loan within the 6 month period that begins from the student’s end of study date, during which the student is not required to make any payments.

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

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

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

Note 6 – Loans owned and issued by the Corporation that defaulted as of January 31, 2007.

Note 7 – Loans issued by the Corporation that have defaulted since January 31, 2007.

2.1 Department Of Advanced Education, Skills And Labour

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

2.2 Government Of Canada

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

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

During 2016-17, the Corporation continued to participate in the Canada Revenue Agency Refund Set-Off Program. Under this program, certain tax refunds are intercepted to repay defaulted student loans.

3.0 Report on Performance

The Corporation's annual report this year outlines its progress in achieving the 2016-17 objective of the 2014-17 business plan and outlines the work completed over the 2014-17 cycle which improved portfolio management. The important changes being made to portfolio management will result from enhancements in financial administration processes as well as improved resolution of accounts requiring loan repayments. In addition, the 2016-17 annual report highlights the work completed by the Corporation to meet its mission.

The following section of the Corporation's annual report outlines its progress in achieving the goal and objectives of the 2014-17 business plan and the completion of the mission identified for the 2011-14 and 2014-17 planning cycles.

3.1 Report On 2016-17 Annual Objective

Objective for 2016-17:

By March 31, 2017, the Corporation will have initiated implementation of the plan to address the declining loans portfolio.

Measure: Initiated implementation of the plan to address the declining loans portfolio.

Indicator: Completed initial steps to implement the plan to address the declining loans portfolio.

In 2016-17, the Corporation initiated and completed the following tasks outlined in the action plan to address the declining loans portfolio:

- Developed a process for the transfer of defaulted student loans from Canada Revenue Agency to the Corporation

- Developed a process to transfer newly defaulting provincial student loans to the Corporation
- Developed processes to review and assess account files to facilitate appropriate collection services for each file
- Terminated the Memorandum of Understanding for Canada Revenue Agency collection services

3.2 Report On Three-Year Goal

Goal: By March 31, 2017, the Corporation will have improved its portfolio management.

Over the 2014-17 cycle, the Corporation successfully improved its portfolio management by completing an assessment of portfolio management, developing an action plan to address the declining loans portfolio, and initiating implementation of the action plan. The following details the Corporation's work over the 2014-17 cycle to improve portfolio management.

Completed Assessment Report

In 2014-15, the Corporation completed an assessment report of its loans portfolio. This report included an overview of the Corporation and analysis of portfolio management, debt and investment services, and repayment services. The Report included an analysis of the internal strengths and weaknesses of the Corporation and of the external threats and opportunities along with alternatives for mitigating those weaknesses and threats and capitalizing on strengths and opportunities.

Developed Plan

In 2015-16, the Corporation completed an action plan to address the declining repayment rates on defaulted loans. The Corporation was pursuing repayments on the loans that went into default prior to February 2007. The Canada Revenue Agency was providing collection services on loans that went into default after that date, and the plan identified the opportunity to increase collection revenue by taking over the loans being collected by the Canada

Revenue Agency. The plan therefore provided key steps for terminating the Memorandum of Understanding through which the Canada Revenue Agency provides collection services, and to transfer existing and newly defaulting loans to the Corporation.

Initiated Implementation of Plan

In 2016-17, the Corporation initiated the implementation of the action plan to address the declining loans portfolio. Notice was provided in April 2016 by the Province to terminate the Memorandum of Understanding. A process to transfer newly defaulting loans to the Corporation was completed in October 2016 and the transfer of newly identified defaulting loans commenced November 2016. A process to transfer older defaulted loans from the Canada Revenue Agency was completed January 2017. The transfer of these loans commenced February 2017, with the last accounts projected to transfer by March 2018.

3.3 Report On Mission Results

Mission: By 2017, the Corporation will have enhanced repayment services to student borrowers.

In support of Government's 2011-14 strategic direction to enhance the province's post-secondary system for those seeking higher education, the Corporation has completed its mission for the 2011-14 and 2014-17 planning cycles. The indicators for this mission include:

1. Enhanced communication with clients
2. Increased staff training

Over the 2011-14 and 2014-17 planning cycles, the corporation took a number of measures to enhance communication with clients. This included enhancing client forms and statements, promoting online payment options, updating information on the Corporation's web pages, reformatting the web pages to improve accessibility, advertising the Corporation's web pages on client statements, and increasing client statement frequency for clients eligible for short-term hardship.

The Corporation also completed staff training during the 2011-14 and 2014-17 planning cycles, which included areas such as service excellence, records and account management, ATIPPA, Workplace Hazardous Materials Information System, accessibility, and workplace violence prevention.

4.0 Opportunities and Challenges Ahead

4.1 Opportunities

The Corporation has the opportunity to:

- Increase collections revenue and improve client account management through a review of client files transferred in 2016-17 from the Canada Revenue Agency.

4.2 Challenges

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

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

5.0 Conclusion

This annual report outlines the significant progress made in the final year of the business plan for 2014-17. By focusing its efforts on improved portfolio management, specifically with the implementation of the plan to address the declining loans portfolio in 2016-17, the Corporation continues to provide support for the student loan program.

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

6.0 Financial Statements

The audited financial statements show total revenues of \$16.3 million (\$34.3 million in the previous year) and total expenditures of \$24.2 million (\$25.0 million incurred in the previous year).

During the year, the Corporation recognized a decrease of \$3.2 million in loan repayments from the prior year, as a result of the declining loan portfolio over recent years.

The Corporation recognized a \$0.8 million decrease in total expenses mainly due to:

- The reinstatement of Provincial student loans and the resulting reduction in Provincial grants to students,
- Issuance of less provincial debt reduction grants resulting of a decrease in the number of eligible students,
- Decrease in interest payment on the Corporation's long term debt as the loan was repaid in full during 2016-17, and
- Offset by an increase in the bad debt expense related to uncollectible defaulted loans, transferred from the Canada Revenue Agency, as part of the termination of the collection Memorandum of Understanding.

The Corporation issued \$14.5 million in up-front needs-based grants and \$1.2 million in debt reduction grants for a total provincial grant expense of \$15.7 million (\$22.6 million in the previous year).

Interest expense on long-term debt decreased to \$4,000 as a result of the full repayment of Corporation's debt balance during 2016-17. Salary and operating costs decreased by \$0.2 million as a result of staff vacancies throughout the year.

Overall, the Corporation experienced an accrual deficit of \$8.0 million as reported in the Statement of Operations, which is a decrease of \$17.3 million from the \$9.3 million surplus reported in 2016-17. This decrease can be attributed mainly to the decrease in operating grant revenues (\$15.9 million in 2016-17 compared to \$30.3 million in 2015-16) along with an increase in bad debt expense related to uncollectible defaulted loans, transferred from the Canada Revenue Agency, as part of the termination of the collection Memorandum of Understanding. As with the prior year, the Corporation was able to use existing cash reserves to fund operations in 2016-17 with no negative impact on services to students.

The Corporation's cash position at year end, as reported in its Statement of Cash Flows, was \$12.2 million in cash which represents a \$2.8 million increase in cash and cash equivalents from 2015-16. This increase is attributed mainly to a reduction in total debt payments during 2016-17; \$1.8 million compared to \$20 million in 2015-16, offset by a reduction in operating grant revenues.

**STUDENT LOAN CORPORATION OF
NEWFOUNDLAND AND LABRADOR**

FINANCIAL STATEMENTS

MARCH 31, 2017

Management's Report

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

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

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

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

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

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

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



Mr. Scott Jones, CPA, CMA
Director of Portfolio Management



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the Student Loan Corporation of Newfoundland and Labrador which comprise the statement of financial position as at March 31, 2017, 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



TERRY PADDON, CPA, CA
Auditor General

July 31, 2017
St. John's, Newfoundland and Labrador

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

As at March 31

2017

2016

FINANCIAL ASSETS

Cash	\$ 12,246,888	\$ 9,378,347
Due from government (Note 4)	161,541	305,311
Student loans receivable (Note 5)	55,885,882	68,526,479
	68,294,311	78,210,137

LIABILITIES

Accounts payable and accrued liabilities (Note 6)	193,935	188,513
Employee future benefits (Note 7)	195,993	366,612
Due to government (Note 8)	56,962	61,647
Long-term debt (Note 9)	-	1,804,000
	446,890	2,420,772

Net financial assets **67,847,421** **75,789,365**

NON-FINANCIAL ASSETS

Tangible capital assets (Note 10)	10,559	14,376
	10,559	14,376

Accumulated surplus **\$ 67,857,980** **\$ 75,803,741**

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

	2017 Budget	2017 Actual	2016 Actual
	(Note 13)		
REVENUES			
Provincial grant (Note 12)	\$ 20,988,300	\$ 15,942,030	\$ 30,273,508
Recovery in value of student loan receivable	1,573,000	-	3,753,587
Interest	50,000	115,799	72,587
Student loan interest	-	202,725	218,982
Other	100,000	12,836	9,789
	22,711,300	16,273,390	34,328,453
EXPENSES (Note 14)			
Portfolio management	22,683,265	23,586,911	24,099,568
Repayment services	637,960	384,817	476,153
General administration	450,675	247,423	414,241
	23,771,900	24,219,151	24,989,962
Annual surplus (deficit)	(1,060,600)	(7,945,761)	9,338,491
Accumulated surplus, beginning of year	75,803,741	75,803,741	66,465,250
Accumulated surplus, end of year	\$ 74,743,141	\$ 67,857,980	\$ 75,803,741

*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

	2017 Budget	2017 Actual	2016 Actual
	(Note 13)		
Annual surplus (deficit)	\$ (1,060,600)	\$ (7,945,761)	\$ 9,338,491
<u>Amortization of tangible capital assets</u>	<u>10,000</u>	<u>3,817</u>	<u>4,834</u>
Increase (decrease) in net financial assets	(1,050,600)	(7,941,944)	9,343,325
<u>Net financial assets, beginning of year</u>	<u>75,789,365</u>	<u>75,789,365</u>	<u>66,446,040</u>
<u>Net financial assets, end of year</u>	<u>\$ 74,738,765</u>	<u>\$ 67,847,421</u>	<u>\$ 75,789,365</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

2017

2016

Operating transactions

Annual surplus (deficit)	\$ (7,945,761)	\$ 9,338,491
Adjustments for non-cash items		
Amortization	3,817	4,834
Recovery in value of student loan receivable	-	(3,753,587)
Bad debt expense	6,649,069	-
	(1,292,875)	5,589,738
Changes in non-cash operating items		
Due from government	143,770	2,823,796
Accounts payable and accrued liabilities	5,422	(30,678)
Employee future benefits	(170,619)	(124,269)
Due to government	(4,685)	41,322
Cash provided from (applied to) operating transactions	(1,318,987)	8,299,909
Financing transactions		
Repayment of long-term debt	(1,804,000)	(20,000,000)
Cash applied to financing transactions	(1,804,000)	(20,000,000)
Investing transactions		
Net decrease in student loans receivable (Note 5)	6,169,067	17,941,411
Student loans written off to allowance	(177,539)	(1,314,772)
Cash provided from investing transactions	5,991,528	16,626,639
Increase in cash	2,868,541	4,926,548
Cash, beginning of year	9,378,347	4,451,799
Cash, end of year	\$ 12,246,888	\$ 9,378,347

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

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

1. Nature of operations

The Student Loan Corporation of Newfoundland and Labrador (the Corporation) was established on March 30, 2004 under the authority of the *Student Financial Assistance Act*. The objective of the Corporation is to act as the lender for all Provincial student loans. The affairs of the Corporation are managed by a Board of Directors comprised of senior government officials.

The Corporation is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

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

(b) Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash, due from government, student loans receivable, accounts payable and accrued liabilities, 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 5. 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 9.

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, 2017

2. Summary of significant accounting policies (cont.)

(c) Cash

Cash includes cash in bank.

(d) Employee future benefits

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

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

The employees of the Corporation are subject to the *Public Services Pensions Act, 1991*. Employee contributions are matched by the Corporation and remitted to Provident¹⁰ from which pensions will be paid to employees when they retire. This plan is a multi-employer, defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and the average of their best six years of earnings for service on or after January 1, 2015, and, for service before January 1, 2015, the higher of the average of the frozen best 5 years of earnings up to January 1, 2015, or the average of the best 6 years of earnings for all service.

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

(e) Student loans receivable

The Corporation records student loans receivable at amortized cost. Student loans receivable are tested annually for impairment. A loan is classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of a portion of principal or interest related to the loan. When loans are identified as impaired, the Corporation records an allowance to reduce their carrying values to their estimated realizable amounts. Interest is accrued on loans receivable to the extent it is deemed collectible. Changes in the allowance are recognized on the statement of operations. Loan balances determined to be uncollectible are written off by the Corporation.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

2. Summary of significant accounting policies (cont.)

(f) Tangible capital assets

Tangible capital assets are recorded at cost, including amounts that are directly related to the acquisition of the assets.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Office equipment	10 years
Computer software	3 years
Computer hardware	4 years

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

(g) Revenues

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

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

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

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2. Significant accounting policies (cont.)

(h) Expenses

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

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

(i) Measurement uncertainty

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

There are several new standards issued by the PSAB that are not yet effective and have not been applied in these financial statements. These standards and corresponding effective dates are as follows:

Effective April 1, 2017:

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

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

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

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

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

3. Accounting pronouncements (cont.)

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

Effective April 1, 2018:

PS 3430 Restructuring Transactions – a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities.

The Corporation plans to adopt these standards by the effective dates and is currently analyzing the impact these standards will have on the financial statements.

4. Due from government

	<u>2017</u>	<u>2016</u>
Federal government	\$ 60,986	\$ 217,716
Provincial government	100,555	87,595
	<u>\$ 161,541</u>	<u>\$ 305,311</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.

5. Student loans receivable

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

As at March 31, 2017, approximately 12,181 loans totaling \$31,540,625 (2016 - 13,734 loans totaling \$37,877,672) were being repaid as non-interest bearing for the period April 1, 2016 to March 31, 2017 (Class B loans) while 6,549 loans totaling \$15,091,199 (2016 - 4,442 loans totaling \$13,664,648) 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, 2017, approximately 8,786 loans totaling \$40,388,738 (2016 - 9,122 loans totaling \$41,691,175) 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, 2016 to March 31, 2017.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

5. Student loans receivable (cont.)

Student loans receivable consist of the following:

	<u>2017</u>	<u>2016</u>
Loans receivable		
Class A principal	\$ 15,091,199	\$ 13,664,648
Class B principal	31,540,625	37,877,672
Loans defaulted	40,388,738	41,691,175
Interest receivable	1,590,582	1,546,716
	<u>88,611,144</u>	<u>94,780,211</u>
Less: allowance for doubtful accounts	<u>(32,725,262)</u>	<u>(26,253,732)</u>
	<u>\$ 55,885,882</u>	<u>\$ 68,526,479</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>2017</u>	<u>2016</u>
Student loan interest	\$ 202,725	\$ 218,982
Interest relief - repayment assistance	(628,538)	(569,769)
Student loan grants	(1,192,080)	(2,625,349)
Student loans disbursed	7,583,750	1,528,961
Student loan payments	(11,957,385)	(15,179,464)
Student loans written off to allowance	<u>(177,539)</u>	<u>(1,314,772)</u>
	<u>\$ (6,169,067)</u>	<u>\$ (17,941,411)</u>

6. Accounts payable and accrued liabilities

	<u>2017</u>	<u>2016</u>
Trade payables and accrued liabilities	\$ 93,852	\$ 82,147
Salaries and benefits payable	24,005	21,941
Accrued vacation pay	<u>76,078</u>	<u>84,425</u>
	<u>\$ 193,935</u>	<u>\$ 188,513</u>

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

7. Employee future benefits

	<u>2017</u>	<u>2016</u>
Vested severance benefits	\$ 136,256	\$ 165,639
Provision for non-vested severance benefits	40,621	32,965
Provision for accumulating, non-vesting, sick leave	19,116	168,008
	<u>\$ 195,993</u>	<u>\$ 366,612</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-vesting, sick leave benefits

The Corporation provides accumulating, non-vesting, sick leave benefits to certain employees. The Corporation has made a provision in the accounts for the payment of accumulating, non-vesting, sick leave benefits which is based upon the Corporation's best estimate of the probability of the employees utilizing the benefits and current salary levels. The availability of accumulating, non-vesting, sick leave benefits ceases upon termination of employment with the Corporation and no payment is made by the Corporation.

(c) Pension contributions

The Corporation and its employees are subject to the *Public Service Pensions Act, 1991*. Employee contributions are matched by the Corporation and remitted to Provident¹⁰, as administrator of the plan, from which pensions will be paid to employees when they retire. The plan provides a pension to employees upon retirement based on the member's age at retirement, their length of service and rates of pay. The maximum contribution rate for eligible employees was 11.85% (2016 - 11.85%). The Corporation's share of pension contributions and the total expense for 2017 was \$73,135 (2016 - \$75,286).

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

8. Due to government

	<u>2017</u>	<u>2016</u>
Federal government	\$ 32,751	\$ 28,864
Provincial government	24,211	32,783
	<u>\$ 56,962</u>	<u>\$ 61,647</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.

9. Long-term debt

Long-term debt reported on the statement of financial position is comprised of the following:

	<u>2017</u>	<u>2016</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	\$ -	\$ 1,804,000

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 was to mature on September 30, 2021, however the Corporation fully repaid the balance during the 2016-17 fiscal year. There was no penalty for early settlement.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

10. Tangible capital assets

	Office equipment	Computer software	Computer hardware	Total
Cost				
Balance, March 31, 2016	\$ 38,955	\$ 145,359	\$ 22,404	\$ 206,718
Additions/Disposals	-	-	-	-
Balance, March 31, 2017	38,955	145,359	22,404	206,718
Accumulated amortization				
Balance, March 31, 2016	24,579	145,359	22,404	192,342
Amortization expense	3,817	-	-	3,817
Balance, March 31, 2017	28,396	145,359	22,404	196,159
Net book value, March 31, 2017	\$ 10,559	\$ -	\$ -	\$ 10,559
Net book value, March 31, 2016	\$ 14,376	\$ -	\$ -	\$ 14,376

11. 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.

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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

As at March 31, 2017, Class B loans in repayment amounted to \$31,540,625. A total balance of \$3,155,522 of these loans was overdue as follows:

Days Overdue					
1 - 30	31 - 60	61 - 90	91 - 270	>270	Total
\$19,881	\$912,454	\$253,437	\$950,465	\$1,019,285	\$3,155,522

As well, as at March 31, 2017, the balance of defaulted loans subject to collection procedures was \$40,388,738.

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 was exposed to interest rate risk related to its long-term debt. Long-term debt was at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate less 10 basis points, maturing September 30, 2021. 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
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

12. Related party transactions

	<u>2017</u>	<u>2016</u>
Grants from the Province	\$ 15,942,030	\$ 30,273,508
	<u>\$ 15,942,030</u>	<u>\$ 30,273,508</u>

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. Expenses by object

	<u>2017</u> <u>Budget</u> (Note 13)	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
Administrative fees	\$ 595,000	\$ 471,977	\$ 664,644
Amortization	10,000	3,817	4,834
Bad debt expense	-	6,649,069	-
Bank charges	10,000	7,268	7,788
Grant-Provincial	21,227,200	15,691,929	22,591,736
Interest on long-term debt	5,000	3,598	120,393
Interest relief-repayment assistance	600,000	628,538	569,769
Operating	70,000	43,204	35,551
Salaries and benefits	1,254,700	719,751	995,247
Total	<u>\$ 23,771,900</u>	<u>\$ 24,219,151</u>	<u>\$ 24,989,962</u>

15. 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.

