

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**

**ANNUAL REPORT 2006-07**

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CHAIRPERSON'S MESSAGE

August 31, 2007

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

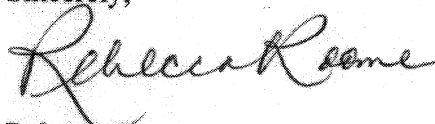
Dear Minister:

In accordance with the *Transparency and Accountability Act*, please find enclosed the annual report of the Student Loan Corporation of Newfoundland and Labrador for the year ended March 31, 2007.

This is the first performance based report to be presented under the corporation's business plan from 2006-07 to 2007-08. This document sets forth in clear language how the corporation has addressed the goals and objectives that were outlined in the plan.

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,



Rebecca Roome  
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 financial administration of the Newfoundland and Labrador Student Financial Assistance Program.

The affairs of the corporation are managed by a Board of Directors responsible to the Minister of Education. The Board of Directors includes:

- The Deputy Minister of Education, who is chair, Ms. Rebecca Roome; and
- The Deputy Minister of Finance, Mr. Terry Paddon.

On March 31, 2007, the corporation employed 21 individuals as per the table below. These staff members are also included within the advanced studies branch of the Department of Education employees.

Table 1: Student Loan Corporation Staff:

<b>Staff</b>	<b>Female</b>	<b>Male</b>	<b>Total</b>
Management	2	1	3
Professional	11	4	15
Clerical	3	0	3
Total	16	5	21
Percentage	76%	24%	100%

The corporation's offices are located at:

Confederation Building, 4<sup>th</sup> Floor, West Block  
P.O. Box 8700, St. John's, NL A1B 4J6  
Phone: 729-6465 (local) or 1-877-520-8800  
Fax: 729-2091

### 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 students with access to the financial resources to pursue post-secondary education.

### **1.3 MISSION**

By 2011, the corporation will have improved services to student borrowers and improved corporation processes.

### **1.4 LINES OF BUSINESS**

The corporation provides financial administration for the Newfoundland and Labrador student financial assistance program. Its lines of business include:

1. Portfolio Management:

The corporation acts as the province's "banker" in providing student loans, and in the administration and oversight of financial activities for the program. In completing these activities, the corporation oversees the work of its service providers which operate the National Student Loan Service Centre in loan administration. In addition, the corporation has partnered with the federal government through an integration agreement in the 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 cash flows during each year.

3. Repayment Services:

The corporation provides all repayment services for the province's existing defaulted loans and for the corporation's loans which defaulted prior to February 1, 2007. These activities begin at the corporation's offices once a loan is transferred for repayment after it has been 270 days in arrears at the National Student Loan Service Centre. Post February 1, 2007, defaulted loans are returned to Canada Revenue Agency for collection.

## 1.5 SNAPSHOT FOR THE YEAR ENDED MARCH 31, 2007

Table 2: Student Loan Corporation Portfolio:

Portfolio	31-Mar-07		31-Mar-06	
	Number of Loans (rounded)	Value (\$ in millions)	Number of Loans (rounded)	Value (\$ in millions)
<b>Current Portfolio</b>				
Class A (In School & In Grace)	10,900	\$75.3	11,700	\$81.7
Class B & Interest (In Repayment)	20,200	\$123.7	18,900	\$118.6
<b>Subtotal</b>	<b>31,100</b>	<b>\$199.0</b>	<b>30,600</b>	<b>\$200.3</b>
<b>Defaulted Portfolios</b>				
Department of Education <sup>1</sup>	4,300	\$35.3	4,700	\$35.4
Corporation	6,400	\$43.7	5,400	\$35.6
Canada Revenue Agency	200	\$1.4	0	\$0
<b>Subtotal</b>	<b>10,900</b>	<b>\$80.4</b>	<b>10,100</b>	<b>\$71.0</b>
<b>Total</b>	<b>42,000</b>	<b>\$279.4</b>	<b>40,700</b>	<b>\$271.3</b>

Note 1 – *Unaudited*.

During the year, approximately:

- \$29.5 million in new loans were disbursed to students;
- 18,300 new loan certificates were issued to both returning and new students pursuing a post-secondary education;
- \$21.5 million was received from students who are in repayment (\$7.8 million was received in interest payments and \$13.7 million was received in principal payments);
- \$14.6 million was accrued in interest for the year (\$11.7 million on the current portfolio and \$2.9 million on the Corporation default portfolio). A total of \$2.1 million (*unaudited*) was accrued in interest on the Department of Education's default portfolio;
- \$11.9 million in provincial and federal grant payments were issued to students to assist with reducing their student loans (\$7.5 million in provincial grant payments and \$4.4 million in federal grant payments) and an additional \$200,000 was paid directly to students whose provincial loans have been repaid;
- \$1.3 million was paid by the corporation to Human Resources and Social Development for administrative fees;
- \$694,000 was received by the corporation in interest revenue on bank balances which existed during the year;
- \$8.7 million was paid by the corporation in interest payments on its outstanding debt, which totaled \$198 million at year end; during the year, interest was paid at a rate of 4.04% to 4.32 %;
- \$4.9 million in default collections for 2006-07 (corporation: \$2.9 million, Department of Education: \$2.0 million (*unaudited*)), an increase of almost 70% over 2005-06. This is mainly due to more payment methods being offered such as online/telephone bill payment and preauthorized debit, additional staffing and increased use of the CRA set-off program, under which \$2.4 million was collected; and

- \$80.4 million was in default collections with the corporation, a moderate increase from 2005-06. At year end, there were almost 11,000 accounts outstanding with an average caseload of 970 cases per collector. With the implementation of integrated collection on February 1, 2007, all new defaulted files are sent to CRA for collection, therefore the corporation's caseload will remain steady and eventually decline in future years.

## 2.0 SHARED COMMITMENTS

### 2.1 DEPARTMENT OF EDUCATION

The corporation is responsible to the Minister of Education and operates under the *Student Financial Assistance Act* and *Student Financial Assistance Regulations*. The student financial assistance program also operates under this legislative framework. The corporation works closely with the student financial services division to ensure financial administration mirrors program delivery. The corporation also works with the finance division of the Department of Education in the management of the department's defaulted loans portfolio. These loans are not owned by the corporation but by government (i.e. defaulted loans in repayment prior to August 1, 2000). When 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 Human Resources and Social Development via the Canada-Newfoundland and Labrador Integration Agreement. One aim of this agreement is to ensure administrative integration of the federal and provincial student loan programs, which simplifies the administration of loans, particularly in the repayment process. The corporation has worked with Human Resources and Social Development to promote and enhance measures to further this initiative.

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

The province signed a Memorandum of Understanding with the federal departments of: Human Resources and Social Development, Service Canada and the Canada Revenue Agency, to operate an integrated defaulted collections program effective February 1, 2007. Administration of the collections process for provincial loans defaulting after February 1, 2007 is completed by the Canada Revenue Agency 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 Non-Tax Collections Directorate of the Canada Revenue Agency, and will have one repayment plan for both their federal and provincial defaulted student loans.

The corporation continues to participate in the income tax interception set-off program with the Canada Revenue Agency. Under this program, certain tax refunds are intercepted to repay defaulted student loans.



## 3.0 OUTPUTS

In consideration of the minister's strategic directions, as well as the mandate and financial resources of the corporation, the following areas have been identified as the key priorities in the 2006-08 business plan. The goal identified for each issue reflects the results 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.

The corporation's progress in achieving the goals and objectives of the business plan as well as sets the objectives for 2007-08 are provided below.

### 3.1 ISSUE ONE: IMPROVED SERVICES TO STUDENT BORROWERS

Creation of the corporation in 2004 was part of a broader plan by the province to improve services to students. The corporation plans to implement multiple new payment methods to assist students repay defaulted loans.

#### **Goal:**

By March 31, 2008 the corporation will have improved payment methods.

Measure: improved payment methods

Indicator: increased number of payment methods available

#### **Objective:**

By March 31, 2007 the corporation will have implemented a new payment method making it easier for students to repay their loans.

Measure: new payment method

Indicator: bill payment option

#### **Progress 2006-07:**

- In November of 2006, the online and telephone bill payment methods were implemented at all major banks. Payments received from this added service totaled almost \$250,000 up to March 31, 2007 and students have provided very positive feedback on repaying through this method of payment. In addition, staff have commented on resulting file management efficiencies.
- In February of 2007, the corporation also introduced pre-authorized debit as a payment method. As of March 31, 2007 there were four students availing of the new service, but it is anticipated that this will increase in 2007-08. This service also provides a more automated approach to payment process and addresses student requests for this type of process.

- The federal-provincial integrated collections agreement was implemented on February 1, 2007 further promoting the one student-one loan approach. This reduces confusion for students, simplifies program delivery and should ultimately help students repay their loans as newly defaulted loans are now managed by one collector.

**Objectives for 2007-08:**

By March 31, 2008 the corporation will have implemented an additional new payment method making it easier for students to repay their loans.

Measures: debit and credit cards accepted as a form of payment

Indicators: payments received via debit and credit cards

**3.2 ISSUE TWO: IMPROVED CORPORATION PROCESSES**

Recognizing the need for improvements in business processes, the corporation has been working to increase staffing. The corporation continues to work toward improvements in the business processes/tools, procedures, and training available for its staff. These changes should enhance the corporation’s business processes.

**Goal:**

By March 31, 2008 the corporation will have improved business processes through the implementation of various business resources and increased staff training.

Measure: improved business processes

Indicators: increased number of business resources

increased number of training courses provided to staff

**Objective:**

By March 31, 2007 the corporation’s staff will have access to the business resources necessary for effective caseload management.

Measure: increased business resources available to staff

Indicators: increased number of inter-provincial and inter-departmental agreements to improve tracing of student borrowers

automated further processes

reduced time spent on administrative tasks

**Progress 2006-07:**

- During 2006-07 the corporation increased its complement of collection officers from eight to eleven and hired an administration officer (paralegal). These staff additions have reduced the caseloads from 1,300 to 970 per collection officer, and have enabled a renewed focus on transitioning outstanding legal files.

- Over 500 person hours were invested in training during 2006-07 including a three hour orientation session for new staff as well as basic IT applications, accounting courses, professional development courses such as conflict resolution, communication and negotiation skills, and information sessions on bankruptcy and judgment enforcement. This investment in staff training should provide the valuable skills necessary in the caseload management process and improve interactions with students.
- Online access to this province's motor vehicle registration system was established in July of 2006, allowing collection officers access to student address information within the boundaries of privacy legislation. This access will allow gathering of necessary information as part of the repayment process.
- The corporation has completed its first full year of new statistical tracking of its caseload and further refining will be done in the coming year. Much work has also been completed on electronic reporting. Collection officers can now track the status of their files and create more efficiency in the management of caseloads, reducing manual administration.

**Objectives for 2007-08:**

By March 31, 2008, the corporation will have improved procedures and staff training.

Measures: increased tools available to staff

Indicators: increased automated processes to reduce time spent on administrative tasks

## 4.0 OPPORTUNITIES AND CHALLENGES AHEAD

### 4.1 OPPORTUNITIES

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

- **Service Provider Re-Procurement:** In December of 2006, Resolve was awarded the contract to become the sole service provider for both public and private institutions effective March, 2008. The corporation is represented on the various committees in place to ensure a smooth transition to one service provider from two. The transition should significantly reduce the level of work required to manage the portfolio.
- **Interest Rate Reduction:** *Budget 2007* announced an interest rate reduction on provincial student loans not in legal enforcement proceedings. The corporation will work with its stakeholders to fully implement this initiative.
- **Improved Business Processes:** The corporation is continuously revising and communicating its business processes to better serve the needs of students and the Government of Newfoundland and Labrador. Improvements in business processes, policy development, and communications with new graduates regarding repayment requirements will increase awareness and improve service to students.

### 4.2 CHALLENGES

As the corporation works toward achieving the objectives and goals for 2007-08, some challenges include:

- recruitment of sufficient, qualified staff in a timely manner is an issue the corporation continues to work through;
- implementation of new systems, policies, procedures, and structures to support the work of the corporation in achieving its mandate; and
- service provider re-procurement will place additional requirements on corporation time and resources to assist in the transition from two service providers to one while ensuring program integrity for both government and students.

## 5.0 CONCLUSION

Significant progress has been made in fiscal 2006-07 as outlined in this annual report. These accomplishments could not have been achieved without the dedication and hard work of the management and staff of the Student Loan Corporation.

The corporation will continue to work towards achieving the goals and objectives outlined in its business plan for 2006-08. By focusing on improving services to student borrowers and business processes, the corporation will help ensure the success of the student loans program.

There are many challenges and opportunities that lie ahead and much work to complete in the upcoming year. This will require the support and co-operation of all stakeholders to improve services to its primary clients – students and government.

Copies of this document, as well as other corporation publications are available on the Student Loan Corporation's website: <http://www.ed.gov.nl.ca/edu/dept/slc.htm>

## 6.0 FINANCIAL STATEMENTS

The audited financial statements show total revenues of \$47,724,447 and total expenditures of \$27,511,912.

During the year, the corporation again experienced an increased use of the interest relief program. This is the second year of increases in this program. The corporation recognized increases in loan repayments over the prior year. This is particularly important on the older, harder-to-collect default portfolio. The corporation also recognized a significant one-time recovery in its allowance for doubtful accounts.

Also during 2006-07, a new long-term debt strategy was implemented. On October 2, 2006, the corporation repaid the outstanding \$206 million of floating rate notes by using available cash of \$8 million to reduce the principal balance and then refinancing the remaining \$198 million with a new floating rate note, having a term of five years. The corporation will make annual payments of \$14 million during the term. Interest is payable quarterly in arrears at the 3-month Canadian Bankers' Acceptance rate less 2 basis points.

**STUDENT LOAN CORPORATION OF  
NEWFOUNDLAND AND LABRADOR**

**FINANCIAL STATEMENTS**

**31 MARCH 2007**



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

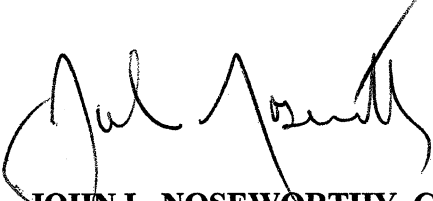
**AUDITOR'S REPORT**

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

I have audited the balance sheet of the Student Loan Corporation of Newfoundland and Labrador as at 31 March 2007 and the statements of revenues, expenses and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**JOHN L. NOSEWORTHY, CA**  
**Auditor General**

St. John's, Newfoundland and Labrador  
15 June 2007



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

31 March

2007

2006

**ASSETS**

Cash	\$ 5,716,623	\$ 5,442,542
Short-term investments, at cost (Note 2)	7,379,726	-
Interest receivable on investments	35,575	-
Accounts receivable	334,550	219,376
Prepaid expense	2,096	2,383
Student loans receivable (Note 3)	192,523,771	186,086,093
	<b>205,992,341</b>	<b>191,750,394</b>
<b>Capital assets (Note 4)</b>	<b>56,757</b>	<b>62,229</b>
	<b>\$ 206,049,098</b>	<b>\$ 191,812,623</b>


**LIABILITIES AND SURPLUS**

Accounts payable and accrued liabilities	\$ 247,888	\$ 348,552
Accrued vacation pay	50,303	44,737
Interest payable on long-term debt	2,133,290	-
Current portion - long-term debt (Note 5)	14,000,000	206,000,000
Current portion - obligation under capital lease (Note 6)	4,348	4,348
	<b>16,435,829</b>	<b>206,397,637</b>
<b>Long-term debt (Note 5)</b>	<b>184,000,000</b>	<b>-</b>
<b>Accrued severance pay</b>	<b>28,940</b>	<b>38,844</b>
<b>Obligation under capital lease (Note 6)</b>	<b>11,594</b>	<b>15,942</b>
	<b>200,476,363</b>	<b>206,452,423</b>
<b>Surplus (deficit)</b>	<b>5,572,735</b>	<b>(14,639,800)</b>
	<b>\$ 206,049,098</b>	<b>\$ 191,812,623</b>

*See accompanying notes*

Signed on behalf of the Board:

  
Chairperson

  
Director

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

For the year ended 31 March

2007

2006

**REVENUES**

Provincial grant revenue	\$ 27,973,390	\$ 28,246,951
Federal grant revenue	4,399,890	2,803,427
Student loan interest	14,643,079	11,553,910
Interest revenue	694,154	236,736
Other revenue	13,934	9,800
	<b>47,724,447</b>	<b>42,850,824</b>

**EXPENSES**

Administrative fees	1,287,506	1,367,349
Amortization	12,200	7,739
Bad debt expense	1,764,473	12,688,590
Bank charges	20,651	15,305
Grant expense – Federal	4,399,890	2,800,509
Grant expense – Provincial	7,743,557	7,298,216
Interest expense	8,687,975	6,247,532
Interest relief expense	2,521,849	2,320,681
Miscellaneous expenses	3,422	1,164
Operating expenses	187,541	157,040
Salaries	882,848	677,939
	<b>27,511,912</b>	<b>33,582,064</b>
<b>Excess of revenues over expenses</b>	<b>20,212,535</b>	<b>9,268,760</b>
<b>Deficit, beginning of year</b>	<b>(14,639,800)</b>	<b>(23,908,560)</b>
<b>Surplus (deficit), end of year</b>	<b>\$ 5,572,735</b>	<b>\$ (14,639,800)</b>

*See accompanying notes*

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

For the year ended 31 March

2007

2006

**Cash flows from operating activities**

Excess of revenues over expenses	\$ 20,212,535	\$ 9,268,760
Add non-cash items		
Amortization	12,200	7,739
Bad debt expense	1,764,473	12,688,590
	<b>21,989,208</b>	<b>21,965,089</b>
Changes in non-cash operating items		
Interest receivable on investments	(35,575)	-
Accounts receivable	(115,174)	(219,376)
Prepaid expense	287	(2,383)
Student loans receivable (Note 3)	(8,202,151)	(13,545,488)
Accounts payable and accrued liabilities	(100,664)	103,100
Accrued vacation pay	5,566	44,737
Interest payable on long-term debt	2,133,290	-
	<b>15,674,787</b>	<b>8,345,679</b>
Accrued severance pay	(9,904)	38,844
	<b>15,664,883</b>	<b>8,384,523</b>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(6,728)	(4,349)
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	198,000,000	206,000,000
Repayment of long-term debt	(206,000,000)	(213,000,000)
Repayment of capital lease obligation	(4,348)	(1,449)
	<b>(8,004,348)</b>	<b>(7,001,449)</b>
<b>Increase in cash and cash equivalents</b>	<b>7,653,807</b>	<b>1,378,725</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>5,442,542</b>	<b>4,063,817</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 13,096,349</b>	<b>\$ 5,442,542</b>
<b>Cash and cash equivalents include:</b>		
Cash	\$ 5,716,623	\$ 5,442,542
Short-term investments	7,379,726	-
	<b>\$ 13,096,349</b>	<b>\$ 5,442,542</b>

*See accompanying notes*

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 MARCH 2007**

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**Authority**

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

**1. Significant accounting policies**

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

(a) Capital assets

All capital assets are recorded at cost at the time of acquisition. Amortization is calculated using the straight-line method based on the expected future life of all assets as follows:

Office equipment	10 years
Computer software	7 years
Computer hardware	4 years
Capital photocopier lease	5 years

(b) Severance pay

The calculation of severance pay is based on years of service and current salary levels. The entitlement to severance pay vests with employees after nine years of continuous service, and accordingly no provision has been made in the accounts for employees with less than nine years of continuous service. The amount is payable when the employee ceases employment with the Corporation. If the employee transfers to another entity included in the public service, then the liability is transferred with the employee to the other entity.

**2. Short-term investments**

Short-term investments are valued at cost of \$7,379,726 (2006 - \$0) which approximates market value. As of 31 March 2007, the Corporation had two investments. These investments have maturity dates of 3 August 2007 and 30 August 2007, and interest rates of 4.39% and 4.35% respectively.

**STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 MARCH 2007**

**3. Student loans receivable**

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

As at 31 March 2007 approximately 20,179 loans totalling \$122,480,353 (2006 - 18,903 loans totalling \$117,969,897) were being repaid at an average interest rate of prime plus 2.5% (Class B loans) while 10,942 loans totalling \$75,281,472 (2006 - 11,749 loans totalling \$81,682,375) were not being repaid as the student was either still in attendance at an approved education institution or was within 6 months after the end of the study period (Class A loans).

As at 31 March 2007 approximately 6,617 loans totalling \$39,325,180 (2006 - 5,328 loans totalling \$31,822,379) were defaulted. These loans are defined as Class B loans delinquent for 270 days (nine months). The interest rate on these loans is prime plus 2.5%.

Student loans receivable consist of the following:

	<u>2007</u>	<u>2006</u>
<b>Loans receivable</b>		
Class B principal	\$ 122,480,353	\$ 117,969,897
Class A principal	75,281,472	81,682,375
Loans defaulted	39,325,180	31,822,379
Interest receivable	7,057,000	4,467,203
	<u>244,144,005</u>	<u>235,941,854</u>
<u>Less: allowance for doubtful accounts</u>	<u>(51,620,234)</u>	<u>(49,855,761)</u>
	<u>\$ 192,523,771</u>	<u>\$ 186,086,093</u>

The allowance for doubtful accounts represents the Corporation's best estimate of future probable losses with respect to loans receivable. The estimation of an appropriate allowance involves significant judgment. These financial statements represent management's best estimates based on available information.

The net increase in student loans receivable during the year consists of the following:

	<u>2007</u>	<u>2006</u>
Student loan interest	\$ 14,643,079	\$ 11,553,910
Interest relief	(2,521,849)	(2,320,681)
Student loan grants	(11,891,593)	(10,098,725)
Student loans disbursed	29,493,421	31,848,900
Student loan payments	(21,520,907)	(17,437,916)
	<u>\$ 8,202,151</u>	<u>\$ 13,545,488</u>

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**4. Capital assets**

	<u>2007</u>		<u>2006</u>	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	\$ 4,627	\$ 193	\$ 4,434	\$ -
Computer software	47,002	13,391	33,611	38,125
Computer hardware	4,179	1,771	2,408	3,452
Capital photocopier lease	21,739	5,435	16,304	20,652
	<u>\$ 77,547</u>	<u>\$ 20,790</u>	<u>\$ 56,757</u>	<u>\$ 62,229</u>

**5. Long-term debt**

	<u>2007</u>	<u>2006</u>
Issue of floating rate notes dated 2 October 2006 maturing 30 September 2011 and bearing interest at the 3-month Canadian Bankers' Acceptance rate less 2 basis points, payable quarterly.	\$ 198,000,000	\$ 206,000,000
<u>Less: Current portion</u>	<u>14,000,000</u>	<u>206,000,000</u>
	<u>\$ 184,000,000</u>	<u>\$ -</u>

On 2 October 2006, the Corporation repaid \$206 million principal amount of floating rate notes by using available cash of \$8 million to reduce the principal balance to \$198 million, then arranging a new long-term borrowing to refinance this amount for a term of five years. A principal payment of \$14 million will be made on 30 September in each of the years 2007 to 2010, inclusive, with the balance of the debt maturing 30 September 2011. Interest is payable quarterly in arrears on 31 March, 30 June, 30 September, and 31 December each year.

Principal repayments on long-term debt for the next five years are as follows:

2007-08	\$ 14,000,000
2008-09	\$ 14,000,000
2009-10	\$ 14,000,000
2010-11	\$ 14,000,000
2011-12	\$ 142,000,000

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**6. Obligation under capital lease**

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

Year Ended March 31	<u>2007</u>	<u>2006</u>
2007	\$ -	\$ 4,348
2008	4,348	4,348
2009	4,348	4,348
2010	4,348	4,348
2011	2,898	2,898
	<b>15,942</b>	<b>20,290</b>
Less: current portion	<b>4,348</b>	<b>4,348</b>
	<b>\$ 11,594</b>	<b>\$ 15,942</b>

**7. Related party transactions**

The Province unconditionally guarantees the principal and interest outstanding on long-term debt of \$198,000,000.

**8. Economic dependence**

As a result of its reliance on the Government of Newfoundland and Labrador to address the future funding requirements of the student loans program, the Corporation's ability to continue is dependent upon the decisions of Government.

**9. Financial instruments**

The Corporation's short-term financial instruments recognized on the balance sheet consist of cash, short-term investments, interest receivable on investments, accounts receivable, accounts payable and accrued liabilities, accrued vacation pay, interest payable on long-term debt and current portion of long-term debt. The carrying values of these instruments approximate current fair value due to their nature and short-term maturity associated with them.

The Corporation's long-term financial instruments recognized on the balance sheet consist of student loans receivable, long-term debt and accrued severance pay. The student loans receivable are reported at cost with provision being made for any decline in their value. Therefore, no further credit risk exists relating to these loans. The Corporation's long-term debt is at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate less 2 basis points, maturing in September 2011. This may subject the Corporation to interest rate risk caused by changes in the interest rate. The carrying values of these long-term financial instruments approximate their current fair value.

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**10. Income taxes**

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