

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR

ANNUAL REPORT 2008-09

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CHAIRPERSON'S MESSAGE

June 30, 2009

Hon. Darin King
Department of Education
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

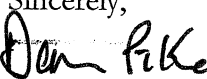
Dear Minister:

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, 2009.

This is the first performance-based report to be presented under the corporation's business plan for 2008-2011. This document sets forth in clear language how the corporation has addressed the goals and objectives that were outlined in the plan.

Readers of this report should note that the corporation serves as government's banker with respect to the financing and collection of Newfoundland and Labrador student financial assistance. Loan eligibility is determined by the Department of Education's 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 Education's 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,

Darrin Pike
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 as of March 31, 2009 included:

- Deputy Minister of Education (A), who is chair, Mr. Rick Hayward;
- Deputy Minister of Finance, Mr. Terry Paddon;
- Comptroller General, Mr. Ron Williams;
- Assistant Deputy Minister of Education, Advanced Studies, Ms. Rachelle Cochrane; and
- Assistant Deputy Minister of Education, Corporate Services, Ms. Ramona Cole.

On March 31, 2009, the corporation employed 30 individuals as indicated in the table below. These staff members are also included within the advanced studies branch of the Department of Education.

Table 1: Student Loan Corporation Staff:

Staff	Female	Male	Total
Management	2	1	3
Professional	11	7	18
Clerical	9	0	9
Total	22	8	30
Percentage	73%	27%	100%

The corporation's offices are located at:

Confederation Building, 4th Floor, West Block
P.O. Box 8700, St. John's, NL A1B 4J6
Phone: 729-6465 (local) or 1-877-520-8800
Fax: 729-2091, email: slcnl@gov.nl.ca
<http://www.gov.nl.ca/edu/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 students with access to the best possible services with respect to accessing financial assistance while attending a post-secondary institution and subsequent services to assist during repayment.

1.3 MISSION

In keeping with the vision and the minister's strategic direction respecting improved post-secondary programs, the corporation is committed to providing economically viable services to students in the area of student financing. This will ensure a sound economic basis on which to support future students in their post-secondary activities and in the achievement of further provincial economic success. Hence:

By 2011, the corporation will have improved services to student borrowers in repayment through improved communications and improved information provided to government through better reporting.

Measure One: Improved services to student borrowers
Indicators: Improved website
Made online forms available
Conducted a client survey
Enhanced provision of grants to eligible Memorial University students

Measure Two: Improved information to government
Indicators: Implemented portfolio reporting system
Improved forecasting
Developed client profiles

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. The corporation has partnered with the federal government through an integration agreement in the administration of this direct lending program. In completing these activities, the corporation oversees the work of its service provider which operates the National Student Loan Service Centre (NSLSC) in loan administration. In addition, the corporation oversees the Non-Tax Collections Directorate (NTCD) of the Canada Revenue Agency (CRA) which provides collection services under the integrated collections agreement.

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 NSLSC. Post February 1, 2007, defaulted loans are returned to the CRA for collection and the corporation continues to monitor all activities on these loans.

2.0 SHARED COMMITMENTS

During 2008-09, the corporation, in collaboration with its partners, worked towards achieving the objectives, and their associated measures and indicators, in the areas of its two issues: Improved Services to Student Borrowers; and Improved Information to Government.

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., guaranteed defaulted loans purchased from Canadian Imperial Bank of Commerce). 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 Skills Development Canada (HRSDC) via the Canada-Newfoundland and Labrador Integration Agreement. One aim of this agreement is to ensure administrative integration of the federal and provincial student loan programs, which simplifies the administration of loans, particularly in the repayment process. The corporation has worked with HRSDC to promote and enhance measures to further this initiative.

The NSLSC administers the loan process for both governments. Resolve Corporation operates the NSLSC and provides loan administration from disbursement to repayment. It is a one-stop approach to loan management. The corporation works closely with the NSLSC 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 HRSDC, Service Canada and the CRA 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 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 Non-Tax Collections Directorate of CRA, 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 CRA. Under this program, certain tax refunds are intercepted to repay defaulted student loans.

3.0 OUTPUTS

In consideration of the minister's strategic direction to improve post-secondary programs and public post-secondary institutions, as well as the mandate and financial resources of the corporation, the following areas were identified as the key priorities in the 2008-11 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. Work completed by the corporation during the 2008-09 fiscal year contributed to the strategic direction of "improved post-secondary programs and public post-secondary institutions benefit students and the province" under the category of student financial assistance, as communicated by government to the Minister of Education.

The corporation's annual report outlines its progress in achieving the goals and objectives of the 2008-11 business plan.

3.1 ISSUE ONE: IMPROVED SERVICES TO STUDENT BORROWERS

Goal: By March 31, 2011 the corporation will have improved its services to assist students with loan repayment issues.

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

Objective for 2008-09:

By March 31, 2009 the corporation will have further developed its website to provide more relevant repayment information and forms for download.

Measure: Increased website information

The following details the corporation's successful achievement of each of the initiatives for 2008-09.

Indicators:

Implemented on-line repayment forms:

On March 2, 2009 the Student Loan Corporation released its new website: <http://www.gov.nl.ca/edu/postsecondary/slc/index.html> in conjunction with the Department of Education's new website. Corporation forms are now available for download in Adobe so that clients have access to them immediately instead of having to wait for them in the mail or by fax.

Provided links to other relevant websites:

A comprehensive list of relevant contacts and links not only for the corporation but also for the other stakeholders in the student loan program, as well as frequently asked questions and a new web email address (slcni@gov.nl.ca), has been added to the website.

Enhanced provision of grants to eligible Memorial University students:

Up-front, needs-based, non-repayable grants introduced in August 2007 were distributed manually during 2007-08. As of October 2008, the majority of up-front grants to students attending Memorial University, the Marine Institute and Sir Wilfred Grenfell College are disbursed electronically into students' bank accounts via the NSLSC. The corporation assisted in the process design and implementation and now monitors to ensure the accuracy and efficiency of this process.

The work associated with the above indicators supports the corporation's goal of improving services to students by making it easier for students to find information and forms required to manage their account, through the website and reducing government processing time as cheques do not have to be issued and students have access to their grants in a more timely and convenient manner.

2009-10 Objectives

By March 31, 2010 the corporation will provide forms that can be completed online by clients.

Measure: Corporation forms available for online completion.

Indicator: Clients able to complete forms online and submit for assessment.

3.2 ISSUE TWO: IMPROVED INFORMATION TO GOVERNMENT

Goal: By March 31, 2011 the corporation will have improved reporting to assist government in its decision-making process.

The corporation believes that improved portfolio performance reporting will provide better information to government for decision making.

Objectives for 2008-09:

By March 31, 2009 the corporation will have implemented a portfolio monitoring system to show repayment trends and forecasts.

Measure: Portfolio reporting system

The following details the corporation's successful achievement of each of the initiatives for 2008-09.

Indicators:**Implemented system:**

In April 2008, the corporation implemented a system to track portfolio statistics to provide better trend analysis information to the Board of Directors so that it can make better decisions on financial program management. The corporation is further refining the system by developing better forecasting process.

2009-10 Objectives

By March 31, 2010 the corporation will have completed a review to improve the forecasting of performance measures such as repayment rates.

Measure: Completed review of forecast performance measures.

Indicator: Reports available for review by corporation management.

4.0 SNAPSHOT AND HIGHLIGHTS FOR THE YEAR ENDED MARCH 31, 2009

Table 2: Student Loan Corporation Portfolio:

Portfolio	31-Mar-08				31-Mar-09			
	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)	Number of Loans (rounded)	Principal	Interest and Fees	Total Value (\$ in millions)
Current Portfolio								
Class A (In School & In Grace)	10,400	\$60.5	\$0.0	\$60.5	9,400	\$47.6	\$0.0	\$47.6
Class B & Interest (In Repayment)	20,400	\$121.4	\$0.6	\$122.0	20,500	\$110.5	\$0.3	\$110.8
Subtotal	30,800	\$181.9	\$0.6	\$182.5	29,900	\$158.1	\$0.3	\$158.4
Defaulted Portfolios								
Department of Education ¹	4,100	\$25.9	\$8.9	\$34.8	3,800	\$25.4	\$7.7	\$33.1
Corporation	6,000	\$36.2	\$6.5	\$42.7	5,500	\$34.0	\$6.2	\$40.2
CRA	1,400	\$9.2	\$0.9	\$10.1	2,500	\$16.2	\$1.3	\$17.5
Subtotal	11,500	\$71.3	\$16.3	\$87.6	11,800	\$75.6	\$15.2	\$90.8
Total	42,300	\$253.2	\$16.9	\$270.1	41,700	\$233.7	\$15.5	\$249.2

Note 1 – *Unaudited*.

During the year, approximately:

- \$15.3 million in new loans were disbursed to students;
- 15,200 new loan certificates were issued to both returning and new students pursuing a post-secondary education;
- \$28.8 million was received from students who are in repayment (\$5.8 million was received in interest payments and \$23.0 million was received in principal payments);
- \$7.5 million was accrued in interest for the year (\$5.6 million on the current portfolio and \$1.9 million on the corporation default portfolio). A total of \$1.0 million (*unaudited*) was accrued in interest on the Department of Education's default portfolio;
- \$22.1 million in provincial and federal grant payments was issued to students to assist with reducing their student loans (\$7.6 million in provincial debt reduction grant payments, \$9.9 million in provincial up-front grant payments, and \$4.3 million in federal grant payments) and an additional \$0.3 million was paid directly to students whose provincial loans were repaid in excess of the amount owed in light of these debt reduction measures;
- \$0.9 million was paid by the corporation for administrative fees (\$0.8 million to HRSDC to support the service provider contract, and \$0.1 million to CRA in administrative fees as per the integrated collections agreement);
- \$0.3 million was earned by the corporation in interest revenue on bank balances which existed during the year, and \$0.4 million was earned on short-term investments;
- \$5.4 million was paid by the corporation in interest payments on its outstanding debt which totaled \$170.0 million at year end; during the year, interest was paid at rates ranging from 1.59% to 3.68%;
- \$6.3 million in default collections was received for 2008-09 (corporation: \$3.7 million, Department of Education: \$2.6 million (*unaudited*)), an increase of almost 11% from the

- approximately \$5.7 million collected by the corporation in 2007-08. Of this amount, almost \$3.2 million is attributable to CRA set-off, while the remaining \$3.1 million were collected by the corporation's internal collection officers;
- At year end, \$90.8 million was in default collections (\$73.3 million administered by the corporation and \$17.5 million administered by NTCD). There were 11,800 accounts outstanding (9,300 with the corporation and 2,500 with NTCD);
 - Average monthly payments received from online/telephone banking increased 26% from \$125,000 per month in 2007-08 to \$157,000 per month for a total of \$1.9 million during 2008-09; and
 - Average monthly payments received from pre-authorized debit method of payment increased 106% from \$7,750 per month in 2007-08 to \$16,000 per month in 2008-09, for a total of \$193,000 during 2008-09.

HIGHLIGHTS

- As a result of the Budget 2007 changes that reduced interest by 2.5% on student loans, interest revenue received on student loans was further reduced in 2008-09 by \$5.1 million (40%), since this was the first full-year that the interest rate reduction was realized. Budget 2007 originally estimated lost interest revenue at \$3.7 million per year however the prime interest rate has steadily declined from 6.25% in August 2007 to 2.5% as of March 31, 2009.
- A total of \$9.9 million in up-front grants were disbursed in 2008-09, the first full year of the implementation of the up-front grants program; this represents a \$0.4 million (4%) increase from 2007-08. Budget 2007 estimated up-front grants to be \$12.4 million annually, however there were 1,600 (10%) fewer loan certificates issued in 2008-09.
- The number of loans outstanding for the whole portfolio decreased by 600 and the value of the portfolio decreased by \$20.9 million (8%). This reflects the impact of debt reduction measures taken by government to reduce student debt, overall decreases in the number of students borrowing, as well as continued improvement in repayment by students.
- Student debt has increased in the past but average debt has started to decline. For the average MUN undergraduate borrower, accumulated debt declined 2% in 2007-08 from \$27,114 to \$26,582. Decreases have also been seen in the Marine Institute, College of the North Atlantic and private college one-year programs. Government hopes to see even more significant declines in the next few years with the implementation of the debt reduction program from Budget 2007 and more recently, with Budget 2009.

Table 3: Net Student Debt by Institution 2003-04 to 2007-08 (federal and provincial debt)

		2003-04	2004-05	2005-06	2006-07	2007-08	% Change 2006-07 to 2007-08
CNA	1 Year	\$9,995	\$10,445	\$10,594	\$9,840	\$9,336	-5.1%
	2 Year	\$15,854	\$17,589	\$16,399	\$16,632	\$16,762	0.8%
	3 Year	\$20,991	\$26,022	\$21,959	\$21,896	\$22,241	1.6%
Private College	1 Year	\$11,399	\$11,048	\$12,179	\$11,792	\$9,962	-15.5%
	2 Year	\$20,635	\$22,324	\$22,340	\$22,365	\$21,067	-5.8%
MUN	Undergraduate	\$26,592	\$31,218	\$26,299	\$27,114	\$26,582	-2.0%
	Marine	\$23,074	\$20,840	\$21,752	\$21,068	\$20,380	-3.3%

Source: Department of Education, 2008

5.0 OPPORTUNITIES AND CHALLENGES AHEAD

5.1 OPPORTUNITIES

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

- Testing has begun with government's Office of the Chief Information Officer on a central web receipting application which will allow students to pay online through a government web page, using their debit/credit card. This form of payment is expected to be available late fiscal 2009-10. As part of the business plan for 2006-2008, the corporation intended to implement debit/credit processing in its onsite payment wicket, however it was determined that there was insufficient client demand for this service. The web receipting option offers the ability to pay via debit or credit card in a more user-friendly, convenient way for corporation clients.
- Budget 2009 announced the elimination of interest on provincial student loans on a go-forward basis, and an increase of \$10 per week in the up-front, needs, based, non-repayable grant effective August 1, 2009. This is great news for all students and should help significantly reduce student debt. The corporation is participating in this implementation and will monitor the impact these changes have on student debt.
- The corporation is now fully staffed and can now move forward with improving internal efficiencies and processing of data. This will provide better information for government to assist in making program decisions that improve accessibility and affordability for Newfoundland and Labrador students.
- Newfoundland and Labrador has the best student aid package in the country and is well prepared to weather the recent economic storm. There is an opportunity to promote the province's post-secondary system, along with Newfoundland and Labrador being a great place to live.

5.2 CHALLENGES

As the corporation works toward achieving the objectives and goals for 2009-10, some challenges include:

- Finding ways to better communicate with students to ensure they are aware of all resources available to them to help them succeed and become student debt-free earlier in their lives.
- Further implementation of new systems, policies, procedures, and structures to support the work of the corporation in achieving its mandate.

- Successful implementation of different student financial assistance initiatives introduced by the federal and provincial programs in the integrated student loan environment is a challenge. The corporation remains committed to ensuring that program changes are successfully implemented as smoothly as possible for students.
- Reaching defaulted student borrowers to counsel them into repayment. In performing this function, the corporation will assist student borrowers in learning how to better manage their debt.

6.0 CONCLUSION

Significant progress has been made in fiscal 2008-09 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 corporation.

This annual report outlines the progress made in the first year of the business plan for 2008-11. In focusing its efforts on improving services to student borrowers and providing better information to government, the corporation continues to support the student loan program.

The provincial government has demonstrated a strong commitment to students as evidenced by Budget 2009, with the elimination of interest and an increase in up-front, non-repayable grants effective August 2009. Through collaboration with students, the Government of Newfoundland and Labrador has developed the best student aid package in the country and has taken solid steps to reduce student debt.

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

Copies of this document, as well as other corporation publications are available on the corporation's website: <http://www.gov.nl.ca/edu/postsecondary/slc/index.html>

7.0 FINANCIAL STATEMENTS

The audited financial statements show total revenues of \$26.3 million and total expenditures of \$30.9 million.

During the year, the corporation experienced a \$0.9 million decrease in the use of the interest relief program, following a decrease of \$0.6 million in this program last year. The corporation recognized an increase of \$1.8 million in loan repayments over the prior year. This is particularly important on the older, harder-to-collect default portfolio.

As a result of the Budget 2007 changes that came into effect on August 1, 2007 the corporation issued \$9.9 million in up-front, needs-based grants and reported a decrease of \$5.1 million in interest revenue mostly the result of the 2.5% reduction in the interest rate.

The corporation overall experienced an accrual deficit of \$4.6 million as reflected on the Statement of Revenues, Expenses and Surplus. This is primarily resulting from a one-time decrease in the operating grant from government of \$15.0 million for the 2008-09 fiscal year. The decline in the operating grant resulted from the corporation's ability to use existing cash reserves to fund operations in 2008-09 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 \$22.9 million in cash and short-term investments equivalent to its position in 2007-08.

**STUDENT LOAN CORPORATION OF
NEWFOUNDLAND AND LABRADOR**

FINANCIAL STATEMENTS

31 MARCH 2009



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 2009 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 2009 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
18 June 2009

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

31 March

2009

2008

ASSETS

Cash	\$ 12,817,794	\$ 9,128,985
Short-term investments, at cost (Note 2)	10,144,027	13,918,952
Interest receivable on investments	139,623	159,295
Accounts receivable	427,245	333,495
Prepaid expense	3,112	5,710
Student loans receivable (Note 3)	163,845,279	182,265,622
	187,377,080	205,812,059
Capital assets (Note 4)	145,623	131,892
	\$ 187,522,703	\$ 205,943,951

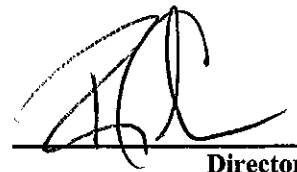
LIABILITIES AND SURPLUS

Accounts payable and accrued liabilities	\$ 411,520	\$ 271,415
Accrued vacation pay	89,391	82,421
Current portion - long-term debt (Note 5)	14,000,000	14,000,000
Current portion - obligation under capital lease (Note 6)	4,348	4,348
	14,505,259	14,358,184
Long-term debt (Note 5)	156,000,000	170,000,000
Accrued severance pay	65,464	32,691
Obligation under capital lease (Note 6)	2,898	7,246
	170,573,621	184,398,121
Surplus	16,949,082	21,545,830
	\$ 187,522,703	\$ 205,943,951

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

2009

2008

REVENUES

Provincial grant revenue	\$ 13,259,196	\$ 33,155,813
Federal grant revenue	4,350,637	4,427,720
Student loan interest	7,518,169	12,577,952
Recovery in value of student loan receivable	423,060	-
Interest revenue	766,051	1,008,596
Other revenue	18,782	19,842
	26,335,895	51,189,923

EXPENSES

Administrative fees	928,022	1,453,389
Amortization	30,268	12,454
Bad debt expense	-	1,473,195
Bank charges	17,507	20,619
Grant expense – Federal	4,350,637	4,427,720
Grant expense – Provincial	17,718,954	15,888,545
Interest expense on long-term debt	5,410,913	8,880,010
Interest relief expense	1,024,657	1,943,077
Miscellaneous expenses	-	307
Operating expenses	102,751	101,048
Salaries	1,348,934	1,016,464
	30,932,643	35,216,828

Excess of revenues over expenses (expenses over revenues)	(4,596,748)	15,973,095
Surplus, beginning of year	21,545,830	5,572,735
Surplus, end of year	\$ 16,949,082	\$ 21,545,830

See accompanying notes

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF CASH FLOWS

For the year ended 31 March

2009

2008

Cash flows from operating activities

Excess of revenues over expenses (expenses over revenues)	\$ (4,596,748)	\$ 15,973,095
Add non-cash items		
Amortization	30,268	12,454
Bad debt expense (Recovery in value of student loan receivable)	(423,060)	1,473,195
	(4,989,540)	17,458,744
Changes in non-cash operating items		
Interest receivable on investments	19,672	(123,720)
Accounts receivable	(93,750)	1,055
Prepaid expense	2,598	(3,614)
Student loans receivable (Note 3)	19,197,337	8,815,383
Student loans written off to allowance	(353,934)	(30,429)
Accounts payable and accrued liabilities	140,105	23,527
Accrued vacation pay	6,970	32,118
Interest payable on long-term debt	-	(2,133,290)
	13,929,458	24,039,774
Accrued severance pay	32,773	3,751
	13,962,231	24,043,525

Cash flows from investing activities

Purchase of capital assets	(43,999)	(87,589)
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Cash flows from financing activities

Repayment of long-term debt	(14,000,000)	(14,000,000)
Repayment of capital lease obligation	(4,348)	(4,348)
	(14,004,348)	(14,004,348)

Increase (Decrease) in cash and cash equivalents (86,116) 9,951,588

Cash and cash equivalents, beginning of year 23,047,937 13,096,349

Cash and cash equivalents, end of year \$ 22,961,821 \$ 23,047,937

Cash and cash equivalents include:

Cash	\$ 12,817,794	\$ 9,128,985
Short-term investments	10,144,027	13,918,952
	\$ 22,961,821	\$ 23,047,937

See accompanying notes

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 MARCH 2009

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 \$10,144,027 (2008 - \$13,918,952) which approximates market value. As of 31 March 2009, the Corporation had three investments. These investments have maturity dates of 4 September 2009, 9 September 2009 and 11 September 2009 and interest rates of 2.45%, 2.58% and 3.69% respectively.

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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 2009 approximately 20,477 loans totalling \$110,515,241 (2008 - 20,366 loans totalling \$121,389,688) were being repaid at an average interest rate of prime (Class B loans) while 9,444 loans totalling \$47,621,883 (2008 - 10,356 loans totalling \$60,516,585) 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 2009 approximately 8,010 loans totalling \$50,186,870 (2008 - 7,414 loans totalling \$45,484,607) were defaulted. These loans are defined as Class B loans delinquent for 270 days (nine months). The interest rate on these loans is prime.

Student loans receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Loans receivable		
Class B principal	\$ 110,515,241	\$ 121,389,688
Class A principal	47,621,883	60,516,585
Loans defaulted	50,186,870	45,484,607
Interest receivable	7,807,291	7,937,742
	216,131,285	235,328,622
<u>Less: allowance for doubtful accounts</u>	<u>(52,286,006)</u>	<u>(53,063,000)</u>
	\$ 163,845,279	\$ 182,265,622

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>2009</u>	<u>2008</u>
Student loan interest	\$ 7,518,169	\$ 12,577,952
Interest relief	(1,024,657)	(1,943,077)
Student loan grants	(11,863,476)	(10,658,439)
Student loans disbursed	15,287,427	18,206,038
Student loan payments	(28,760,866)	(26,967,428)
Student loan written off	(353,934)	(30,429)
	\$ (19,197,337)	\$ (8,815,383)

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4. Capital assets

	2009		2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	\$ 17,453	\$ 1,110	\$ 16,343	\$ 4,087
Computer software	145,359	39,832	105,527	96,126
Computer hardware	24,584	8,439	16,145	19,723
Capital photocopier lease	21,739	14,131	7,608	11,956
	\$ 209,135	\$ 63,512	\$ 145,623	\$ 131,892

5. Long-term debt

	<u>2009</u>	<u>2008</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.	\$ 170,000,000	\$ 184,000,000
<u>Less: current portion</u>	<u>14,000,000</u>	<u>14,000,000</u>
	\$ 156,000,000	\$ 170,000,000

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 to 2010, inclusive, with the balance of the debt maturing 30 September 2011. Interest is payable quarterly on 31 March, 30 June, 30 September, and 31 December each year.

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

Year Ended 31 March

2010	\$ 14,000,000
2011	\$ 14,000,000
2012	\$ 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 31 March	<u>2009</u>	<u>2008</u>
2009	\$ -	\$ 4,348
2010	4,348	4,348
2011	2,898	2,898
	<u>7,246</u>	11,594
Less: current portion	<u>4,348</u>	4,348
	<u>\$ 2,898</u>	<u>\$ 7,246</u>

7. Related party transactions

The Province unconditionally guarantees the principal and interest outstanding on long-term debt of \$170,000,000.

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 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.

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.