

SASKATCHEWAN STUDENT AID FUND

FINANCIAL STATEMENTS

For Year Ended March 31, 2014

MINISTRY OF ADVANCED EDUCATION



INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Student Aid Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and changes 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 for Treasury Board's approval, 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.

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 Saskatchewan Student Aid Fund as at March 31, 2014, and the results of its operations and changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Regina, Saskatchewan
May 14, 2014

Judy Ferguson, FCA
Acting Provincial Auditor

Statement 1**Saskatchewan Student Aid Fund
Statement of Financial Position**

As at March 31		(thousands of dollars)	
		2014	2013
Financial Assets			
Due from General Revenue Fund (Note 7)	\$	9,043	\$ 12,626
Accrued Interest		25	46
Other Receivables		1,258	888
Student Loans Receivable (Note 4)		79,399	74,230
Total Financial Assets	\$	89,725	\$ 87,790
Liabilities and Net Financial Assets			
Liabilities:			
General Revenue Fund Loan (Note 8)	\$	85,004	\$ 82,504
General Revenue Fund Interest Payable		645	505
Due to Royal Bank of Canada (Note 5)		642	954
Other Accounts Payable		151	130
Total Liabilities	\$	86,442	\$ 84,093
Net Financial Assets (Statement 2)	\$	3,283	\$ 3,697

See accompanying notes to financial statements

Statement 2

Saskatchewan Student Aid Fund
Statement of Operations and Changes in Net Financial Assets

For the Year Ended March 31	(thousands of dollars)		
	Budget (Note 11)	Actual 2014	Actual 2013
Revenue:			
Appropriation from the General Revenue Fund	\$ 34,500	\$ 30,400	\$ 33,000
Grant - Canada Student	1,400	1,349	1,518
Grant - Federal Transition	-	(6)	(128)
Interest Revenue from the General Revenue Fund	125	120	160
Interest on Student Loans	1,953	1,770	1,749
Loan Discount Amortization	1,485	1,460	1,391
Recovery of Bad Debt	150	188	184
Other Income	200	191	212
	\$ 39,813	\$ 35,472	\$ 38,086
Expense:			
Saskatchewan Student Bursaries	\$ 27,460	\$ 25,800	\$ 26,495
Low- and Middle- Income Student Grants	2,700	2,660	2,833
Student Grants for Persons with Dependants Age 12 to 18	724	504	703
Provincial Student Grants - Other	85	61	104
Bursaries and Scholarships	200	185	397
Canada Student Grants	1,400	1,071	1,527
Federal Transition Grants	-	-	(4)
Interest Grants to Students	1,800	1,907	1,361
Royal Bank Interest Differential	-	12	34
Repayment Assistance Plan	1,250	2,012	602
Nurses Loan Forgiveness	250	(8)	768
Permanent Disability/Death Benefit	131	178	184
Bad Debt Expense (Note 10)	3,168	(1,078)	1,172
Interest on General Revenue Fund Loan	2,280	2,247	1,866
Service Provider Costs	175	187	172
Collection Costs	190	148	187
	\$ 41,813	\$ 35,886	\$ 38,401
(Decrease) in Net Financial Assets for the Year	\$ (2,000)	\$ (414)	\$ (315)
Net Financial Assets, Beginning of Year	3,697	3,697	4,012
Net Financial Assets, End of Year - to Statement 1	\$ 1,697	\$ 3,283	\$ 3,697

See accompanying notes to financial statements

Statement 3

**Saskatchewan Student Aid Fund
Statement of Cash Flows**

For the Year Ended March 31	(thousands of dollars)	
	2014	2013
Cash Receipts from (used in) Operating Activities		
Receipts from General Revenue Fund	\$ 30,400	\$ 33,000
Receipts from Federal Government	1,857	1,431
Receipts from Student Loan Repayments Including Interest	17,700	17,509
Receipts of Bank Interest	140	152
Payment of Student Loan Disbursements	(52,075)	(51,919)
Payments to Royal Bank	(200)	(266)
Payments for Scholarships, Grants and Other Student Support	(1,481)	(2,170)
Payments of Interest on General Revenue Fund Loan	(2,107)	(1,821)
Payments of Service Provider Fees and Collection Costs	(317)	(376)
Total Operating	\$ (6,083)	\$ (4,460)
Cash Receipts from (used in) Financing Activities		
Receipts from General Revenue Fund Loan	\$ 53,000	\$ 53,000
General Revenue Fund Loan Repayments	(50,500)	(51,000)
Total Financing	\$ 2,500	\$ 2,000
Net (Decrease) in Due from General Revenue Fund	\$ (3,583)	\$ (2,460)
Due from General Revenue Fund, Beginning of Year	12,626	15,086
Due from General Revenue Fund, End of Year	\$ 9,043	\$ 12,626

See accompanying notes to financial statements

SASKATCHEWAN STUDENT AID FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

1. Authority

The Saskatchewan Student Aid Fund (the Fund) operates under the authority of *The Student Assistance and Student Aid Fund Act, 1985*. The primary purpose of the Fund is to support the Saskatchewan Student Loan Program. The Trustees of the Student Aid Fund administer the Fund.

2. Description of the Program

Under the terms of the Saskatchewan Student Loan Program, student loans are provided to qualifying individuals based on a determination of need. Loans are interest-free while the student is in full time studies and for a maximum of six months between periods of study. They become repayable on the first day of the seventh month following discontinuance of studies or graduation; however, interest begins to accrue on the first day of the first month following discontinuance of studies or graduation.

Program benefits, including maintenance of loans in interest-free status during periods of study, bursary and grant debt reduction benefits and debt management benefits, are tied to loan years, which commence August 1 and end July 31 of each year.

Provincial student loans managed through the Student Aid Fund consist of:

- loans financed by the Province issued prior to August 1, 1996;
- loans financed by Royal Bank during the period August 1, 1996 to July 31, 2001; and
- loans financed by the Province effective August 1, 2001, under the Canada-Saskatchewan Integration Agreement for the Administration of Federal and Provincial Student Loans.

Benefits of the Saskatchewan Student Loan Program are available to borrowers under all three program regimes.

For Canada-Saskatchewan integrated student loans issued under the Canada-Saskatchewan Integration Agreement for the Administration of Federal and Provincial Student Loans:

- the Ministry of Advanced Education (the Ministry) provides loan authorization for both Saskatchewan and Canada loans;
- an external agency (service provider) manages loan disbursement, administration and repayment; and
- the Government of Canada is responsible for the collection of bankrupt and defaulted loans.

3. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian public sector accounting standards. The following accounting policies are considered significant.

a) Accrual Basis

The financial statements are prepared on the accrual basis of accounting.

b) Revenues

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, eligibility criteria are met, and reasonable estimates of the amount can be made.

Interest on Student Loans and Interest Revenue from the General Revenue Fund are recorded when receivable.

Recovery of Bad Debt is recorded when received.

c) Expenses

Saskatchewan Student Bursaries, Low- and Middle-Income Student Grants and Student Grants for Persons with Dependents Age 12 to 18 are recorded as eligibility criteria are met by students over their period of study.

The Royal Bank Interest Differential, Repayment Assistance Plan, Nurses Loan Forgiveness, Permanent Disability/Death Benefit, and Bad Debt Expense are recorded based on estimates of expected utilization.

Interest Grants to Students reflect the cost of holding student loans in interest-free status during periods of study. The cost is recorded at the time of loan disbursement and amortized to revenue over the estimated interest-free term (Loan Discount Amortization).

Interest on General Revenue Fund Loan, Collection Costs and Service Provider Costs are recorded in the period that the expense was incurred.

Canada Student Grants, Federal Transition Grants, Provincial Student Grants – Other and Bursaries and Scholarships are expensed when approved and eligibility criteria are met.

d) Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Measurement uncertainty impacts Student Loans Receivable (Note 4) and Due to Royal Bank of Canada (Note 5).

e) Financial Instruments

The Fund's significant financial instruments consist of Due from General Revenue Fund, Accrued Interest, Other Receivables, Student Loans Receivable, General Revenue Fund Loan, General Revenue Fund Interest Payable, Due to Royal Bank of Canada and Other Accounts Payable.

Due from General Revenue Fund, Accrued Interest, Other Receivables, Other Accounts Payable, and General Revenue Fund Interest Payable are all short-term in nature and as such their carrying value approximates fair value.

The Student Loans Receivable, General Revenue Fund Loan and Due to Royal Bank of Canada are long-term in nature. As there is no market for selling or settling these assets or liabilities, the determination of the fair value of these assets and liabilities is not practicable. The General Revenue Fund Loan is carried at cost. Due to Royal Bank is carried at present value.

f) Student Loans Receivable

Student loans are carried at the amount advanced plus accrued interest. Simple interest is charged on loans following the interest-free in school period. Payments on loans are first applied to interest, then to outstanding principal.

For loans held by the Fund, allowances are deducted from loans receivable for the following:

- i) estimated uncollectible loans due to default on repayment, based on past collection experience;
- ii) the cost of holding student loans in interest-free status; and
- iii) estimated debt reduction and debt management benefits.

4. Student Loans Receivable

		(thousands of dollars)	
		2014	2013
	Loans outstanding, beginning of year	\$137,838	\$134,613
Add:	New loans during the year	52,076	51,921
	Legal Fees Added to Accounts Receivable	9	19
	Royal Bank buybacks	-	4
	Interest earned on student loans	2,048	2,038
Deduct:	Loan repayments net of payments on written off accounts	(18,209)	(17,367)
	Amounts authorized to reduce loans	(30,315)	(33,390)
	Loans written off ¹	-	-
	Gross student loans receivable, end of year	\$143,447	\$137,838
Deduct:	Allowance for Repayment Assistance Plan	(7,374)	(5,837)
	Allowance for Nurses Loan Forgiveness	(733)	(768)
	Allowance for Permanent Disability/Death	(640)	(553)
	Interest Grants to Students	(2,602)	(2,160)
	Federal Transition and Canada Study Grants Payable	-	(7)
	Student Bursaries Payable	(18,319)	(18,884)
	Low- and Middle-Income Student Grants Payable	(1,515)	(1,637)
	Student Grants for Borrowers with Dependants Age 12 – 18	(357)	(457)
	Allowance for Uncollectible Loans	(32,508)	(33,305)
	Student loans receivable, end of year	\$79,399	\$74,230

¹ In 2013-14, the Board of Revenue Commissioners approved approximately \$5,400 in provincial student loan write-offs. These write-offs are largely with respect to Canada/Saskatchewan integrated loans and have not been recorded pending completion of verification and reporting processes with Canada. The \$5,400 is included in Loans Outstanding however is fully allowed for in the Allowance for Uncollectible Loans; therefore, this outstanding transaction has no impact on the Student Loans Receivable balance.

Student Loans Receivable consist of amounts owing by borrowers for loans granted prior to the Canada-Saskatchewan Integration Agreement (2014 - \$0.158 million; 2013 - \$0.184 million), and subsequent to the Integration Agreement (2014 - \$143.283 million; 2013 - \$137.660 million), offset by debt reduction benefits payable, debt management benefits payable and the allowance for uncollectible loans.

Included in the amounts authorized to reduce loans are Student Bursaries, Low- and Middle-Income Student Grants and Student Grants for Persons with Dependents Age 12 – 18.

Variability in Student Loans Receivable

Estimation is a factor in the following offsets to Gross Student Loans Receivable:

Allowance for Repayment Assistance Plan

The allowance is an estimate of future costs based on projected prime rates of interest, projected months of repayment assistance utilization and estimates for program uptake.

Nurses Loan Forgiveness

The allowance is an estimate of future costs based on projected average debt levels and estimates of program uptake.

Allowance for Permanent Disability/Death Benefit

The allowance is an estimate of future costs based on estimates of program utilization in relation to projections of future average value of loans in study, loans in repayment and defaulted loans.

Interest Grants to Students

The benefit was calculated assuming that students remain in school for an average of three years, and applying the Fund's borrowing rate.

Allowance for Uncollectible Accounts

The Fund is exposed to losses in the event that borrowers default on repayment of their student loans. The Fund's maximum risk is represented by Gross Student Loans Receivable.

Management estimates are used to determine the dollar value of loans expected to be uncollectible. Interest income continues to be earned on all loans to the point of write-off. The recorded Allowance for Uncollectible Loans includes provision for interest income earned on impaired loans.

The allowances could reasonably be expected to fluctuate in the next twelve months as follows:

	(thousands of dollars)		
	2014		2013
	Actual	Range of Accruals	Actual
Allowance for Repayment Assistance Plan	\$ 7,374	\$4,700 to \$10,400	\$ 5,837
Allowance for Nurses Loan Forgiveness	\$ 733	\$400 to \$1,100	\$ 768
Allowance for Permanent Disability/Death	\$ 640	\$600 to \$700	\$ 553
Interest Grants to Students	\$ 2,602	n/a	\$ 2,160
Allowance for Uncollectible Loans	\$ 32,508	\$30,900 to \$34,200	\$ 33,305

5. Due to Royal Bank of Canada

The Fund estimates amounts due to Royal Bank. Estimation is a factor in the following:

Repayment Assistance Plan is estimated based on projections of prime rates of interest, projected months of repayment assistance utilization and value of loans on Repayment Assistance.

2.5% Interest Differential is estimated based on projections of outstanding loan balances and projections of borrowers who will make required payments.

Permanent Disability/Death Benefit is estimated based on an historical analysis of past claims and projected future loan values.

These allowances could reasonably be expected to fluctuate in the next twelve months as follows:

	(thousands of dollars)		
	2014		2013
	Actual	Range of Accruals	Actual
Repayment Assistance Plan	\$ 472	\$330 to \$670	\$ 686
2.5% Interest Differential	\$ 124	\$100 to \$140	\$ 199
Permanent Disability/Death	\$ 11	\$2 to \$20	\$ 29
Other Payables	\$ 35	n/a	\$ 40
Due to Royal Bank of Canada	\$ 642		\$ 954

6. Financial Instruments and Risk Management

Through its financial assets and liabilities, the Fund is exposed to various risks.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge their responsibilities with respect to the financial instrument, and in so doing, cause a loss for the other party. For the Fund, credit risk is significant with respect to potential non-repayment of student loans.

Mitigation processes aimed at minimizing credit losses begin with procedures that support the granting of loans and are ongoing throughout the loan life cycle such as conducting credit checks, providing repayment support to low-income borrowers, and undertaking well defined procedures for addressing loan delinquencies.

Loans are interest-free during periods of study and become repayable on the first day of the seventh month after graduation or discontinuation of study. The Fund's maximum risk is represented by Gross Student Loans Receivable detailed in Note 4.

The following table sets out details of Gross Student Loans Receivable and allowance for uncollectible loans:

	(thousands of dollars)	
	2014	2013
Loans in Study (no payments due)	74,727	70,754
Loans in Repayment:		
Current or Receiving Debt Management Benefits	42,875	40,372
Up to 270 Days Past Due (Delinquent)	2,584	3,716
Over 270 Days Past Due (Default)	23,261	22,996
Subtotal – Loans in Repayment *	68,720	67,084
Total – Gross Student Loans Receivable	143,447	137,838
Allowance for Uncollectible Loans – Ending Balance	(32,508)	(33,305)
Debt reduction and debt management benefits payable	(31,540)	(30,303)
Net Student Loans Receivable	79,399	74,230

*Includes principal and outstanding accrued interest.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Loans in repayment and General Revenue Fund Loan are subject to interest rate risk related to repayment terms.

For Loans in repayment, the current portfolios have effective interest rates of 3.00% to 6.75% (2013 – 3.00% to 7.25%). Interest rates are charged pursuant to *The Student Assistance and Student Aid Fund Regulations, 2001* and *The Saskatchewan Student Direct Loans Regulations*.

For the majority of loans held by the Fund, interest rates are set at the option of the student either at a floating rate or a fixed rate at the time of loan consolidation. The floating rate is equal to prime and the fixed rate equal to prime plus 2.5%.

Interest Rates for consolidated loans are as follows:

	(thousands of dollars)	
	2014	2013
Interest Rate	Total Balance	Total Balance
3% - 3.9%	\$65,168	\$63,413
4% - 4.9%	22	35
5% - 5.9%	37	48
6% - 6.9%	75	83
7.0% - 7.9%	0	1
Principal Portion of Loans in Repayment	\$65,302	\$63,580

The total interest revenue earned on loans in repayment is a small portion of the Fund's total revenue. Changes in interest rates and the resultant increase or decrease in Interest on Student Loans revenue are managed within the Fund's finances or, if necessary, through changes in the appropriation from the General Revenue Fund.

Interest rates for the General Revenue Fund loan are adjusted quarterly and reflect the Province's eight year cost of borrowing. Resources to manage the cost of borrowing are provided to the Fund through an annual appropriation. Variations in interest rates are managed within the Fund's finances or, if necessary, through changes in the appropriation from the General Revenue Fund.

Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting financial obligations as they fall due. Management undertakes regular cash flow analyses to ensure that there are sufficient cash resources to meet all obligations. Further, the Fund's liquidity risk is minimal as the Fund's bank accounts are supported by the Province of Saskatchewan.

7. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid quarterly by the General Revenue Fund to the Fund using the General Revenue Fund's thirty day borrowing rate and the Fund's average daily bank account balances.

8. General Revenue Fund Loan

Effective August 1, 2001, the Province assumed responsibility for the financing of student loans. A loan from the General Revenue Fund is provided to the Student Aid Fund to support this role.

The interest rate charged on the General Revenue Fund Loan is at the Province's eight year cost of borrowing. The Province's average eight year cost of borrowing rate for 2014 was 2.925% (2013 – 2.475%). Under the terms of the loan agreement, the Student Aid Fund makes quarterly loan payments to the General Revenue Fund. The dollar amount of required loan payment is calculated as the sum of debt reduction benefits applied against student loans, the principal portion of student payments received by the Saskatchewan Student Aid Fund and accounts written off.

9. Related Party Transactions

In accordance with established government practice, all administrative and occupancy costs are paid by the Ministry. Accordingly, no provision for these costs is reflected in these financial statements. Costs paid to other government agencies for loan collection services are paid by the Fund. Other related party transactions are disclosed separately in these financial statements.

10. Change in Accounting Estimate – Allowance for Uncollectible Loans

The methodology used to determine the Allowance for Uncollectible Loans for the Canada/Saskatchewan integrated portfolio has been changed to recognize loans at different stages (i.e., in school, in repayment and in default). The new methodology uses historical information on loan delinquencies and default collection as well as management's judgement to gauge expected bad debts for each loan grouping. Previously, a single net default rate was applied to the portfolio's total net loan disbursements to calculate the required Allowance for Uncollectible Loans.

The change has been accounted for prospectively and results in a \$2.017 million decrease in both the Allowance for Uncollectible Loans and Bad Debt Expense in the current year.

11. Budget

The operating budget was approved by the Trustees of the Student Aid Fund on May 3, 2013.