

Holland College
Consolidated Financial Statements
For the Year Ended March 31, 2020

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For the Year Ended March 31, 2020

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Independent Auditor's Report

To the Board of Governors of Holland College

Opinion

We have audited the consolidated financial statements of Holland College (the "College"), which comprise the consolidated statement of financial position as at March 31, 2020, the consolidated statements of operations, changes in net deficit and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the College as at March 31, 2020, and its consolidated results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Prior Period Adjustment

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for March 31, 2019 has been restated. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the College's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the College to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the College to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

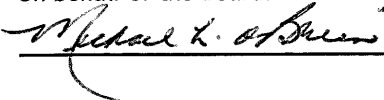
Chartered Professional Accountants

Charlottetown, Prince Edward Island
July 28, 2020

Holland College Consolidated Statement of Financial Position

March 31	2020	Restated (Note 2) 2019
Assets		
Current		
Cash	\$ 5,308,877	\$ 523,407
Receivables (Note 3)	14,713,106	16,904,021
Inventory	856,794	847,331
Prepaid expenses	267,877	315,011
	21,146,654	18,589,770
Due from subsidiary (Note 4)	684,625	672,026
Investment in subsidiary (Note 4)	-	19,401
Capital assets (Note 5)	84,614,143	88,479,055
	\$ 106,445,422	\$ 107,760,252
Liabilities, Deferred Contributions and Net Deficit		
Current		
Payables and accruals (Note 6)	\$ 5,092,616	\$ 4,616,742
Deferred revenue	5,195,954	4,421,075
Accrued vacation pay	3,114,054	3,020,516
Scheduled cash repayments for long-term debt (Note 7)	3,531,000	3,479,000
	16,933,624	15,537,333
Share of net loss in subsidiary (Note 4)	49,881	-
Retirement obligations	5,537,300	5,229,100
Long-term debt (Note 7)	38,755,000	41,549,000
Derivatives (Note 8)	5,311,816	2,928,840
Deferred contributions (Note 9)	30,331,652	31,099,158
Accrued pension liability (Note 10)	30,111,500	14,927,900
	127,030,773	111,271,331
Net Deficit		
Invested in capital assets (Note 11)	12,091,191	11,938,508
Internally restricted for future capital purchases	389,627	537,250
Deficit	(33,066,169)	(15,986,837)
	(20,585,351)	(3,511,079)
	\$ 106,445,422	\$ 107,760,252

Commitments (Note 14)
Subsequent event (Note 18)
On behalf of the Board:



Governor



Governor

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

Holland College Consolidated Statement of Changes in Net Deficit

For the year ended March 31	Invested in capital assets	Internally restricted for future property and equipment purchases	Accumulated operating deficit	2020 Total	2019 Total
Balance, beginning of the year	\$ 11,938,508	\$ 537,250	\$ (15,986,837)	\$ (3,511,079)	\$ (6,840,846)
Prior period adjustment (Note 2)	-	-	-	-	7,631,000
Balance, beginning of the year, as restated	11,938,508	537,250	(15,986,837)	(3,511,079)	790,154
Deficiency of revenues over expenses	-	-	(2,904,450)	(2,904,450)	(1,543,468)
Net change in investment in capital assets	143,505	-	(143,505)	-	-
Net change in internally restricted for future capital asset purchases	-	(147,623)	147,623	-	-
Pension remeasurements (Note 2)	-	-	(14,179,000)	(14,179,000)	(2,766,500)
Capital grant for land	9,178	-	-	9,178	8,735
Balance, end of the year	\$ 12,091,191	\$ 389,627	\$ (33,066,169)	\$ (20,585,351)	\$ (3,511,079)

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

Holland College Consolidated Statement of Operations

For the year ended March 31	2020	Restated (Note 2) 2019
Revenue		
Grants		
Province of Prince Edward Island	\$ 20,967,314	\$ 20,369,731
Other grants	4,849,084	3,983,998
Student fees	22,075,986	20,748,676
Contract training	14,145,457	11,144,970
Sales, recoveries and incidentals	4,713,064	5,126,421
Amortization of deferred contributions	2,893,397	3,098,155
	69,644,302	64,471,951
Operating expenses		
Amortization	4,296,257	4,526,878
Maintenance, insurance and property taxes	1,414,667	1,358,479
Other operating costs (Note 12)	7,303,562	6,585,001
Purchases for resale	3,326,127	2,523,265
Rentals	2,341,143	1,269,721
Salaries and benefits	40,880,790	38,694,792
Texts, materials and supplies	2,653,011	2,709,206
Travel	1,391,309	1,253,472
Utilities	3,129,428	3,183,476
	66,736,294	62,104,290
Excess of revenue over expenses before the undernoted	2,908,008	2,367,661
Investment loss - equity method	(69,282)	(18,306)
Pension expense (Note 10)	(3,360,200)	(2,940,800)
Change in carrying value of derivatives	(2,382,976)	(952,023)
	(5,812,458)	(3,911,129)
Deficiency of revenue over expenses	\$ (2,904,450)	\$ (1,543,468)

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

Holland College Consolidated Statement of Cash Flows

For the year ended March 31	2020	Restated (Note 2) 2019
Cash flows from operating activities		
Deficiency of revenue over expenses	\$ (2,904,450)	\$ (1,543,468)
Items not affecting cash:		
Amortization of capital assets and program development	4,296,257	4,526,878
Amortization of deferred contributions	(2,893,397)	(3,098,155)
Change in investment in subsidiary - equity method	69,282	18,306
Pension remeasurements and other items	(14,179,000)	4,864,500
Change in carrying value of derivatives	2,382,976	952,023
Changes in non-cash working capital:		
Decrease in accounts receivable	2,190,915	907,194
Increase in inventory	(9,462)	(101,440)
Decrease in prepaids	47,135	8,949
Increase (decrease) in payables and accruals	475,871	(1,182,484)
Increase in deferred revenue	774,879	1,209,452
Increase (decrease) in accrued vacation pay	93,538	(103,493)
Increase in retirement obligations	308,200	260,800
Increase (decrease) in pension liability	15,183,600	(3,951,300)
	5,836,344	2,767,762
Cash flows from investing activities		
Acquisition of capital assets	(431,344)	(7,632,188)
Increase in due from subsidiary	(12,599)	(22,044)
	(443,943)	(7,654,232)
Cash flows from financing activities		
Repayment of long-term debt	(3,353,000)	(2,977,000)
Proceeds from long-term debt	611,000	12,470,000
Repayment of short-term debt	-	(9,149,107)
Capital grant for land	9,178	8,735
Increase in deferred contributions - capital assets	370,424	1,814,949
Contributions - debt servicing	1,755,467	1,837,218
	(606,931)	4,004,795
Net increase (decrease) in cash	4,785,470	(881,675)
Cash, beginning of the year	523,407	1,405,082
Cash, end of the year	\$ 5,308,877	\$ 523,407

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

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

1. Significant Accounting Policies

Nature and Purpose of Organization	Holland College (the "College") is incorporated under the Holland College Act of the Province of Prince Edward Island. Dedicated to excellence in performance, the College stands committed to providing quality life-long learning opportunities to support learner, industry and community development. The College is a registered charity under the Canadian Income Tax Act and accordingly, is exempt from income taxes, provided certain requirements of the Act are met.
Basis of Consolidation	<p>The financial statements include the accounts of the College's wholly owned subsidiaries, ATHI Enterprises Inc. and P.E.I. Institute of Adult & Community Education Inc.</p> <p>The College does not consolidate Holland College Foundation Inc. which operates under its control. Supplementary information on this entity is disclosed in Note 13.</p> <p>The College accounts for its investment in a wholly owned for-profit subsidiary, Justice Knowledge Network Inc. using the equity method. Supplementary information on this entity is disclosed in Note 4.</p> <p>The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.</p>
Cash	Cash consists of cash on hand and cash on deposit at financial institutions. Included in cash at year end is \$460,108 (2019 - \$541,915) held in Chinese renminbis.
Inventory	Inventory is valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

1. Significant Accounting Policies (continued)

Impairment of Long-lived Assets

In the event that facts and circumstances indicate that the College's long-lived assets may be impaired, a test of recoverability would be performed.

Such a test entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required.

For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the College's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Buildings	2.5%
Major building alterations	5%
Equipment	20%
Parking lots	5%

Capital assets under construction are not amortized until completion.

Vacation Pay

Vacation pay is accrued for all employees as entitlements to these benefits are earned in accordance with various employment agreements.

Holland College Notes to Consolidated Financial Statements

March 31, 2020

1. Significant Accounting Policies (continued)

Pension Plan

The College maintains a contributory defined-benefit pension plan which covers substantially all of its employees. The benefits are determined using a career average formula for service accrued subsequently to January 1, 2007 and best average formula for service accrued prior to that date. The defined benefit obligation is determined using an actuarial valuation prepared for funding purposes. Pension fund assets are measured at fair value at the statement of financial position date. The total cost of the defined benefit plan for the period is comprised of the current service cost, finance cost, and remeasurements and other items. The current service cost and finance cost are charged to operations for the period, while remeasurements and other items are charged directly to net assets as they occur.

Retirement Obligations

Certain obligations have been valued using actuarial estimates. Other obligations are recorded as an expense and accrued in the period an employee retires.

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

1. Significant Accounting Policies (continued)

Revenue Recognition

The College follows the deferral method of accounting for contributions, which include donations and government grants.

Operating grants are recognized in the period when received. Operating grants received for a future period are reported as deferred income, until that future period, when they are transferred to revenue. Contributions restricted for the purchase of capital assets and program development costs are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for related assets.

Operating grants recognized in the year in lieu of facility leases are recorded as a reduction to rental expense.

Amounts received for student fees, contract training and sale of goods and services are classified as deferred revenue and are recognized at the time the goods are delivered or the services provided. Amounts received as compensation from foreign operations are recognized as earned at the time of transfer or when the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Land contributed at no financial cost is recorded at fair market value with a direct increase to equity in the form of investment in capital assets.

Financial Instruments

Financial instruments are recorded at fair value at initial recognition.

In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any change in fair value reported in income. All other financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist.

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

1. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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 revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Significant estimates made by management in the preparation of these financials include:

- Amounts recorded for provision for doubtful accounts receivable which depend on estimates of the expected recoverability of such amounts;
- The estimated useful lives of assets and the resulting estimates for depreciation expense; and
- The pension obligation, determined based upon an actuarial valuation, includes critical assumptions for discount rates, investment performance, terminations and mortality rates. These estimates may change and as a result, a change in the amount of the pension obligation recognized may be required.

Foreign Currency Translation

The College has a relationship with nine foreign educational institutions located in China. The compensation derived from this relationship is in the form of a portion of tuition fees collected by the institutions. Revenue generated is recorded in the Canadian dollar equivalent at the time of transfer of such funds to the College or when the amount to be received can be reasonably estimated and collection is reasonably assured. Surplus funds generated from prior arrangements are adjusted to the Canadian dollar equivalent on a monthly basis at the month end rate.

Holland College Notes to Consolidated Financial Statements

March 31, 2020

2. Prior Period Adjustment

During the year, management became aware of an error in the calculation of the College's contributory defined-benefit pension plan. The error was a result of the omission of certain plan assets in determining the defined benefit obligation. Consequently, a prior period adjustment has been made to restate the comparative figures as follows:

	Previously stated	Adjustment	Restated
Accrued pension liability	(26,466,300)	11,538,400	(14,927,900)
Deficiency of revenue over expenses	(2,001,368)	457,900	(1,543,468)
Pension remeasurements	(6,216,000)	3,449,500	(2,766,500)
Opening accumulated operating deficit	(6,840,846)	7,631,000	790,154

3. Receivables

	2020	2019
Trade	\$ 13,627,509	\$ 15,292,575
Related party (Note 13)	1,045,365	1,519,385
HST receivable	40,232	92,061
	<u>\$ 14,713,106</u>	<u>\$ 16,904,021</u>

Trade receivables are recorded net of an impairment allowance of \$449,732 (2019 - \$296,608).

Amounts due from related party relate to amounts from Holland College Foundation Inc. Included in related party receivables is a contribution receivable in the amount of \$800,000 (2019 - \$900,000) which will be received in annual \$100,000 installments.

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

4. Investment in Subsidiary

The College controls Justice Knowledge Network Inc. ("JKN") by virtue of its 100% ownership of the common shares of the company. JKN is a for-profit company incorporated under the Companies Act of Prince Edward Island and commenced operations on April 1, 2013.

JKN has not been consolidated in the College's financial statements, as the College has chosen to account for its investment in this subsidiary using the equity method. Financial statements of JKN are available upon request. A financial summary of this non-consolidated entity as at March 31, 2020 and 2019 and for the years then ended is as follows:

	2020	2019
Balance sheet:		
Total assets	\$ 969,811	\$ 1,050,707
Total liabilities	1,016,292	1,027,906
Total net shareholder's (deficiency) equity	\$ (46,481)	\$ 22,801

As at March 31, 2020, \$684,625 (2019 - \$672,026) was owing to the College. These amounts have arisen as a result of funds advanced to JKN to finance operating expenditures. These transactions have been measured at the exchange value, which is the amount agreed to by the related parties.

	2020	2019
Results of operations:		
Total revenue	\$ 2,025,540	\$ 2,034,104
Total expenses	2,094,822	2,052,410
Net loss	\$ (69,282)	\$ (18,306)

	2020	2019
Cash flows:		
Cash (used in) from operations	\$ (115,815)	\$ 294,762
Cash used in investing activities	(29,708)	(12,188)
Cash used in financing activities	(13,824)	-
Net (decrease) increase in cash	\$ (159,347)	\$ 282,574

Holland College
Notes to Consolidated Financial Statements

March 31, 2020

5. Capital Assets

	2020		2019	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 7,607,704	\$ -	\$ 7,607,704	\$ -
Buildings	89,077,370	23,344,567	88,952,090	21,117,630
Major building alterations	23,794,962	15,566,580	23,794,962	14,850,352
Equipment	18,458,623	15,810,418	19,683,281	16,002,986
Parking lots	597,492	200,443	597,492	185,506
	139,536,151	54,922,008	140,635,529	52,156,474
Net book value of capital assets	\$ 84,614,143		\$ 88,479,055	

The College operates certain instruction and administration functions out of facilities owned by the Province of Prince Edward Island and other leased facilities. These facilities are not reflected in these financial statements. Major building alterations relate to the cost of betterments and improvements incurred by the College at these facilities.

6. Payables and Accruals

	2020	2019
Trade	\$ 3,655,175	\$ 3,419,137
Accrued payroll	1,437,441	1,197,605
	\$ 5,092,616	\$ 4,616,742

Holland College Notes to Consolidated Financial Statements

March 31, 2020

7. Long-term Debt

	2020	2019
Royal Bank of Canada, interest rate swap contract, 2.60%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 21 years ending on July 2, 2038	\$ 12,294,000	\$ 12,754,000
Royal Bank of Canada, interest rate swap contract, 2.59%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on February 3, 2032	5,597,000	5,982,000
Royal Bank of Canada, interest rate swap contract, 4.49%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on April 30, 2030	5,374,000	5,767,000
Royal Bank of Canada, interest rate swap contract, 2.94%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on August 26, 2031	3,920,000	4,195,000
Royal Bank of Canada, interest rate swap contract, 4.12%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on June 15, 2030	3,405,000	3,659,000

Holland College
Notes to Consolidated Financial Statements

March 31, 2020

7. Long-term Debt (continued)

Royal Bank of Canada, interest rate swap contract, 4.14%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on September 30, 2023	2,975,000	3,752,000
Royal Bank of Canada, interest rate swap contract, 2.91%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 15 years ending on February 3, 2030	2,400,000	2,601,000
Royal Bank of Canada, interest rate swap contract, 4.47%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on June 20, 2025	1,675,000	1,770,000
Royal Bank of Canada, interest rate swap contract, 2.54%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 10 years, due January 3, 2025	1,248,000	1,485,000
Royal Bank of Canada, interest rate swap contract, 2.29%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on September 10, 2035	1,072,000	1,125,000
Royal Bank of Canada, interest rate swap contract, 2.85%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on March 19, 2032	996,000	1,065,000

Holland College Notes to Consolidated Financial Statements

March 31, 2020

7. Long-term Debt (continued)

Royal Bank of Canada, interest rate swap contract, 2.45%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 10 years ending on October 25, 2027	735,000	768,000
Royal Bank of Canada, interest rate swap contract, 2.15%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on July 5, 2039	595,000	-
Royal Bank of Canada, interest rate swap contract, repaid during the year	-	105,000
	42,286,000	45,028,000
Current portion of long-term debt	(3,531,000)	(3,479,000)
Long-term portion of debt	\$ 38,755,000	\$ 41,549,000

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2020 are as follows: 2021 - \$3,531,000; 2022 - \$3,668,000; 2023 - \$3,809,000.; 2024 - \$3,464,000; and 2025 - \$3,118,000.

Included in other operating costs is interest on long-term debt in the amount of \$1,516,242 (2019 - \$1,666,372).

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

8. Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, commodity prices or other financial measures. Such instruments include interest rate, foreign exchange and commodity contracts. The College utilizes interest rate swap contracts to manage the risks associated with its financing activities.

The College has entered into various interest rate swap agreements ("swaps") with the Royal Bank of Canada. The College obtains quotes from the Royal Bank of Canada to determine the mark-to-market or break value of the swap loans as of March 31, 2020 and 2019 and these values are used to determine the fair value of the swap loans as detailed below. Under the terms of the swaps, the College pays fixed interest quarterly and receives interest at the 30-day Bankers Acceptance rate.

	As at March 31, 2020		As at March 31, 2019	
	Notional amount	Fair value favourable (unfavourable)	Notional amount	Fair value favourable (unfavourable)
2.60% fixed, maturing July 2038	\$ 12,294,000	\$ (1,599,599)	\$ 12,754,000	\$ (488,343)
2.59% fixed, maturing February 2032	5,597,000	(534,936)	5,982,000	(222,160)
4.49% fixed, maturing April 2030	5,374,000	(1,015,135)	5,767,000	(828,149)
2.94% fixed, maturing August 2031	3,920,000	(185,251)	4,195,000	(244,794)
4.12% fixed, maturing June 2030	2,975,000	(580,176)	3,752,000	(196,763)
4.14% fixed, maturing September 2023	3,405,000	(446,773)	3,659,000	(451,558)
2.91% fixed, maturing February 2030	2,400,000	(237,808)	2,601,000	(134,833)
4.47% fixed, maturing June 2025	1,675,000	(331,347)	1,770,000	(235,912)
2.54% fixed, maturing January 2025	1,248,000	(53,390)	1,485,000	(29,232)
2.29% fixed, maturing September 2035	1,072,000	(99,205)	1,125,000	(17,511)
2.85% fixed, maturing March 2032	996,000	(111,491)	1,065,000	(57,155)
2.45% fixed, maturing October 2027	735,000	(62,528)	768,000	(22,010)
2.15% fixed, maturing July 2039	595,000	(54,177)	-	-
3.15% fixed, matured October 2019	-	-	105,000	(420)
	\$ 42,286,000	\$ (5,311,816)	\$ 45,028,000	\$ (2,928,840)

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

9. Deferred Contributions

Deferred contributions represent the unamortized amount of grants, contributions and lease inducements received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2020	2019
Beginning balance	\$ 31,099,158	\$ 30,545,146
Add:		
Contributions - capital assets	370,424	1,814,949
Contributions - debt servicing	1,755,467	1,837,218
Total contributions	2,125,891	3,652,167
Less:		
Amounts amortized to revenue - capital assets	(2,015,086)	(2,215,725)
Amounts amortized to revenue - debt servicing	(878,311)	(882,430)
Total amounts amortized to revenue	(2,893,397)	(3,098,155)
	\$ 30,331,652	\$ 31,099,158

10. Pension Plan

The College maintains a contributory defined-benefit pension plan which covers substantially all of its employees. The pension plan provides benefits based on the length of service and average earnings. Average earnings is determined using career average formula for service subsequent to January 1, 2007 and best average formula for service prior to that date.

The accrued benefit obligation is determined by independent actuaries. The last actuarial valuation was determined as of December 31, 2018.

The College changed its pension plan structure for new entrants commencing April 1, 2015. The new pension plan structure differs from the existing pension plan for individuals enrolled prior to this date as it incorporates several different attributes used in determining the College's pension liability. In addition, pension benefits for new members joining on or after April 1, 2015 will not be indexed to inflation. Individuals enrolled prior to April 1, 2015 will continue under the existing plan and will be entitled to benefits as previously determined.

Pension plan assets are held in trust and are not available for operating purposes of the College. Information about the College's defined-benefit plan is as follows:

Holland College Notes to Consolidated Financial Statements

March 31, 2020

10. Pension Plan (continued)

	2020	Restated (Note 2) 2019
Change in benefit obligation:		
Benefit obligation - beginning of the year	\$ 149,466,700	\$ 144,316,300
Current service cost	2,046,500	1,951,000
Employees contributions	1,993,900	1,897,600
Interest cost on defined benefit obligation	8,942,700	8,643,000
Benefit payments	(7,762,900)	(7,341,200)
Actuarial loss	(468,300)	-
	\$ 154,218,600	\$ 149,466,700
 Change in plan assets:		
Fair value of plan assets - beginning of the year	\$ 134,538,800	\$ 133,068,100
Interest income on plan assets	7,932,000	7,856,900
Administration costs	(303,000)	(203,700)
Employer contributions	2,053,400	1,924,600
Estimated employee contributions and past service cost	1,993,900	1,897,600
Actuarial loss on plan assets	(14,345,100)	(2,663,500)
Benefits paid	(7,762,900)	(7,341,200)
	\$ 124,107,100	\$ 134,538,800

The College's pension plan assets have been significantly impacted by COVID-19 due to the ongoing market volatility. Although this is expected to be temporary, the period over which the assets will recover is unknown (Note 18).

Holland College
Notes to Consolidated Financial Statements

March 31, 2020

10. Pension Plan (continued)

	2020	2019
Reconciliation of funded status:		
Present value of defined benefit obligation	\$(154,218,600)	\$(149,466,700)
Fair value of plan assets	124,107,100	134,538,800
Accrued benefit liability	\$ (30,111,500)	\$ (14,927,900)
 Net expense:		
Current service cost (employer)	\$ 2,046,500	\$ 1,951,000
Administration costs	303,000	203,700
Interest income on plan assets	(7,932,000)	(7,856,900)
Interest cost on defined benefit obligation	8,942,700	8,643,000
Net expense	\$ 3,360,200	\$ 2,940,800
 Significant actuarial assumptions:		
<hr/>		
Expected long-term rate of return on plan assets		
Members prior to April 1, 2015	5.85%	6.00%
Members on or after April 1, 2015	5.00%	5.00%
Rate of increase in future compensation	3.00%	3.00%

Holland College Notes to Consolidated Financial Statements

March 31, 2020

11. Investment in Capital Assets

(a) Investment in capital assets is calculated as follows:

	2020	2019
Capital assets	\$ 84,614,143	\$ 88,479,055
Add: accumulative direct increase to net assets	94,700	85,523
Amounts financed by:		
Deferred contributions - capital assets	(30,331,652)	(31,099,158)
Long-term debt	(42,286,000)	(45,028,000)
Purchases to be financed from future borrowings	-	(498,912)
	\$ 12,091,191	\$ 11,938,508

(b) Net change in investment in capital assets:

	2020	2019
Purchase of capital assets	\$ 431,344	\$ 7,632,188
Amounts funded by:		
Deferred contributions	(370,424)	(1,814,949)
Purchases to be financed from future borrowings	-	(498,912)
Prior year purchases financed in current year	498,912	1,417,860
Issuance of long-term debt	(611,000)	(12,470,000)
Repayment of short-term debt	-	9,149,107
Repayment of long-term debt	3,353,000	2,977,000
Contributions - debt servicing	(1,755,467)	(1,837,218)
Amortization of deferred contributions - capital	2,015,086	2,215,725
Amortization of deferred contributions - debt servicing	878,311	882,430
Amortization of capital assets	(4,296,257)	(4,526,878)
Temporary financing repaid during the year	-	(1,757,387)
	\$ 143,505	\$ 1,368,966

Holland College
Notes to Consolidated Financial Statements

March 31, 2020

12. Other Operating Costs

	<u>2020</u>	<u>2019</u>
Advertising	\$ 526,062	\$ 486,405
Bad debt expense	210,373	339,913
Contract services	1,115,560	1,104,111
Graduation	101,442	132,088
Interest on long-term debt	1,516,242	1,666,372
Lab fees	336,702	271,231
Laundry	87,979	103,698
Legal	70,942	70,247
Membership fees	114,674	112,560
Photocopy	251,993	262,618
Postage	42,043	47,765
Provider fees	924,152	477,047
Registrations and maintenance fees	209,647	203,361
Software	842,913	671,548
Staff development	149,486	154,245
Study tour costs	45,109	81,904
Other	758,243	399,888
	<u>\$ 7,303,562</u>	<u>\$ 6,585,001</u>

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

13. Related Entity

The College controls Holland College Foundation Inc. (the "Foundation"). The Foundation raises funds from the community. The Foundation is incorporated under the laws of the Province of Prince Edward Island and is a registered charity under the Income Tax Act. All resources of the Foundation must be provided for the benefit of the College or its students.

The Foundation has not been consolidated in the College's financial statements. Financial statements of the Foundation are available upon request. A financial summary of this non-consolidated entity as at March 31, 2020 and 2019 and for the years then ended is as follows:

	2020	2019
Balance sheet:		
Total assets	\$ 7,733,292	\$ 8,026,544
Total liabilities	217,213	307,372
Total net assets	\$ 7,516,079	\$ 7,719,172

(1) All of the Foundation's net assets must be provided to or used for the benefit of the College or its students. In accordance with donor imposed restrictions, \$89,376 (2019 - \$111,490) of the Foundation's net assets must be used to purchase capital assets for the College. \$5,954,158 (2019 - \$6,219,442) of the Foundation's net assets are subject to donor imposed restrictions that they be maintained permanently with investment revenue earned to be used for scholarships and bursaries for College students. At year end, amounts owing to the College related to outstanding donations committed to the College as of year end as well as fundraising costs associated with the capital campaign (see Note 13 (2)) that were financed by the College and will be repaid from future fundraising initiatives.

	2020	2019
Results of operations:		
Total revenue (Note 13 (2))	\$ 1,497,431	\$ 1,691,483
Total expenses (Note 13 (2))	1,667,896	1,523,726
Excess (deficiency) of revenue over expenses	\$ (170,465)	\$ 167,757

Holland College Notes to Consolidated Financial Statements

March 31, 2020

13. Related Entity (continued)

(2) During the year, the College paid a grant totaling \$377,607 (2019 - \$382,750) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized losses of \$410,235 (2019 - \$110,607) on long-term investments during the 2020 fiscal year. During the year, the College received \$271,564 (2019 - \$445,720) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College \$1,008,863 (2019 - \$1,293,656), representing project funds approved for release to the College and fundraising costs.

14. Commitments

The College has operating leases for multiple locations across Prince Edward Island. Further, the College also signed several long-term service agreements pertaining to equipment and software maintenance. The minimum annual lease and service contract payments for the next five years are as follows:

2021	\$	926,173
2022		663,151
2023		580,986
2024		481,839
2025		<u>477,652</u>
	\$	<u>3,129,801</u>

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

15. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The College is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The College's financial instruments that are exposed to concentrations of credit risk relate primarily to accounts receivable. Of the College's \$13,965,440 in trade receivables, government agencies accounted for 73%. The majority of the College's receivables are from government sources and the College works to ensure they meet all eligibility criteria in order to qualify to receive the funding. The risk related to receivables, other than from government sources, has increased from the prior year as a result of the COVID-19 outbreak (Note 18).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The College is exposed to interest rate risk through its long-term debt obligations which are issued with floating interest rates. To manage its current and anticipated exposure to interest rate risks, the College has entered into thirteen (2019 - thirteen) interest rate swap contracts whereby it has fixed the interest rate on a total of \$42,286,000 (2018 - \$45,028,000) of notional principal against the floating interest position assumed by the Royal Bank of Canada. The carrying value for the swap contracts is the notional principal noted above. The swap contracts have effective interest rates and maturity dates as disclosed in Note 8.

16. Contingent Liability

The College has provided a guarantee on an operating loan, available to a maximum of \$200,000 held by Justice Knowledge Network Inc. ("JKN"), a wholly-owned subsidiary of the College. The operating loan is being used to finance operations of JKN and is unsecured. As of March 31, 2020, JKN had utilized \$ Nil (2019 - \$Nil) of this facility.

17. Comparative Figures

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

Holland College

Notes to Consolidated Financial Statements

March 31, 2020

18. Subsequent Event

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic, which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus, including the announcement of a state of emergency on the Province of Prince Edward Island on March 22, 2020. The College closed campus, with the exception of residences, effective March 17, 2020 in response to the COVID-19 outbreak. For the upcoming fall semester, courses and programming will be offered with a mix of both face-to-face and distance learning. Several programs have been cancelled resulting in staff layoffs and the College is expecting a decline in enrolments. The College has incurred costs in relation to COVID-19 which is expected to be partially funded by way of Federal and Provincial grants. Although registrations have not yet been significantly impacted, as of the date of issuing the financial statements, the ongoing duration and impact of COVID-19 is unknown and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the College in future fiscal years.
