

**Holland College
Consolidated Financial Statements
For the Year Ended March 31, 2021**

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Consolidated Financial Statements
For the Year Ended March 31, 2021

Contents

Independent Auditor's Report	1 - 3
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Operations	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 28



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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, 2021, the consolidated statements of operations, changes in net assets 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, 2021, 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.

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.

BDO Canada LLP

Chartered Professional Accountants

Charlottetown, Prince Edward Island
July 14, 2021

Holland College
Consolidated Statement of Financial Position

March 31	2021	2020
Assets		
Current		
Cash	\$ 7,651,659	\$ 5,308,877
Receivables (Note 2)	15,911,358	14,713,106
Inventory	662,122	856,794
Prepaid expenses	196,909	267,877
	24,422,048	21,146,654
Long term receivable (Note 3)	440,411	684,625
Capital assets (Note 4)	83,276,530	84,614,143
	\$ 108,138,989	\$ 106,445,422
Liabilities		
Current		
Payables and accruals (Note 5)	\$ 7,065,248	\$ 5,092,616
Deferred revenue	6,088,412	5,195,954
Accrued vacation pay	3,616,621	3,114,054
Current portion of long-term debt (Note 6)	3,668,000	3,531,000
	20,438,281	16,933,624
Investment in subsidiary (Note 3)	-	49,881
Retirement obligations	5,783,200	5,537,300
Long-term debt (Note 6)	35,225,000	38,755,000
Derivatives (Note 7)	2,692,432	5,311,816
Deferred contributions (Note 8)	30,786,856	30,331,652
Accrued pension liability (Note 9)	9,939,400	30,111,500
	104,865,169	127,030,773
Net Surplus (Deficit)		
Invested in capital assets (Note 10)	13,701,028	12,091,191
Internally restricted for future capital purchases	389,627	389,627
Deficit	(10,816,835)	(33,066,169)
	3,273,820	(20,585,351)
	\$ 108,138,989	\$ 106,445,422

Commitments (Note 13)

On behalf of the Board:

_____ Governor _____ Governor

H Consolidated Statement of Change

For the year ended March 31	Invested in capital assets	Internally restricted for future property and equipment purchases	Accumulated operating deficit	
Balance, beginning of the year	\$ 12,091,191	\$ 389,627	\$ (33,066,169)	\$ (20,585,351)
Deficiency of revenues over expenses	-	-	1,621,517	1,621,517
Net change in investment in capital assets (Note 10)	1,600,183	-	(1,600,183)	-
Pension remeasurements	-	-	22,228,000	22,228,000
Capital grant for land	9,654	-	-	-
Balance, end of the year	\$ 13,701,028	\$ 389,627	\$ (10,816,835)	\$ (18,915,351)

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

Holland College Consolidated Statement of Operations

For the year ended March 31	2021	2020
Revenue		
Grants		
Province of Prince Edward Island	\$ 21,195,333	\$ 20,967,314
Other grants	6,345,876	4,849,084
Student fees	19,386,734	22,075,986
Contract training	13,992,180	14,145,457
Sales, recoveries and incidentals	2,748,109	4,713,064
Amortization of deferred contributions	3,033,771	2,893,397
	66,702,003	69,644,302
Operating expenses		
Amortization	4,513,130	4,296,257
Maintenance, insurance and property taxes	1,832,897	1,414,667
Other operating costs (Note 11)	5,582,498	7,303,562
Purchases for resale	2,241,844	3,326,127
Rentals	2,286,255	2,341,143
Salaries and benefits	41,666,324	40,880,790
Texts, materials and supplies	2,294,462	2,653,011
Travel	153,391	1,391,309
Utilities	2,633,150	3,129,428
	63,203,951	66,736,294
Excess of revenue over expenses before the undernoted	3,498,052	2,908,008
Gain (loss) on investment in subsidiary	100,938	(69,282)
Loss on disposal of investment in subsidiary (Note 3)	(51,057)	-
Pension expense (Note 9)	(4,545,800)	(3,360,200)
Change in carrying value of derivatives	2,619,384	(2,382,976)
	(1,876,535)	(5,812,458)
Excess (deficiency) of revenue over expenses	\$ 1,621,517	\$ (2,904,450)

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	2021	2020
Cash flows from operating activities		
Deficiency of revenue over expenses	\$ 1,621,517	\$ (2,904,450)
Items not affecting cash:		
Amortization of capital assets	4,513,130	4,296,257
Amortization of deferred contributions	(3,033,771)	(2,893,397)
Loss (gain) on investment in subsidiary	(100,938)	69,282
Loss on disposal of investment in subsidiary	51,057	-
Pension remeasurements and other items	22,228,000	(14,179,000)
Change in carrying value of derivatives	(2,619,384)	2,382,976
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	(1,198,252)	2,190,915
Decrease (increase) in inventory	194,672	(9,462)
Decrease in prepaids	70,968	47,135
Increase in payables and accruals	1,972,632	475,871
Increase in deferred revenue	892,458	774,879
Increase in accrued vacation pay	502,567	93,538
Increase in retirement obligations	245,900	308,200
Increase (decrease) in pension liability	(20,172,100)	15,183,600
	5,168,456	5,836,344
Cash flows from investing activities		
Acquisition of capital assets	(3,175,517)	(431,344)
Decrease (increase) in long term receivable	244,214	(12,599)
	(2,931,303)	(443,943)
Cash flows from financing activities		
Repayment of long-term debt	(3,393,000)	(3,353,000)
Proceeds from long-term debt	-	611,000
Capital grant for land	9,654	9,178
Increase in deferred contributions - capital assets	1,651,557	370,424
Contributions - debt servicing	1,837,418	1,755,467
	105,629	(606,931)
Net increase in cash	2,342,782	4,785,470
Cash, beginning of the year	5,308,877	523,407
Cash, end of the year	\$ 7,651,659	\$ 5,308,877

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

Holland College

Notes to Consolidated Financial Statements

March 31, 2021

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 12.</p> <p>The College accounted for its investment in a wholly owned for-profit subsidiary, Justice Knowledge Network Inc., using the equity method, until October 28, 2020 when this investment was sold. Supplementary information on this entity is disclosed in Note 3.</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 \$398,815 (2020 - \$460,108) 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, 2021

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, 2021

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, 2021

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 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, 2021

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 amortization 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 fourteen 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, 2021

2. Receivables

	2021	2020
Trade	\$ 13,459,526	\$ 12,471,958
Trade - students	2,641,226	2,405,283
Related party (Note 12)	336,000	245,365
HST receivable	84,651	40,232
Allowance for doubtful accounts	(610,045)	(449,732)
	\$ 15,911,358	\$ 14,713,106

Receivables are recorded net of an impairment allowance of \$610,045 (2020 - \$449,732).

3. Investment in Subsidiary

The College controlled Justice Knowledge Network Inc. ("JKN") by virtue of its 100% ownership of the common shares of the company, until October 29, 2020 when 100% of the shares were sold for proceeds of \$1.

JKN was not consolidated in the College's financial statements, as the College had chosen to account for its investment in this subsidiary using the equity method. A financial summary of this non-consolidated entity as at October 28, 2020 and March 31, 2020 and for the periods then ended is as follows:

	October 28, 2020	March 31, 2020
Balance sheet:		
Total assets	\$ 820,629	\$ 969,811
Total liabilities	766,172	1,019,692
Total net shareholder's equity (deficiency)	\$ 54,457	\$ (49,881)

Holland College
Notes to Consolidated Financial Statements

March 31, 2021

3. Investment in Subsidiary (continued)

	Period ended October 28, 2020	Year ended March 31, 2020
Results of operations:		
Total revenue	\$ 1,337,477	\$ 2,025,540
Total expenses	1,233,139	2,094,822
Net income (loss)	\$ 104,338	\$ (69,282)

	Period ended October 28, 2020	Year ended March 31, 2020
Cash flows:		
Cash received from (used in) operations	\$ 85,256	\$ (115,815)
Cash used in investing activities	(16,248)	(29,708)
Cash used in financing activities	-	(13,824)
Net increase (decrease) in cash	\$ 69,008	\$ (159,347)

A loss on disposal of the investment of \$51,057 has been recognized in the Statement of Operations representing the carrying value of the investment less proceeds on sale.

Effective October 29, 2020 the sale closed and all assets and liabilities of JKN were included in the sale of the entity.

As at March 31 2021, \$440,411 (2020 - \$684,625) was owing to the College from JKN. These amounts have arisen as a result of funds advanced to JKN to finance operating expenditures. These transactions were measured at the exchange value, which was the amount agreed to by both parties. As per the terms of the share purchase agreement, \$31,460 to be received annually on March 31 until balance is paid in full.

Holland College
Notes to Consolidated Financial Statements

March 31, 2021

4. Capital Assets

	2021		2020	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 7,607,704	\$ -	\$ 7,607,704	\$ -
Buildings	89,110,900	25,572,342	89,077,370	23,344,567
Major building alterations	23,794,962	16,232,437	23,794,962	15,566,580
Equipment	19,523,074	15,337,443	18,458,623	15,810,418
Parking lots	597,492	215,380	597,492	200,443
	140,634,132	57,357,602	139,536,151	54,922,008
Net book value of capital assets		\$ 83,276,530		\$ 84,614,143

5. Payables and Accruals

	2021	2020
Trade	\$ 5,533,718	\$ 3,655,175
Accrued payroll	1,531,530	1,437,441
	\$ 7,065,248	\$ 5,092,616

Holland College Notes to Consolidated Financial Statements

March 31, 2021

6. Long-term Debt

	2021	2020
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	\$ 11,813,000	\$ 12,294,000
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	5,200,000	5,597,000
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	4,959,000	5,374,000
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	3,635,000	3,920,000
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	3,139,000	3,405,000
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	2,191,000	2,400,000

Holland College Notes to Consolidated Financial Statements

March 31, 2021

6. 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 15 years ending on September 30, 2023	2,167,000	2,975,000
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	1,576,000	1,675,000
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	1,012,000	1,072,000
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	1,004,000	1,248,000
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	925,000	996,000

Holland College
Notes to Consolidated Financial Statements

March 31, 2021

6. 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	701,000	735,000
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	571,000	595,000
	38,893,000	42,286,000
Current portion of long-term debt	(3,668,000)	(3,531,000)
Long-term portion of debt	\$ 35,225,000	\$ 38,755,000

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2021 are as follows: 2022 - \$3,668,000; 2023 - \$3,809,000; 2024 - \$3,464,000; 2025 - \$3,118,000; and 2026 - \$2,772,000.

Included in other operating costs is interest on long-term debt in the amount of \$1,331,324 (2020 - \$1,516,242).

Holland College Notes to Consolidated Financial Statements

March 31, 2021

7. 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. Under the terms of the swaps, the College pays fixed interest quarterly and receives interest at the 30-day Bankers Acceptance rate. 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, 2021 and 2020 and these values are used to determine the fair value of the swap loans as detailed below:

	2021		2020	
	Notional amount	Fair value favourable (unfavourable)	Notional amount	Fair value favourable (unfavourable)
2.60% fixed, maturing July 2038	\$ 11,813,000	\$ (521,927)	\$ 12,294,000	\$ (1,599,599)
2.59% fixed, maturing February 2032	5,200,000	(255,608)	5,597,000	(534,936)
4.49% fixed, maturing April 2030	4,959,000	(688,270)	5,374,000	(1,015,135)
2.94% fixed, maturing August 2031	3,635,000	(243,245)	3,920,000	(185,251)
4.14% fixed, maturing September 2023	3,139,000	(385,870)	3,405,000	(446,773)
2.91% fixed, maturing February 2030	2,191,000	(139,572)	2,400,000	(237,808)
4.12% fixed, maturing June 2030	2,167,000	(101,547)	2,975,000	(580,176)
3.92% fixed, maturing May 2033	1,576,000	(205,845)	1,675,000	(331,347)
2.29% fixed, maturing September 2035	1,012,000	(23,895)	1,072,000	(99,205)
2.54% fixed, maturing January 2025	1,004,000	(35,143)	1,248,000	(53,390)
2.85% fixed, maturing March 2032	925,000	(57,998)	996,000	(111,491)
2.45% fixed, maturing October 2027	701,000	(33,126)	735,000	(62,528)
2.15% fixed, maturing July 2039	571,000	(386)	595,000	(54,177)
	\$ 38,893,000	\$ (2,692,432)	\$ 42,286,000	\$ (5,311,816)

Holland College

Notes to Consolidated Financial Statements

March 31, 2021

8. 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.

	2021	2020
Beginning balance	<u>\$ 30,331,652</u>	<u>\$ 31,099,158</u>
Add:		
Contributions - capital assets	1,651,557	370,424
Contributions - debt servicing	<u>1,837,418</u>	<u>1,755,467</u>
Total contributions	<u>3,488,975</u>	<u>2,125,891</u>
Less:		
Amounts amortized to revenue - capital assets	(2,157,263)	(2,015,086)
Amounts amortized to revenue - debt servicing	<u>(876,508)</u>	<u>(878,311)</u>
Total amounts amortized to revenue	<u>(3,033,771)</u>	<u>(2,893,397)</u>
	<u>\$ 30,786,856</u>	<u>\$ 30,331,652</u>

9. 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, 2021

9. Pension Plan (continued)

	2021	2020
Change in benefit obligation:		
Benefit obligation - beginning of the year	\$ 154,218,600	\$ 149,466,700
Current service cost	2,344,100	2,046,500
Employees contributions	2,102,700	1,993,900
Interest cost on defined benefit obligation	9,026,100	8,942,700
Benefit payments	(7,473,500)	(7,762,900)
Actuarial loss	-	(468,300)
	\$ 160,218,000	\$ 154,218,600
 Change in plan assets:		
Fair value of plan assets - beginning of the year	\$ 124,107,100	\$ 134,538,800
Interest income on plan assets	7,136,300	7,932,000
Administration costs	(311,900)	(303,000)
Employer contributions	2,161,700	2,053,400
Estimated employee contributions and past service cost	2,102,700	1,993,900
Actuarial gain (loss) on plan assets	22,556,200	(14,345,100)
Benefits paid	(7,473,500)	(7,762,900)
	\$ 150,278,600	\$ 124,107,100

Holland College
Notes to Consolidated Financial Statements

March 31, 2021

9. Pension Plan (continued)

	2021	2020
Reconciliation of funded status:		
Present value of defined benefit obligation	\$(160,218,000)	\$(154,218,600)
Fair value of plan assets	150,278,600	124,107,100
Accrued benefit liability	\$ (9,939,400)	\$ (30,111,500)
 Net expense:		
Current service cost (employer)	\$ 2,344,100	\$ 2,046,500
Administration costs	311,900	303,000
Interest income on plan assets	(7,136,300)	(7,932,000)
Interest cost on defined benefit obligation	9,026,100	8,942,700
Net expense	\$ 4,545,800	\$ 3,360,200
 Significant actuarial assumptions:		
<hr/>		
Expected long-term rate of return on plan assets		
Members prior to April 1, 2015	5.85%	5.85%
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, 2021

10. Investment in Capital Assets

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

	<u>2021</u>	<u>2020</u>
Capital assets	\$ 83,276,530	\$ 84,614,143
Add: accumulative direct increase to net assets	104,354	94,700
Amounts financed by:		
Deferred contributions - capital assets	(30,786,856)	(30,331,652)
Long-term debt	(38,893,000)	(42,286,000)
	<u>\$ 13,701,028</u>	<u>\$ 12,091,191</u>

(b) Net change in investment in capital assets:

	<u>2021</u>	<u>2020</u>
Purchase of capital assets	\$ 3,175,517	\$ 431,344
Amounts funded by:		
Deferred contributions	(1,651,557)	(370,424)
Prior year purchases financed in current year	-	498,912
Issuance of long-term debt	-	(611,000)
Repayment of long-term debt	3,393,000	3,353,000
Contributions - debt servicing	(1,837,418)	(1,755,467)
Amortization of deferred contributions - capital	2,157,263	2,015,086
Amortization of deferred contributions - debt servicing	876,508	878,311
Amortization of capital assets	(4,513,130)	(4,296,257)
	<u>\$ 1,600,183</u>	<u>\$ 143,505</u>

Holland College
Notes to Consolidated Financial Statements

March 31, 2021

11. Other Operating Costs

	<u>2021</u>	<u>2020</u>
Advertising	\$ 393,234	\$ 526,062
Bad debt expense	162,120	210,373
Contract services	840,292	1,115,560
Graduation	14,478	101,442
Interest on long-term debt	1,331,324	1,516,242
Lab fees	214,653	336,702
Laundry	2,647	87,979
Legal	154,412	70,942
Membership fees	112,650	114,674
Photocopy	152,999	251,993
Postage	45,157	42,043
Provider fees	622,261	924,152
Registrations and maintenance fees	202,082	209,647
Software	873,152	842,913
Staff development	92,651	149,486
Study tour costs (recoveries)	(8,279)	45,109
Other	376,665	758,243
	<u>\$ 5,582,498</u>	<u>\$ 7,303,562</u>

Holland College Notes to Consolidated Financial Statements

March 31, 2021

12. 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, 2021 and 2020 and for the years then ended is as follows:

	2021	2020
Balance sheet:		
Total assets (Note 12(1))	\$ 9,119,648	\$ 7,733,292
Total liabilities	464,115	217,213
Total net assets	\$ 8,655,533	\$ 7,516,079
	2021	2020
Results of operations:		
Total revenue (Note 12 (2))	\$ 2,546,455	\$ 1,497,431
Total expenses (Note 12 (2))	1,353,872	1,667,896
Excess (deficiency) of revenue over expenses	\$ 1,192,583	\$ (170,465)

Holland College
Notes to Consolidated Financial Statements

March 31, 2021

12. Related Entity (continued)

	2021	2020
Cash flows:		
Cash received from operations	\$ 334,681	\$ 147,336
Cash used in investing activities	14,330	(157,759)
Net increase (decrease) in cash	\$ 349,011	\$ (10,423)

(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, \$92,592 (2020 - \$89,376) of the Foundation's net assets must be used to purchase capital assets for the College. The foundations net assets of \$7,723,100 (2020 - \$6,625,932) 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 12 (2)) that were financed by the College and will be repaid from future fundraising initiatives.

(2) During the year, the College paid a grant totaling \$346,782 (2020 - \$377,607) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. During the year, the College received \$165,760 (2020 - \$271,564) in donations from the Foundation. The donations were used to fund expenditures and capital projects.

13. 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:

2022	\$	813,427
2023		805,825
2024		702,375
2025		703,598
2026		711,679
	\$	3,736,904

Holland College

Notes to Consolidated Financial Statements

March 31, 2021

14. 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 \$16,100,752 (2020 - \$14,877,241) in trade receivables, government agencies accounted for 86% (2020 - 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 increased balance of accounts receivable.

Market Risk

The College is exposed to fluctuations in equity markets on its defined benefit plan assets which are invested in various marketable securities. This risk has increased over the prior year as pension obligations have increased.

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 (2020 - thirteen) interest rate swap contracts whereby it has fixed the interest rate on a total of \$38,893,000 (2020 - \$42,286,000) 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 7.

Holland College

Notes to Consolidated Financial Statements

March 31, 2021

15. Uncertainty due to COVID-19

The COVID-19 global pandemic has disrupted economic activities and supply chains. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. The College offered courses and programming with a mix of both face-to face and distance learning in fiscal 2021. The College has incurred costs in relation to COVID-19 which was partially funded by way of Federal and Provincial grants. The College's ability to continue to service debt and other obligations as they come due is dependent on the continued ability to generate earnings and cash flows.
