Holland College
Financial Statements
For the Year Ended March 31, 2017

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Contents

Independent Auditor's Report	1 - 2
Financial Statements	
Statement of Financial Position	3
Statement of Changes in Net Deficit	4
Statement of Operations	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 28

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Independent Auditor's Report

To the Board of Governors of
Holland College

We have audited the accompanying financial statements of Holland College which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in net deficit 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 accounting standards for not-for-profit organizations, 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Holland College as at March 31, 2017 and the results of its operations, changes in net deficit and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants

Charlottetown, Prince Edward Island
July 11, 2017

Holland College
Statement of Financial Position

March 31	2017	2016
Assets		
Current		
Cash	**$ 2,377,471**	$ 3,223,209
Receivables	**13,258,478**	15,180,826
Inventory	**642,397**	560,668
Prepaid expenses	**237,074**	208,167
Deposits	**230,569**	-
	16,745,989	19,172,870
Due from subsidiary (Note 2)	**564,249**	471,871
Investment in subsidiary (Note 2)	**20,678**	59,392
Property and equipment (Note 3)	**72,666,604**	74,739,511
Program development costs (Note 4)	**-**	463
	$ 89,997,520	$ 94,444,107
Liabilities, Deferred Contributions and Net Deficit		
Current		
Payables and accruals	**$ 3,452,945**	$ 5,891,278
Deferred revenue	**3,105,221**	3,332,486
Accrued vacation pay	**2,998,669**	2,921,357
Scheduled cash repayments for long-term debt (Note 5)	**2,833,000**	2,728,000
	12,389,835	14,873,121
Retirement obligations	**5,015,100**	4,517,000
Long-term debt (Note 5)	**34,336,000**	37,169,000
Derivatives (Note 6)	**3,829,767**	5,533,194
Deferred contributions (Note 7)	**26,147,540**	25,120,970
Accrued pension liability (Note 8)	**10,578,100**	17,182,500
	92,296,342	104,395,785
Net Deficit		
Invested in property and equipment (Note 9)	**9,795,783**	9,895,700
Invested in program development (Note 10)	**-**	463
Internally restricted for future capital purchases	**1,687,250**	771,450
Internally restricted for future pension funding (Note 11)	**-**	347,400
Deficit	**(13,781,855)**	(20,966,691)
	(2,298,822)	(9,951,678)
	$ 89,997,520	$ 94,444,107

On behalf of the Board:

Governor

Governor

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

Holland College
Statement of Changes in Net Deficit

For the year ended March 31	Invested in property and equipment	Invested in program development	Internally restricted for future property and equipment purchases	Internally restricted for future pension funding	Accumulated operating deficit	2017 Total	2016 Total
Balance, beginning of the year	**$ 9,895,700**	**$ 463**	**$ 771,450**	**$ 347,400**	**$ (20,966,691)**	**$ (9,951,678)**	$ (638,141)
Excess of revenue over expenses (expenses over revenue)	**-**	**-**	**-**	**-**	**303,554**	**303,554**	(539,943)
Net change in investment in property and equipment	**(107,819)**	**-**	**-**	**-**	**107,819**	**-**	-
Net change in investment in program development	**-**	**(463)**	**-**	**-**	**463**	**-**	-
Net change in internally restricted for future property and equipment purchase	**-**	**-**	**915,800**	**(115,800)**	**(800,000)**	**-**	-
Pension remeasurements	**-**	**-**	**-**	**-**	**7,341,400**	**7,341,400**	(8,781,100)
Net change in internally restricted for future pension funding	**-**	**-**	**-**	**(231,600)**	**231,600**	**-**	-
Capital grant for land	**7,902**	**-**	**-**	**-**	**-**	**7,902**	7,506
Balance, end of the year	**$ 9,795,783**	**$ -**	**$ 1,687,250**	**$ -**	**$ (13,781,855)**	**$ (2,298,822)**	$ (9,951,678)

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

Holland College
Statement of Operations

For the year ended March 31	2017	2016
Revenue		
Grants		
Province of Prince Edward Island	**$ 19,727,104**	$ 19,508,474
Other grants	**3,514,862**	3,767,532
Contract training	**9,722,707**	9,713,503
Sales, recoveries and incidentals	**4,913,875**	4,947,487
Student fees	**18,938,065**	18,551,157
Amortization of deferred contributions	**2,601,446**	3,466,630
	59,418,059	59,954,783
Operating expenses		
Amortization	**3,977,080**	4,657,835
Maintenance, insurance and property taxes	**1,287,851**	1,357,109
Other operating costs (Note 12)	**6,455,028**	6,550,211
Purchases for resale	**2,282,678**	2,253,302
Rentals	**1,196,379**	1,048,900
Salaries and benefits	**35,824,250**	34,850,082
Texts, materials and supplies	**2,462,632**	2,638,676
Travel	**1,340,254**	1,218,409
Utilities	**2,726,265**	2,660,877
	57,552,417	57,235,401
Excess of revenue over expenses before the undernoted	**1,865,642**	2,719,382
Investment income (loss) - equity method	**(38,714)**	24,242
Pension expense (Note 8)	**(3,226,800)**	(2,423,600)
Write down of property and equipment	**-**	(469,812)
Change in carrying value of derivatives	**1,703,426**	(390,155)
	(1,562,088)	(3,259,325)
Excess of revenue over expenses (expenses over revenue)	**$ 303,554**	$ (539,943)

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

Holland College
Statement of Cash Flows

For the year ended March 31	2017	2016
Cash flows from operating activities		
Excess of revenue over expenses (expenses over revenue)	**$ 303,554**	$ (539,943)
Items not affecting cash:		
Amortization of capital assets and program development	**3,977,080**	4,657,835
Amortization of deferred contributions	**(2,601,446)**	(3,466,630)
Amortization of lease inducement	**-**	(23,333)
Write down of property and equipment	**-**	469,812
Pension remeasurements and other items	**7,341,400**	(8,781,100)
Change in carrying value of derivatives	**(1,703,426)**	390,155
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**1,922,347**	(1,895,178)
Decrease (increase) in inventory	**(81,729)**	4,741
Increase in prepaids	**(28,907)**	(10,187)
Increase (decrease) in payables and accruals	**(2,438,334)**	553,191
Increase (decrease) in deferred revenue	**(227,265)**	45,612
Increase in accrued vacation pay	**77,312**	211,194
Increase in retirement obligations	**498,100**	367,900
Increase (decrease) in pension liability	**(6,604,400)**	8,856,700
	434,286	840,769
Cash flows from investing activities		
Acquisition of property and equipment	**(1,903,709)**	(4,235,526)
Change in investment in subsidiary - equity method	**38,714**	(24,242)
Increase (decrease) in due from subsidiary	**(92,378)**	90,225
Increase in deposits	**(230,569)**	-
	(2,187,942)	(4,169,543)
Cash flows from financing activities		
Repayment of long-term debt	**(2,728,000)**	(2,598,000)
Proceeds from long-term debt	**-**	1,300,000
Capital grant for land	**7,902**	7,506
Increase in deferred contributions - property and equipment	**2,242,290**	2,618,284
Contributions - debt servicing	**1,385,726**	1,300,960
	907,918	2,628,750
Net decrease in cash	**(845,738)**	(700,024)
Cash, beginning of the year	**3,223,209**	3,923,233
Cash, end of the year	**$ 2,377,471**	$ 3,223,209

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

March 31, 2017

1. Significant Accounting Policies

Nature and Purpose of Organization

Holland 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 Accounting

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.

The College does not consolidate the entity Holland College Foundation Inc. which operates under its control. Supplementary information on this entity is disclosed in Note 13.

The College does not consolidate the entity Holland College Hurricanes Football Club Inc. which operates under its control. Supplementary information on this entity is disclosed in Note 13.

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 2.

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Cash and Cash Equivalents

Cash consists of cash on hand and cash on deposit at financial institutions. Included in cash at year end is $ 203,341. (2016 - $ 279,774.) held in Chinese renminbis.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is generally determined on the first-in, first-out basis.

1. Significant Accounting Policies (continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Contributed property and equipment 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 property and equipment no longer contributes to the College's ability to provide services, its carrying amount is written down to its residual value.

Property and equipment are amortized on a straight-line basis using the following annual rates:

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

Property and equipment under construction are not amortized until completion.

Program Development Costs

Program development costs are being carried at cost net of accumulated amortization. Such costs are being amortized to income on a straight-line basis over a five year period.

Vacation Pay

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

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.

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 balance sheet 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.

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 property and equipment 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 tuition fees 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 property and equipment.

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.

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.
Foreign Currency Translation	The College has a relationship with seven 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.

2. 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, 2017 and 2016 and for the years then ended is as follows:

	2017	2016
Balance sheet:		
Total assets	**$ 753,794**	$ 732,745
Total liabilities	**733,116**	673,353
Total net shareholder's equity	**$ 20,678**	$ 59,392

As at March 31, 2017, $ 564,249. (2016 - $ 471,871.) was owing to the company's parent, Holland College. These amounts have arisen as a result of funds advanced to the company to finance operating expenditures. These transactions have been measured at the exchange value, which is the amount agreed to by the related parties.

	2017	2016
Results of operations:		
Total revenue	**$ 2,025,119**	$ 1,961,568
Total expenses	**2,063,833**	1,937,326
Net income (loss)	**$ (38,714)**	$ 24,242

	2017	2016
Cash flows:		
Cash from operations	**$ 109,314**	$ 4,801
Cash used in investing activities	**(109,959)**	(57,111)
Net decrease in cash	**$ (645)**	$ (52,310)

3. Property and Equipment

	2017		2016	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 5,813,764**	**$ -**	$ 5,813,764	$ -
Buildings	**74,808,696**	**16,845,788**	73,494,655	14,975,570
Major building alterations	**19,269,751**	**13,426,522**	19,063,553	12,833,475
Equipment	**20,119,998**	**17,515,155**	21,650,625	17,930,838
Parking lot	**597,492**	**155,632**	597,492	140,695
	120,609,701	**47,943,097**	120,620,089	45,880,578
		$ 72,666,604		$ 74,739,511

Included in the College's amortization expense is $ 3,976,617. (2016 - $ 4,649,917.) of amortization related to property and equipment.

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 relates to the cost of betterments and improvements incurred by the College at these sites.

4. Program Development Costs

	2017	2016
Program development costs	**$ 2,318**	$ 40,009
Less: accumulated amortization	**(2,318)**	(39,546)
	$ -	$ 463

During the year, the College amortized $ 463. (2016 - $ 7,918.) in expenses related to program development costs.

5. Long-term Debt

	2017	2016
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	**$ 6,717,000**	$ 7,069,000
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	**6,493,000**	6,830,000
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	**5,217,000**	5,908,000
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 15 years ending on August 26, 2031	**4,718,000**	4,966,000

5. Long-term Debt (continued)

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 30, 2030	**4,132,000**	4,353,000
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	**2,985,000**	3,168,000
Royal Bank of Canada, interest rate swap contract, 4.47% including .25% credit spread, 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	**2,097,000**	2,301,000
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, due January 3, 2025	**1,939,000**	2,157,000
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	**1,227,000**	1,276,000
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	**1,198,000**	1,262,000

5. Long-term Debt (continued)

Royal Bank of Canada, interest rate swap contract, 3.15%, 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 30, 2019	**446,000**	607,000
	37,169,000	39,897,000
Current portion of long-term debt	**(2,833,000)**	(2,728,000)
Long-term portion of debt	**$ 34,336,000**	$ 37,169,000

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2017 are as follows: 2018 - $ 2,833,000.; 2019 - $ 2,945,000.; 2020 - $ 2,986,000.; 2021 - $ 2,996,000.; and 2022 - $ 3,114,000.

Included in other operating costs is interest on long-term debt in the amount of $ 1,472,950. (2016 - $ 1,565,002.).

6. 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 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, 2017 and 2016, respectively 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, 2017		As at March 31, 2016	
	Notional amount	**Fair value favourable (unfavourable)**	Notional amount	Fair value favourable (unfavourable)
4.47% fixed, maturing June 2025	**$ 2,097,000**	**$ (270,189)**	$ 2,301,000	$ (380,084)
3.15% fixed, maturing October 2019	**446,000**	**(12,571)**	607,000	(26,055)
4.12% fixed, maturing June 2030	**4,132,000**	**(664,783)**	4,353,000	(886,678)
2.94% fixed, maturing August 2031	**4,718,000**	**(379,951)**	4,966,000	(578,749)
4.14% fixed, maturing September 2023	**5,217,000**	**(487,725)**	5,908,000	(732,437)
4.49% fixed, maturing April 2030	**6,493,000**	**(1,202,944)**	6,830,000	(1,576,702)
2.59% fixed, maturing February 2032	**6,717,000**	**(374,738)**	7,069,000	(635,263)
2.85% fixed, maturing March 2032	**1,198,000**	**(88,945)**	1,262,000	(138,755)
2.91% fixed, maturing February 2030	**2,985,000**	**(229,036)**	3,168,000	(349,212)
2.54% fixed, maturing January 2025	**1,939,000**	**(86,777)**	2,157,000	(147,999)
2.29% fixed, maturing September 2035	**1,227,000**	**(32,108)**	1,276,000	(81,260)
	$ 37,169,000	**$ (3,829,767)**	$ 39,897,000	$ (5,533,194)

7. Deferred Contributions

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

	2017	2016
Beginning balance	**$ 25,120,970**	$ 24,691,689
Add:		
Contributions - property and equipment	**2,242,290**	2,618,284
Contributions - debt servicing	**1,385,726**	1,300,960
Total contributions	**3,628,016**	3,919,244
Less:		
Amounts amortized to revenue - property and equipment	**(1,910,187)**	(2,385,603)
Amounts amortized to revenue - debt servicing	**(691,259)**	(1,104,360)
Total amounts amortized to revenue	**(2,601,446)**	(3,489,963)
	$ 26,147,540	$ 25,120,970

8. 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, 2015.

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:

	2017	2016
Change in benefit obligation:		
Benefit obligation - beginning of the year	**$ 135,739,200**	$132,410,600
Current service cost	**1,795,400**	1,679,800
Employees contributions	**1,737,700**	1,623,600
Interest cost on defined benefit obligation	**8,153,000**	7,969,100
Past service cost	**-**	368,700
Benefit payments	**(6,406,000)**	(5,791,900)
Actuarial gain	**(1,157,500)**	(2,520,700)
Benefit obligation - end of the year	**$ 139,861,800**	$135,739,200
Change in plan assets:		
Fair value of plan assets - beginning of the year	**$ 118,556,700**	$124,084,800
Interest income on plan assets	**7,025,400**	7,384,300
Administration costs	**(303,800)**	(159,000)
Employer contributions	**2,030,600**	2,143,200
Estimated employee contributions and past service cost	**1,737,700**	1,992,300
Actuarial gain (loss) on plan assets	**6,643,100**	(11,097,000)
Benefits paid	**(6,406,000)**	(5,791,900)
Benefit asset - end of the year	**$ 129,283,700**	$118,556,700

8. Pension Plan (continued)

	2017	2016
Reconciliation of funded status:		
Present value of defined benefit obligation	**$(139,861,800)**	$ (135,739,200)
Fair value of plan assets	**129,283,700**	118,556,700
Accrued benefit liability	**$ (10,578,100)**	$ (17,182,500)
Net expense:		
Current service cost (employer)	**$ 1,795,400**	$ 1,679,800
Administration costs	**303,800**	159,000
Interest income on plan assets	**(7,025,400)**	(7,384,300)
Interest cost on defined benefit obligation	**8,153,000**	7,969,100
Net expense	**$ 3,226,800**	$ 2,423,600
Significant actuarial assumptions:		
Expected long-term rate of return on plan assets		
Members prior to April 1, 2015	6.00%	6.00%
Members on or after April 1, 2015	5.00%	5.00%
Rate of increase in future compensation	3.00%	3.00%

9. Investment in Property and Equipment

(a) Investment in property and equipment is calculated as follows:

	2017	2016
Property and equipment	**$ 72,666,604**	$ 74,739,511
Add: accumulative direct increase to net assets	**68,479**	60,578
Amounts financed by:		
Deferred contributions - property and equipment	**(26,147,539)**	(25,257,623)
Long-term debt	**(37,169,000)**	(39,897,000)
Purchases to be financed from future borrowings	**(833,566)**	-
Capital contributions for future additions	**1,210,805**	-
Unamortized contributions - debt servicing	**-**	136,654
Loan proceeds internally restricted for future property and equipment purchases	**-**	113,580
	$ 9,795,783	$ 9,895,700

(b) Net change in investment in capital assets:

	2017	2016
Purchase of property and equipment	**$ 1,903,709**	$ 4,235,526
Amounts funded by:		
Deferred contributions	**(2,242,290)**	(2,618,284)
Purchases to be financed from future borrowings	**(833,566)**	-
Capital contributions for future additions	**1,210,805**	-
Issuance of long-term debt	**-**	(1,300,000)
Loan proceeds internally restricted for future property and equipment purchases	**-**	113,580
Release of internally restricted loan proceeds	**(113,580)**	-
Repayment of long-term debt	**2,728,000**	2,598,000
Contributions - debt servicing	**(1,385,726)**	(1,300,960)
Amortization of deferred contributions - capital	**1,910,187**	2,385,603
Amortization of deferred contributions - debt servicing	**691,259**	1,104,360
Amortization of property and equipment	**(3,976,617)**	(4,649,917)
Write down of property held for sale	**-**	(469,812)
	$ (107,819)	$ 98,096

10. Invested in Program Development

(a) Investment in program development is calculated as follows:

	2017	2016
Program development	$ -	$ 463
Amounts financed by:		
Deferred contributions	-	-
Long-term debt	-	-
	$ -	$ 463

(b) Net change in investment in program development:

	2017	2016
Amounts funded by:		
Amortization of program development	$ (463)	$ (7,918)
	$ (463)	$ (7,918)

11. Internally Restricted for Future Pension Funding

	2017	2016
Balance, beginning of the year	$ 347,400	$ 810,600
Transfer from reserve for the year	(347,400)	(463,200)
	$ -	$ 347,400

12. Other Operating Costs

	2017	2016
Advertising	$ 533,907	$ 643,188
Bad debt expense	218,741	89,800
Contract services	881,732	1,018,812
Graduation	102,350	120,886
Interest on long-term debt	1,472,950	1,565,002
Lab fees	249,590	212,078
Laundry	104,584	114,578
Legal	122,320	244,314
Membership fees	115,221	100,425
Photocopy	263,308	259,132
Postage	67,026	69,379
Provider fees	481,916	403,868
Registrations and maintenance fees	124,863	120,037
Software	641,506	614,209
Staff development	156,797	142,119
Study tour costs	99,520	200,534
Other	818,697	631,850
	$ 6,455,028	$ 6,550,211

13. Related Entities

Holland College Foundation Inc.

The College controls Holland College Foundation Inc. 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, 2017 and 2016 and for the years then ended is as follows:

Holland College Foundation Inc.

	2017	2016
Balance sheet:		
Total assets	**$ 6,905,623**	$ 5,654,874
Total liabilities	**658,364**	330,934
Total net assets	**$ 6,247,259**	$ 5,323,940

(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, $ 78,351. (2016 - $ 109,257.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 4,967,683. (2016 - $ 3,846,410.) 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.

	2017	2016
Results of operations:		
Total revenue	**$ 1,951,325**	$ 1,083,341
Total expenses (Note 13 (2))	**1,030,568**	2,007,256
Excess of revenue over expenses (expenses over revenue)	**$ 920,757**	$ (923,915)

13. Related Entities (continued)

(2) During the year, the College paid a grant totaling $ 351,836. (2016 - $ 330,455.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized gains of $ 2,562. (2016 - losses of $ 199,410.) on long-term investments during the 2017 fiscal year. During the year, the College received $ 616,203. (2016 - $ 1,538,014.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 658,364. (2016 - $ 330,934.), representing Project funds approved for release to the College and fundraising costs.

Holland College Hurricanes Football Club Inc.

The College controls Holland College Hurricanes Football Club Inc. The Club is incorporated without share capital under part II of the Companies Act and is exempt from income tax.

The Club has been established to operate a competitive football team for the purposes of encouraging participants to become outstanding citizens by teaching them leadership, work ethic, teamwork, fair play and community spirit.

The Club has not been consolidated in the College's financial statements. A financial summary of this non-consolidated entity as at March 31, 2017 and 2016 and for the years then ended is as follows:

Holland College Hurricanes Football Club Inc.

	2017	2016
Balance sheet:		
Total assets	**$ 48,481**	$ 482,766
Total liabilities	**272,994**	693,649
Total net assets	**$ (224,513)**	$ (210,883)

	2017	2016
Results of operations:		
Total revenue	**$ 100,348**	$ 55,203
Total expenses	**113,978**	107,977
Excess of expenses over revenue	**$ (13,630)**	$ (52,774)

14. Commitments

The College has operating leases for its premises at Slemon Park. The premises are leased at a base rent of $ 5.56 per square foot under a lease expiring December 31, 2018. The base rent will increase each July 1st and November 1st, respectively, during the terms of the leases by a percentage equal to the CPI for Prince Edward Island for the previous calendar year. In addition to the lease at Slemon Park, the College also has operating leases for other premises. The premises are leased at a base rent of $ 13.21 per square foot. Further, the College also signed a five year service agreement in April 2016 with Kongsberg Maritime Simulation. The annual payment for 2017 is $ 211,323. increasing by 2% each year thereafter. In addition, the College received an operating grant during the year for one of its premises at Slemon Park in lieu of rent, heat and electricity in the amount of $ 402,668. (2016 - $ 402,668.). This grant has been recognized as expense recoveries and as a reduction to rental expense. The minimum annual lease and service contract payments for the next five years are as follows:

2018	$ 767,980
2019	723,303
2020	336,595
2021	329,720
2022	81,984
	$ 2,239,582

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 concentration of credit risk relate primarily to cash and accounts receivable. Of the $ 3,313,323. in cash, one financial institution held $ 3,109,451. of all cash assets. The total cash held with one financial institution exceeded the maximum insurable amount from the Canada Deposit Insurance Corporation by $ 3,009,451. In addition, the College held cash of $ 203,341. with a foreign bank which was uninsured. Of the College's $ 12,363,343. in trade accounts receivable, government agencies accounted for 79% of trade receivables. 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.

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 eleven (2016 - eleven) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 37,169,000. (2016 - $ 39,897,000.) 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 6.

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.

17. Subsequent Events

Subsequent to year end, the College completed the purchase of real property in Charlottetown, Prince Edward Island at a cost of $ 1,417,038. upon which is to be constructed a student residence building.

Prior to year end, the College began a program of major capital upgrades to existing infrastructure through the Canada-Prince Edward Island Post-Secondary Institutions Strategic Investment Fund program. Total estimated costs related to these projects amounts to $ 14,977,962. Costs incurred prior to year end amounted to $ 867,131. with the remainder to be incurred in the subsequent fiscal year. The cost of these upgrades will be financed through federal and provincial capital grants as well as a $ 1,823,000. contribution from the Holland College Foundation.

Subsequent to year end, the College secured additional long-term debt financing available to a maximum of $ 12,937,481. for the purpose of financing the construction of the student residence building as well the major capital upgrades to existing infrastructure discussed above.

18. Comparative Figures

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