Consolidated Financial Statements of

# HOLLAND COLLEGE

Year ended March 31, 2013

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of Holland College

We have audited the accompanying consolidated financial statements of Holland College which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011 and the consolidated statements of operations, consolidated statements of changes in net assets and consolidated statements of cash flows for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Charlottetown, Prince Edward Island
July 16, 2013

# HOLLAND COLLEGE

Consolidated Statements of Financial Position

| | March 31, 2013 | March 31, 2012 | April 1, 2011 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | $ 3,631,446 | $ 10,065,356 | $ 16,178,301 |
| Receivables | 15,246,603 | 14,489,148 | 7,472,191 |
| Inventory | 514,901 | 481,575 | 460,454 |
| Prepaid expenses | 108,003 | 115,799 | 368,722 |
| Deposits | - | - | 50,000 |
| Property held for sale (note 3) | 500,000 | - | - |
| | 20,000,953 | 25,151,878 | 24,529,668 |
| Property and equipment (note 4) | 80,417,980 | 78,433,027 | 64,583,236 |
| Program development costs (note 6) | 24,385 | 30,069 | 111,396 |
| Accrued pension asset (note 7) | - | 4,906,400 | 6,843,000 |
| | $ 100,443,318 | $ 108,521,374 | $ 96,067,300 |
| **Liabilities, Deferred Contributions and Net Assets** | | | |
| Current liabilities: | | | |
| Payables and accruals (note 5) | $ 6,272,561 | $ 7,605,852 | $ 10,806,821 |
| Deferred revenue | 3,948,060 | 3,451,986 | 3,831,648 |
| Accrued vacation pay | 2,481,338 | 2,371,654 | 2,162,968 |
| Current portion of long-term debt | 2,347,719 | 2,457,195 | 1,847,462 |
| | 15,049,678 | 15,886,687 | 18,648,899 |
| Retirement obligations | 3,607,200 | 3,201,300 | 2,944,700 |
| Long-term debt (note 8) | 43,688,961 | 46,035,792 | 32,741,918 |
| Deferred contributions (note 9): | | | |
| Property and equipment | 26,122,368 | 26,724,494 | 24,445,456 |
| Program development | - | - | 108,207 |
| Accrued pension liability (note 7) | 530,300 | - | - |
| | 88,998,507 | 91,848,273 | 78,889,180 |
| Net assets: | | | |
| Invested in property and equipment (note 10) | 8,798,055 | 7,856,888 | 7,087,809 |
| Invested in program development (note 11) | 24,385 | 30,069 | 3,189 |
| Internally restricted for future capital asset purchases | 1,169,703 | 1,174,703 | 2,099,703 |
| Internally restricted for future pension funding (note 12) | - | 305,817 | 713,573 |
| Unrestricted, as restated (note 17) | 1,452,668 | 7,305,624 | 7,273,846 |
| | 11,444,811 | 16,673,101 | 17,178,120 |
| Commitments (note 15) | | | |
| | $ 100,443,318 | $ 108,521,374 | $ 96,067,300 |

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

On Behalf of the Board:

_______ Governor _______ Governor

# HOLLAND COLLEGE

Consolidated Statements of Operations

Year ended March 31, 2013, with comparative figures for 2012

| | 2013 | 2012 |
|---|---|---|
| Revenue: | | |
| Grants | | |
| Province of Prince Edward Island | $ 18,786,047 | $ 18,923,191 |
| Other grants | 3,685,894 | 2,796,104 |
| Contract training | 10,366,853 | 10,447,919 |
| Sales, recoveries and incidentals | 5,196,607 | 5,652,431 |
| Student fees | 17,876,717 | 17,508,264 |
| Amortization of deferred contributions | 3,548,130 | 3,733,073 |
| | 59,460,248 | 59,060,982 |
| Expenses: | | |
| Salaries and benefits | 33,069,900 | 32,023,512 |
| Texts, materials and supplies | 2,794,261 | 3,032,072 |
| Utilities | 2,763,184 | 2,888,435 |
| Maintenance, insurance and property taxes | 1,340,049 | 1,317,085 |
| Rentals | 1,824,083 | 1,632,514 |
| Travel | 1,096,192 | 1,075,735 |
| Purchases for resale | 2,447,114 | 2,617,635 |
| Other operating costs (note 13) | 6,659,743 | 6,370,429 |
| Amortization | 5,292,744 | 4,988,722 |
| | 57,287,270 | 55,946,139 |
| Excess of revenue over expenses before the undernoted | 2,172,978 | 3,114,843 |
| Pension expense (note 7) | (7,231,000) | (3,626,000) |
| Write-down of property held for sale (note 3) | (176,735) | - |
| | (7,407,735) | (3,626,000) |
| Excess of expenses over revenue | $ (5,234,757) | $ (511,157) |

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

# HOLLAND COLLEGE

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2013, with comparative figures for 2012

| | 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 surplus | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| Balance, beginning of year, as restated (note 17) | $ 7,856,888 | $ 30,069 | $ 1,174,703 | $ 305,817 | $ 7,305,624 | $ 16,673,101 | $ 17,178,120 |
| Excess of expenses over revenue | - | - | - | - | (5,234,757) | (5,234,757) | (511,157) |
| Net change in investment in property and equipment | 934,700 | - | - | - | (934,700) | - | - |
| Net change in investment in program development | - | (5,684) | - | - | 5,684 | - | - |
| Net change in internally restricted for future property and equipment purchases | - | - | (5,000) | - | 5,000 | - | - |
| Net change in internally restricted for future pension funding | - | - | - | (305,817) | 305,817 | - | - |
| Capital grant for land | 6,467 | - | - | - | - | 6,467 | 6,138 |
| Balance, end of year | $ 8,798,055 | $ 24,385 | $ 1,169,703 | $ - | $ 1,452,668 | $ 11,444,811 | $ 16,673,101 |

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

# HOLLAND COLLEGE

Consolidated Statements of Cash Flows

Year ended March 31, 2013, with comparative figures for 2012

| | 2013 | 2012 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess of expenses over revenue | $ (5,234,757) | $ (511,157) |
| Items not involving cash: | | |
| Amortization of capital assets and program development | 5,292,744 | 4,988,722 |
| Amortization of deferred contributions | (3,548,130) | (3,733,073) |
| Amortization of lease inducement | (70,000) | (70,000) |
| Write-down of property held for sale | 176,735 | - |
| Change in non-cash operating working capital: | | |
| Increase in receivables | (757,455) | (7,016,957) |
| Increase in inventory | (33,326) | (21,121) |
| Decrease in prepaids | 7,796 | 252,923 |
| Decrease in payables and accruals | (1,333,291) | (3,200,969) |
| Increase (decrease) in deferred revenue | 496,074 | (379,662) |
| Increase in accrued vacation pay | 109,684 | 208,686 |
| Increase in retirement obligations | 405,900 | 256,600 |
| Decrease in deposits | - | 50,000 |
| Decrease in pension asset | 4,906,400 | 1,936,600 |
| Increase in pension liability | 530,300 | - |
| | 948,674 | (7,239,408) |
| Financing: | | |
| Capital grant for land | 6,467 | 6,138 |
| Increase in deferred contributions - property and equipment | 1,943,108 | 4,641,983 |
| Issuance of long-term debt | - | 15,900,000 |
| Principal payments on long-term debt | (2,456,307) | (1,996,393) |
| Contributions - debt servicing | 1,072,896 | 1,331,921 |
| | 566,164 | 19,883,649 |
| Investing: | | |
| Invested in program development | (2,318) | (37,271) |
| Purchase of capital assets | (7,946,430) | (18,719,915) |
| | (7,948,748) | (18,757,186) |
| Net decrease in cash | (6,433,910) | (6,112,945) |
| Cash, beginning of year | 10,065,356 | 16,178,301 |
| Cash, end of year | $ 3,631,446 | $ 10,065,356 |

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

**1. Nature of operations and summary of significant accounting policies:**

(a) 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.

(b) Basis of accounting:

The consolidated 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 14.

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

(c) Cash and cash equivalents:

Cash consists of cash on hand and cash on deposit at financial institutions. Included in cash at year end is $ 369,729. (2012 - $ 382,954.) held in Chinese renminbis.

(d) Inventory:

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

(e) 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.

**1. Nature of operations and summary of significant accounting policies (continued):**

(e) Property and equipment (continued):

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.

(f) 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.

(g) 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.

(h) 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. **Nature of operations and summary of significant accounting policies (continued):**

(i) Pension plan:

The College maintains a contributory defined-benefit pension plan which covers substantially all of its employees providing pension benefits for certain 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. Pension plan assets are valued at fair market value for purposes of calculating expected return on plan assets. The cost of the pension plan related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method of estimating the usage frequency and cost of services covered and management's best estimates of investment yields, salary escalation and other factors. The College will amortize actuarial gains and losses (such as changes in actuarial assumptions and experience gains and losses) over a certain minimum amount. The amortization is over the expected average remaining service life of active employees.

(j) 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.

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.

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.

**1. Nature of operations and summary of significant accounting policies (continued):**

(k) Financial instruments:

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

(l) Use of estimates:

The preparation of consolidated 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 consolidated 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.

(m) Foreign currency translation:

The College has a relationship with two 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. Surplus funds generated from prior arrangements are adjusted to the Canadian dollar equivalent at the year-end rate.

## 2. First-time adoption:

Effective April 1, 2012, the College adopted the requirements of the new accounting framework, Canadian accounting standards for not-for-profit organizations (ASNPO) or Part III of the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting. These are the College's first consolidated financial statements prepared in accordance with this framework and the transitional provisions of Section 1501, First-time Adoption have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and mandatory exceptions. The accounting policies set out in Note 1 have been applied in preparing the consolidated financial statements for the year ended March 31, 2013, the comparative information presented in these consolidated financial statements for the year ended March 31, 2012 and in the preparation of an opening ASNPO statement of financial position at the date of transition of April 1, 2011.

The College issued consolidated financial statements for the year ended March 31, 2012 using Canadian generally accepted accounting principles prescribed by the CICA Handbook - Accounting Part V - Pre-changeover Accounting Standards. The adoption of ASNPO resulted in adjustments to the previously reports assets, liabilities, net assets, excess of revenue over expenses and cash flows of the College. The charges to net assets at the date of transition of April 1, 2011, were as follows:

| | April 1, 2011 |
|---|---|
| Opening net assets, Pre-changeover Accounting Standards | $ 13,683,120 |
| Increase in employee future benefit asset due to first-time adoption requirement (discussed below) | 3,495,000 |
| Opening net assets, ASNPO | $ 17,178,120 |

## 2. First-time adoption (continued):

A reconciliation of the excess of revenue over expenses reported in the College's most recent previously issued consolidated financial statements to its excess of expenses over revenue under ASNPO for the same period is as follows:

| | | March 31, 2012 |
|---|---|---|
| Excess of revenue over expenses, Pre-changeover Accounting Standards, as restated (note 17) | $ | 1,236,643 |
| Increase in employee future benefit expense due to first-time adoption requirement (discussed below) | | (1,747,800) |
| Excess of expenses over revenue, ASNPO | $ | (511,157) |

The College recognized an unamortized transitional asset created under a previous GAAP on the date of transition.

There were no exemptions used at the date of transition to Canadian accounting standards for not-for-profit organizations.

## 3. Property held for sale:

During the year, certain property owned by the College was determined to be redundant and was listed for sale. The sale of the property was completed on June 28, 2013. The property had been carried at a value in excess of the realizable value including selling costs. Accordingly, a write-down to net realizable value has been reflected in the consolidated statement of operations. The write-down was calculated as follows:

| | Property |
|---|---|
| Net book value | $ 676,735 |
| Net realizable value | (500,000) |
| Write-down amount | $ 176,735 |

## 4. Property and equipment:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Land | $ 5,713,764 | $ - | $ 5,913,764 | $ - |
| Buildings | 71,875,819 | 9,459,164 | 62,857,594 | 7,674,491 |
| Major building alterations | 17,536,928 | 11,348,670 | 17,513,289 | 10,584,211 |
| Equipment | 25,241,785 | 19,644,090 | 25,969,598 | 19,945,374 |
| Parking lot | 597,492 | 95,884 | 597,492 | 80,947 |
| Capital assets under construction | - | - | 3,866,313 | - |
| | 120,965,788 | 40,547,808 | 116,718,050 | 38,285,023 |
| Net book value | | $ 80,417,980 | | $ 78,433,027 |

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

## 5. Payables and accruals:

Included in accounts payable at year end were $ 198,227. (2012 - $ 216,649.) of government remittances payable.

## 6. Program development costs:

| | 2013 | 2012 |
|---|---|---|
| Program development costs | $ 40,009 | $ 519,914 |
| Less: accumulated amortization | (15,624) | (489,845) |
| | $ 24,385 | $ 30,069 |

During the year, the College amortized $ 8,002. (2012 - $ 118,598.) in expenses related to program development costs.

## 7. 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, 2012.

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:

| | 2013 | 2012 |
|---|---|---|
| **Change in benefit obligation:** | | |
| Benefit obligation - beginning of year | $144,933,600 | $115,638,100 |
| Current service cost (employer) | 3,259,700 | 1,983,700 |
| Interest cost | 6,239,400 | 6,392,800 |
| Estimated employee contributions | 1,247,800 | 1,153,300 |
| Experience loss | 3,721,000 | 24,850,200 |
| Benefits paid | (5,262,400) | (5,084,500) |
| Benefit obligation - end of year | $154,139,100 | $144,933,600 |

## 7. Pension plan (continued):

| | 2013 | 2012 |
|---|---|---|
| **Change in plan assets:** | | |
| Fair value of plan assets - beginning of year | $ 94,978,500 | $ 98,099,200 |
| Actual return on plan assets, net of expenses | 5,632,100 | 5,818,700 |
| Employer contributions | 1,794,300 | 1,281,700 |
| Estimated employee contribution | 1,247,800 | 1,561,000 |
| Experience gain (loss) | 2,936,000 | (6,697,600) |
| Benefits paid | (5,262,400) | (5,084,500) |
| Fair value of plan assets - end of year | $101,326,300 | $ 94,978,500 |
| **Reconciliation of funded status:** | | |
| Funded status - deficit | $ (52,812,800) | $ (49,955,100) |
| Employer contributions after measurement date | - | - |
| Unamortized transitional obligation | 785,000 | 31,547,800 |
| Unamortized net actuarial gain | 51,497,500 | 23,313,700 |
| Accrued benefit asset (liability) | $ (530,300) | $ 4,906,400 |
| **Components of expense (income):** | | |
| Current service cost (employer) | $ 3,259,700 | $ 1,983,700 |
| Interest cost | 6,239,400 | 6,392,800 |
| Actual return on assets | (5,632,100) | (5,818,700) |
| Amortization of past service costs | - | - |
| Amortization of net actuarial loss | 3,364,000 | 1,068,200 |
| Net expense | $ 7,231,000 | $ 3,626,000 |

**Significant actuarial assumptions:**

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.25 % | 5.50 % |
| Expected long-term rate of return on plan assets | 6.00 % | 7.00 % |
| Rate of increase in future compensation | 2.50 % | 3.00 % |

## 8. Long-term debt:

| | 2013 | 2012 |
|---|---|---|
| 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 | $ 7,822,000 | $ 8,411,000 |
| 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 | 8,063,000 | 8,374,000 |
| 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 | 7,739,000 | 8,012,000 |
| 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 | 5,661,000 | 5,877,000 |
| 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 30, 2030 | 4,958,000 | 5,141,000 |
| Toronto-Dominion Bank, 3.2%, payable in monthly installments of principal and interest of $ 23,513., secured by a promissory note, due February 3, 2015 | 3,682,680 | 3,844,155 |
| Royal Bank of Canada, interest rate swap contract, 4.72% 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 | 2,862,000 | 3,032,000 |

## 8. Long-term debt (continued):

| | | |
|---|---|---|
| Royal Bank of Canada, interest rate swap contract, 3%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, due January 8, 2015 | 2,753,000 | 2,933,000 |
| 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 | 1,443,000 | 1,500,000 |
| 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 | 1,053,000 | 1,190,000 |
| Royal Bank of Canada, 4.46%, payable in monthly installments of principal and interest of $ 10,577., secured by a promissory note | - | 103,832 |
| Atlantic Canada Opportunities Agency, non-interest bearing, payable in annual installments of $ 100,000. with a final payment of $ 75,000., secured by a promissory note | - | 75,000 |
| | 46,036,680 | 48,492,987 |
| Less current portion of long-term debt | 2,347,719 | 2,457,195 |
| | $ 43,688,961 | $ 46,035,792 |

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2013 are as follows: 2014 - $ 2,347,719.; 2015 - $ 8,197,691.; 2016 - $ 2,187,000.; 2017 - $ 2,277,000.; and 2018 - $ 2,369,000.

## 8. Long-term debt (continued):

The fair value of the interest rate swap agreements are based on amounts quoted by the College's bank to realize favourable contracts, or settle unfavourable contracts, taking into account interest rates at March 31, 2013. As at March 31, 2013, the interest rate swap agreements were in a net unfavourable position of $ 44,893. (2012 - $ 45,015.).

Included in other operating costs is interest on long-term debt in the amount of $ 1,842,787. (2012 - $ 1,607,797.).

## 9. Deferred contributions:

(a) Property and equipment:

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 with the exception of lease inducements which is recorded as a reduction of lease expense.

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ 26,724,494 | $ 24,445,456 |
| Add: | | |
| Contributions - property and equipment | 1,943,108 | 4,641,983 |
| Contributions - debt servicing | 1,072,896 | 1,331,921 |
| Total contributions | 3,016,004 | 5,973,904 |
| Less: | | |
| Amounts amortized to revenue - property and equipment | (2,576,978) | (2,317,662) |
| Amounts amortized to revenue - debt servicing | (1,041,152) | (1,377,204) |
| Total amounts amortized to revenue | (3,618,130) | (3,694,866) |
| | $ 26,122,368 | $ 26,724,494 |

### 9. Deferred contributions (continued):

(b) Program development:

Deferred contributions related to program development represent the unamortized amount of grants received for the purchase of curriculum development. The amortization of program development is recorded as revenue in the statement of operations.

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ - | $ 108,207 |
| Less: | | |
| Amounts amortized to revenue | - | (108,207) |
| | $ - | $ - |

### 10. Investment in property and equipment:

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

| | 2013 | 2012 |
|---|---|---|
| Property and equipment | $ 80,417,980 | $ 78,433,027 |
| Property held for sale | 500,000 | - |
| Total property and equipment | 80,917,980 | 78,433,027 |
| Add: | | |
| Accumulative direct increase to net assets | 39,123 | 32,656 |
| Amounts financed by: | | |
| Deferred contributions - property and equipment | (26,400,266) | (27,034,137) |
| Long-term debt | (46,036,680) | (43,884,300) |
| Unamortized contributions - debt servicing | 277,898 | 309,642 |
| | $ 8,798,055 | $ 7,856,888 |

## 10. Investment in property and equipment (continued):

(b) Net change in investment in property and equipment:

| | 2013 | 2012 |
|---|---|---|
| Purchase of property and equipment | $ 7,946,430 | $ 18,719,915 |
| Amounts funded by: | | |
| Deferred contributions | (1,943,108) | (4,641,983) |
| Purchases - prior year financed in current year | - | 1,849,076 |
| Issuance of long-term debt | - | (15,900,000) |
| Release of internally restricted loan proceeds | (4,533,686) | (3,186,966) |
| Loan proceeds internally restricted for future property and equipment purchases | - | 4,533,686 |
| Repayment of long-term debt | 2,381,307 | 1,896,393 |
| Contributions - debt servicing | (1,072,896) | (1,331,921) |
| Amortization of deferred contributions - capital | 2,576,978 | 2,317,662 |
| Amortization of deferred contributions - debt servicing | 1,041,152 | 1,377,204 |
| Amortization of property and equipment | (5,284,742) | (4,870,124) |
| Write-down of property held for sale | (176,735) | - |
| | $ 934,700 | $ 762,942 |

## 11. Invested in program development:

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

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Program development | $ | 24,385 | $ | 30,069 |
| Amounts financed by: | | | | |
| Deferred contributions | | - | | - |
| Long-term debt | | - | | - |
| | $ | 24,385 | $ | 30,069 |

(b) Net change in investment in program development:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| New program development | $ | 2,318 | $ | 37,271 |
| Amounts funded by: | | | | |
| Amortization of deferred contributions | | - | | 108,207 |
| Amortization of program development | | (8,002) | | (118,598) |
| | $ | (5,684) | $ | 26,880 |

## 12. Internally restricted for future pension funding:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 305,817 | $ | 713,573 |
| Transfer to reserve for the year | | - | | - |
| Transfer from reserve for the year | | (305,817) | | (407,756) |
| | $ | - | $ | 305,817 |

### 13. Other operating costs:

| | 2013 | 2012 |
|---|---|---|
| Advertising | $ 530,171 | $ 534,222 |
| Interest on long-term debt | 1,842,787 | 1,607,797 |
| Contract services | 1,041,061 | 876,055 |
| Software | 553,772 | 498,901 |
| Provider fees | 343,978 | 217,517 |
| Photocopy | 291,504 | 341,548 |
| Lab fees | 263,980 | 284,268 |
| Study tours | 198,603 | 204,780 |
| Staff Development | 188,674 | 201,666 |
| Other | 1,405,213 | 1,603,675 |
| | $ 6,659,743 | $ 6,370,429 |

### 14. 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 consolidated financial statements. Financial statements of the Foundation are available upon request. A financial summary of this non-consolidated entity as at March 31, 2013 and 2012 and for the years then ended is as follows:

Holland College Foundation Inc.

| | 2013 | 2012 |
|---|---|---|
| Financial position: | | |
| Total assets | $ 4,883,513 | $ 4,613,693 |
| Total liabilities | 130,852 | 183,421 |
| Total net assets | $ 4,752,661 | $ 4,430,272 |

## 14. Related entities (continued):

(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, $ 442,199. (2012 - $ 356,656.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 3,501,856. (2012 - $ 3,302,904.) 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 14 (2)) that were financed by the College and will be repaid from future fundraising initiatives.

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Results of operations: | | | | |
| Total revenue | $ | 989,425 | $ | 1,351,194 |
| Total expenses (note 14 (2)) | | 760,734 | | 1,715,927 |
| Excess of revenue over expenses (expenses over revenue) | $ | 228,691 | $ | (364,733) |

(2) During the year, the College paid a grant totaling $ 302,715. (2012 - $ 289,502.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized gains of $ 93,698. (2012 - $ 27,840.) on long-term investments during the 2013 fiscal year. During the year, the College received $ 524,521. (2012 - $ 1,535,772.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 130,852. (2012 - $ 175,853.), representing Project funds approved for release to the College and fundraising costs.

## 15. Commitments:

The College has operating leases for its premises at Slemon Park. The premises are leased at a base rent of $ 12.43 per square foot under a lease expiring July 31, 2015, a base rent of $ 5.16 per square foot under a lease expiring December 31, 2018, a base rent of $ 6.30 per square foot under a lease expiring August 31, 2013, a base rent of $ 0.61 per square foot for three additional spaces under lease expiring October 31, 2013, a base rent of $ 7.63 per square foot for a lease expiring March 31, 2014, and a base rent of $ 2.62 per square foot under a lease expiring March 31, 2014. The base rents will increase each August 1st, July 1st and September 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 leases at Slemon Park, the College also has operating leases for other premises. The premises are leased at a base rent of $ 9.95 to $ 15.27. per square foot. Further, the College has a lease at the Canadian Golf Academy at a base rent of $ 9,641. per month expiring in 2023. The College also signed a five year service agreement in April 2011 with Kongsberg Maritime Simulation. The monthly payments range from $ 14,975. at the beginning of the lease, to $ 16,209. at the end of the lease. The minimum annual lease and service contract payments for the next five years are as follows:

| | |
|---|---|
| 2014 | $ 1,202,745 |
| 2015 | 739,256 |
| 2016 | 587,728 |
| 2017 | 393,215 |
| 2018 | 393,215 |

## 16. 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 $ 3,631,446. in cash, one financial institution held $ 3,269,750. of all cash assets. The total cash held with one financial institution exceeded the maximum insurable amount from the Canada Deposit Insurance Corporation by $ 3,169,750. Of the College's $ 14,949,722. in accounts receivable, one government agency accounted for 47.5% of all 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 of 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 nine (2012 - nine) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 42,354,000. (2012 - $ 44,470,000.) 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 with the fair value being provided by the Royal Bank of Canada. The swap contracts have effective interest rates of 4.49%, 4.12%, 4.14%, 4.72%, 3.00%, 3.15%, 2.94%, 2.59% and 2.85% and will mature in April 2030, June 2030, September 2023, June 2025, January 2015, October 2019, August 2031, February 2032 and March 2032, respectively.

## 17. Prior period restatement:

Excess of expenses over revenue have been restated due to a change in actuarial calculations for the year ended March 31, 2012 based on a correction of special contributions made by the College to the pension plan during the year. As a result, the accrued pension asset as of March 31, 2012 has increased by $ 419,900., pension expense has decreased by $ 12,200. and salaries and benefits expense has decreased by $ 407,700. for the year ending March 31, 2012. In addition, $ 407,756. representing the amount transferred from the pension reserve to offset special contributions made by the College was reclassified for presentation purposes as an increase to salaries and benefits expense and net change in accumulated operating surplus.

| Adjustment - excess of revenue over expenses | 2012 |
|---|---|
| Excess of revenue over expenses, as previously reported | $ 1,224,499 |
| Actuarial adjustment for special contributions not reported in the year | 407,700 |
| Actuarial adjustment to pension expense | 12,200 |
| Reclassification of amount used from pension reserve - for presentation | (407,756) |
| | $ 1,236,643 |

## 18. Comparative figures:

The comparative amounts presented in the consolidated financial statements have been restated to conform to the current year's presentation.