Holland College
Financial Statements
For the Year Ended March 31, 2018

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Contents

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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, 2018 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Holland College as at March 31, 2018 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, 2018

Holland College
Statement of Financial Position

March 31	2018	2017
Assets		
Current		
Cash	$ 1,405,082	$ 2,377,471
Receivables (Note 2)	17,811,214	13,258,478
Inventory	745,892	642,397
Prepaid expenses	323,960	237,074
Deposits	-	230,569
	20,286,148	16,745,989
Due from subsidiary (Note 3)	649,982	564,249
Investment in subsidiary (Note 3)	37,707	20,678
Property and equipment (Note 4)	85,373,746	72,666,604
	$ 106,347,583	$ 89,997,520
Liabilities, Deferred Contributions and Net Deficit		
Current		
Payables and accruals (Note 5)	$ 5,799,228	$ 3,452,945
Deferred revenue	3,211,623	3,105,221
Accrued vacation pay	3,124,008	2,998,669
Short-term debt (Note 6)	9,149,107	-
Scheduled cash repayments for long-term debt (Note 7)	3,157,481	2,833,000
	24,441,447	12,389,835
Retirement obligations	4,968,300	5,015,100
Long-term debt (Note 7)	32,377,519	34,336,000
Derivatives (Note 8)	1,976,817	3,829,767
Deferred contributions (Note 9)	30,545,146	26,147,540
Accrued pension liability (Note 10)	18,879,200	10,578,100
	113,188,429	92,296,342
Net Deficit		
Invested in property and equipment (Note 11)	10,560,807	9,795,783
Internally restricted for future capital purchases	1,687,250	1,687,250
Deficit	(19,088,903)	(13,781,855)
	(6,840,846)	(2,298,822)
	$ 106,347,583	$ 89,997,520

On behalf of the Board:

Michael L. O'Brien Governor   Brian McMillan 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	Internally restricted for future property and equipment purchases	Accumulated operating deficit	2018 Total	2017 Total
Balance, beginning of the year	$ 9,795,783	$ 1,687,250	$ (13,781,855)	$ (2,298,822)	$ (9,951,678)
Excess of revenue over expenses	-	-	2,770,568	2,770,568	303,554
Net change in investment in property and equipment	756,716	-	(756,716)	-	-
Pension remeasurements	-	-	(7,320,900)	(7,320,900)	7,341,400
Capital grant for land	8,308	-	-	8,308	7,902
Balance, end of the year	$ 10,560,807	$ 1,687,250	$ (19,088,903)	$ (6,840,846)	$ (2,298,822)

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

Holland College
Statement of Operations

For the year ended March 31	2018	2017
Revenue		
Grants		
Province of Prince Edward Island	**$19,994,564**	$ 19,727,104
Other grants	**3,712,946**	3,514,862
Contract training	**10,832,483**	9,722,707
Sales, recoveries and incidentals	**4,751,957**	4,913,875
Student fees	**20,370,215**	18,938,065
Amortization of deferred contributions	**3,170,785**	2,601,446
	62,832,950	59,418,059
Operating expenses		
Amortization	**4,314,498**	3,977,080
Maintenance, insurance and property taxes	**1,254,497**	1,287,851
Other operating costs (Note 12)	**6,458,567**	6,455,028
Purchases for resale	**2,214,613**	2,282,678
Rentals	**1,465,718**	1,196,379
Salaries and benefits	**36,745,786**	35,824,250
Texts, materials and supplies	**2,711,067**	2,462,632
Travel	**1,253,478**	1,340,254
Utilities	**2,751,738**	2,726,265
	59,169,962	57,552,417
Excess of revenue over expenses before the undernoted	**3,662,988**	1,865,642
Investment income (loss) - equity method	**17,029**	(38,714)
Pension expense (Note 10)	**(2,762,400)**	(3,226,800)
Change in carrying value of derivatives	**1,852,951**	1,703,426
	(892,420)	(1,562,088)
Excess of revenue over expenses	**$ 2,770,568**	$ 303,554

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

Holland College
Statement of Cash Flows

For the year ended March 31	2018	2017
Cash flows from operating activities		
Excess of revenue over expenses	**$ 2,770,568**	$ 303,554
Items not affecting cash:		
Amortization of capital assets and program development	**4,314,498**	3,977,080
Amortization of deferred contributions	**(3,170,785)**	(2,601,446)
Pension remeasurements and other items	**(7,320,900)**	7,341,400
Change in carrying value of derivatives	**(1,852,951)**	(1,703,426)
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**(4,552,736)**	1,922,347
Increase in inventory	**(103,495)**	(81,729)
Increase in prepaids	**(86,886)**	(28,907)
Increase (decrease) in payables and accruals	**1,267,323**	(2,438,334)
Increase (decrease) in deferred revenue	**106,402**	(227,265)
Increase in accrued vacation pay	**125,339**	77,312
Increase (decrease) in retirement obligations	**(46,800)**	498,100
Increase (decrease) in pension liability	**8,301,100**	(6,604,400)
	(249,323)	434,286
Cash flows from investing activities		
Acquisition of property and equipment	**(15,942,681)**	(1,903,709)
Change in investment in subsidiary - equity method	**(17,029)**	38,714
Increase in due from subsidiary	**(85,733)**	(92,378)
Decrease (increase) in deposits	**230,569**	(230,569)
	(15,814,874)	(2,187,942)
Cash flows from financing activities		
Repayment of long-term debt	**(2,834,000)**	(2,728,000)
Proceeds from long-term debt	**1,200,000**	-
Proceeds from short-term debt	**9,149,108**	-
Capital grant for land	**8,309**	7,902
Increase in deferred contributions - property and equipment	**6,127,420**	2,242,290
Contributions - debt servicing	**1,440,971**	1,385,726
	15,091,808	907,918
Net decrease in cash	**(972,389)**	(845,738)
Cash, beginning of the year	**2,377,471**	3,223,209
Cash, end of the year	**$ 1,405,082**	$ 2,377,471

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

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 3. 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 $ 130,861. (2017 - $ 203,341.) 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.

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 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.

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. Significant estimates made by management in the preparation of these financials include:

- The College's Harmonized Sales Tax filings are subject to audit by taxation authorities. There are various items under review, which may change the tax liability of the College. The ultimate results of these items under review cannot be ascertained at this time. Management is of the opinion that they have adequately provided for Harmonized Sales Tax based on all information currently available;

- The estimated useful lives of assets and the resulting estimates for depreciation expense; and

- The pension obligation is determined based upon an actuarial valuation which includes critical assumptions for discount rates, investment performance, terminations and mortality rates. These estimates may change and as a result, a change in the amount of the pension obligation recognized may be required.

Foreign Currency Translation

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

2. Receivables

	2018	2017
Trade	**$16,012,307**	$ 12,488,348
Trade - related parties (Note 13)	**1,068,035**	658,364
HST receivable	**730,872**	111,766
	$17,811,214	$ 13,258,478

Trade accounts receivable are recorded net of an impairment allowance of $ 182,042. (2017 - $ 194,162.).

Included in trade accounts receivable is a contribution receivable in the amount of $ 1,000,000. which will be received in annual $ 100,000. installments beginning June 2018.

3. 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, 2018 and 2017 and for the years then ended is as follows:

	2018	2017
Balance sheet:		
Total assets	**$ 999,542**	$ 855,015
Total liabilities	**961,835**	834,337
Total net shareholder's equity	**$ 37,707**	$ 20,678

As at March 31, 2018, $ 649,982. (2017 - $ 564,249.) 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.

	2018	2017
Results of operations:		
Total revenue	**$ 1,998,315**	$ 2,025,119
Total expenses	**1,977,094**	2,063,833
Net income (loss)	**$ 21,221**	$ (38,714)

	2018	2017
Cash flows:		
Cash from operations	**$ (34,008)**	$ 109,315
Cash used in investing activities	**(39,657)**	(219,920)
Cash from financing activities	**27,294**	109,960
Net decrease in cash	**$ (46,371)**	$ (645)

4. Property and Equipment

	2018		2017	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 7,507,158**	**$ -**	$ 5,813,764	$ -
Buildings	**84,091,414**	**18,903,798**	74,808,696	16,845,788
Major building alterations	**22,804,728**	**14,123,932**	19,269,751	13,426,522
Equipment	**21,262,951**	**17,691,698**	20,119,998	17,515,155
Parking lot	**597,492**	**170,569**	597,492	155,632
	136,263,743	**50,889,997**	120,609,701	47,943,097
		$ 85,373,746		$ 72,666,604

Included in the College's amortization expense is $ 4,314,498. (2017 - $ 3,976,617.) 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.

During the current year, the College began construction of a residence building. The cost to date of $ 1,771,089. is included in the buildings category above but no amortization has been recorded since the project was not complete at year end.

5. Payables and Accruals

	2018	2017
Trade	**$ 3,602,344**	$ 2,731,528
Trade - property and equipment	**1,078,963**	-
Accrued payroll	**741,749**	721,417
Government remittances	**376,172**	-
	$ 5,799,228	$ 3,452,945

6. Short-term debt

	2018	2017
Royal Bank of Canada, construction loan, prime less 0.5%, secured by a promissory note, to be refinanced by way of an interest rate swap contract July 31, 2018	**$ 5,267,892**	$ -
Royal Bank of Canada, construction loan, prime less 0.5%, secured by a promissory note, to be refinanced by way of an interest rate swap contract August 31, 2018	**2,123,828**	-
Royal Bank of Canada, equipment loan, prime less 0.5%, secured by a promissory note, maturing September 4, 2018	**1,757,387**	-
	$ 9,149,107	$ -

7. Long-term Debt

	2018	2017
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	**$ 6,355,000**	$ 6,717,000

7. Long-term Debt (continued)

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	**6,139,000**	6,493,000
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	**4,499,000**	5,217,000
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	**4,461,000**	4,718,000
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	**3,901,000**	4,132,000
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	**2,796,000**	2,985,000
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	**1,883,000**	2,097,000
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	**1,715,000**	1,939,000

7. Long-term Debt (continued)

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	**1,177,000**	1,227,000
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	**1,133,000**	1,198,000
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	**800,000**	-
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	**397,000**	-
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	**279,000**	446,000
	35,535,000	37,169,000
Current portion of long-term debt	**(3,157,481)**	(2,833,000)
Long-term portion of debt	**$32,377,519**	$ 34,336,000

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2018 are as follows: 2019 - $ 3,157,481.; 2020 - $ 3,479,000.; 2021 - $ 3,507,000.; 2022 - $ 3,643,000.; and 2023 - $ 3,746,000.

Included in other operating costs is interest on long-term debt in the amount of $ 1,414,162. (2017 - $ 1,472,950.).

8. Derivatives

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

The College has entered into various interest rate swap agreements 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, 2018 and 2017, 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, 2018		As at March 31, 2017	
	Notional amount	**Fair value favourable (unfavourable)**	Notional amount	Fair value favourable (unfavourable)
4.47% fixed, maturing June 2025	**$ 1,883,000**	**$ (150,655)**	$ 2,097,000	$ (270,189)
3.15% fixed, maturing October 2019	**279,000**	**(2,833)**	446,000	(12,571)
4.12% fixed, maturing June 2030	**3,901,000**	**(412,685)**	4,132,000	(664,783)
2.94% fixed, maturing August 2031	**4,461,000**	**(152,517)**	4,718,000	(379,951)
4.14% fixed, maturing September 2023	**4,499,000**	**(237,229)**	5,217,000	(487,725)
2.60% fixed, maturing July 2038	**397,000**	**(46,833)**	-	-
2.45% fixed, maturing October 2027	**800,000**	**(886)**	-	-
4.49% fixed, maturing April 2030	**6,139,000**	**(782,741)**	6,493,000	(1,202,944)
2.59% fixed, maturing February 2032	**6,355,000**	**(73,853)**	6,717,000	(374,738)
2.85% fixed, maturing March 2032	**1,133,000**	**(32,507)**	1,198,000	(88,945)
2.91% fixed, maturing February 2030	**2,796,000**	**(86,243)**	2,985,000	(229,036)
2.54% fixed, maturing January 2025	**1,715,000**	**(15,724)**	1,939,000	(86,777)
2.29% fixed, maturing September 2035	**1,177,000**	**17,889**	1,227,000	(32,108)
	$ 35,535,000	**$ (1,976,817)**	$ 37,169,000	$ (3,829,767)

9. 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.

	2018	2017
Beginning balance	**$ 26,147,540**	$ 25,120,970
Add:		
Contributions - property and equipment	**6,127,420**	2,242,290
Contributions - debt servicing	**1,440,971**	1,385,726
Total contributions	**7,568,391**	3,628,016
Less:		
Amounts amortized to revenue - property and equipment	**(2,476,832)**	(1,910,187)
Amounts amortized to revenue - debt servicing	**(693,953)**	(691,259)
Total amounts amortized to revenue	**(3,170,785)**	(2,601,446)
	$ 30,545,146	$ 26,147,540

10. Pension Plan

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

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

	2018	2017
Change in benefit obligation:		
Benefit obligation - beginning of the year	**$ 139,861,800**	$135,739,200
Current service cost	**1,827,200**	1,795,400
Employees contributions	**1,772,300**	1,737,700
Interest cost on defined benefit obligation	**8,364,200**	8,153,000
Benefit payments	**(7,509,200)**	(6,406,000)
Actuarial gain	**-**	(1,157,500)
Benefit obligation - end of the year	**$ 144,316,300**	$139,861,800
Change in plan assets:		
Fair value of plan assets - beginning of the year	**$ 129,283,700**	$118,556,700
Interest income on plan assets	**7,625,200**	7,025,400
Administration costs	**(196,200)**	(303,800)
Employer contributions	**1,830,700**	2,030,600
Estimated employee contributions and past service cost	**1,772,200**	1,737,700
Actuarial gain (loss) on plan assets	**(7,369,300)**	6,643,100
Benefits paid	**(7,509,200)**	(6,406,000)
Benefit asset - end of the year	**$ 125,437,100**	$129,283,700

10. Pension Plan (continued)

	2018	2017
Reconciliation of funded status:		
Present value of defined benefit obligation	**$(144,316,300)**	$(139,861,800)
Fair value of plan assets	**125,437,100**	129,283,700
Accrued benefit liability	**$ (18,879,200)**	$ (10,578,100)
Net expense:		
Current service cost (employer)	**$ 1,827,200**	$ 1,795,400
Administration costs	**196,200**	303,800
Interest income on plan assets	**(7,625,200)**	(7,025,400)
Interest cost on defined benefit obligation	**8,364,200**	8,153,000
Net expense	**$ 2,762,400**	$ 3,226,800
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%

11. Investment in Property and Equipment

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

	2018	2017
Property and equipment	**$ 85,373,746**	$ 72,666,604
Add: accumulative direct increase to net assets	**76,787**	68,480
Amounts financed by:		
Deferred contributions - property and equipment	**(30,545,146)**	(26,147,540)
Long-term debt	**(35,535,000)**	(37,169,000)
Short-term debt	**(9,149,107)**	-
Purchases to be financed from future borrowings	**(1,417,860)**	(833,566)
Temporary bridge financing to be repaid	**1,757,387**	-
Capital contributions for future additions	**-**	1,210,805
	$ 10,560,807	$ 9,795,783

(b) Net change in investment in capital assets:

	2018	2017
Purchase of property and equipment	**$ 17,021,640**	$ 1,903,709
Amounts funded by:		
Deferred contributions	**(6,127,420)**	(2,242,290)
Purchases to be financed from future borrowings	**(1,417,860)**	(833,566)
Prior year purchases financed in current year	**833,566**	-
Capital contributions for future additions	**-**	1,210,805
Capital contributions from prior year for current additions	**(1,210,805)**	-
Issuance of long-term debt	**(1,200,000)**	-
Issuance of short-term debt	**(9,149,108)**	-
Release of internally restricted loan proceeds	**-**	(113,580)
Repayment of long-term debt	**2,834,000**	2,728,000
Contributions - debt servicing	**(1,440,971)**	(1,385,726)
Amortization of deferred contributions - capital	**2,476,832**	1,910,187
Amortization of deferred contributions - debt servicing	**693,953**	691,259
Amortization of property and equipment	**(4,314,498)**	(3,976,617)
Temporary financing to be repaid	**1,757,387**	-
	$ 756,716	$ (107,819)

12. Other Operating Costs

	2018	2017
Advertising	**$ 561,673**	$ 533,907
Bad debt expense	**31,422**	218,741
Contract services	**820,005**	881,732
Graduation	**126,279**	102,350
Interest on long-term debt	**1,414,162**	1,472,950
Lab fees	**272,917**	249,590
Laundry	**76,757**	104,584
Legal	**185,274**	122,320
Membership fees	**92,578**	115,221
Photocopy	**265,123**	263,308
Postage	**53,130**	67,026
Provider fees	**350,426**	481,916
Registrations and maintenance fees	**135,096**	124,863
Software	**695,847**	641,506
Staff development	**164,968**	156,797
Study tour costs	**118,820**	99,520
Other	**1,094,090**	818,697
	$ 6,458,567	$ 6,455,028

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, 2018 and 2017 and for the years then ended is as follows:

Holland College Foundation Inc.	**2018**	2017
Balance sheet:		
Total assets	**$ 8,162,843**	$ 6,905,623
Total liabilities	**722,035**	658,364
Total net assets	**$ 7,440,808**	$ 6,247,259

(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, $ 137,121. (2017 - $ 78,351.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 6,030,619. (2017 - $ 4,967,683.) 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.

	2018	2017
Results of operations:		
Total revenue	**$ 2,579,439**	$ 1,951,325
Total expenses (Note 13 (2))	**1,250,028**	1,030,568
Excess of revenue over expenses	**$ 1,329,411**	$ 920,757

13. Related Entities (continued)

(2) During the year, the College paid a grant totaling $ 362,787. (2017 - $ 351,836.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized losses of $ 135,862. (2017 - gains of $ 2,562.) on long-term investments during the 2018 fiscal year. During the year, the College received $ 776,852. (2017 - $ 616,203.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 591,183. (2017 - $ 658,364.), 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, 2018 and 2017 and for the years then ended is as follows:

Holland College Hurricanes Football Club Inc.

	2018	2017
Balance sheet:		
Total assets	**$ 183,059**	$ 48,481
Total liabilities	**358,311**	272,994
Total net assets	**$ (175,252)**	$ (224,513)

	2018	2017
Results of operations:		
Total revenue	**$ 137,893**	$ 100,348
Total expenses	**88,632**	113,978
Excess (deficiency) of revenue over expenses	**$ 49,261**	$ (13,630)

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. (2017 - $ 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:

2019	$ 813,468
2020	422,848
2021	415,973
2022	168,237
2023	81,984
	$ 1,902,510

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 $ 1,405,082. in cash, one financial institution held $ 1,286,332. of all cash assets. The total cash held with one financial institution exceeded the maximum insurable amount from the Canada Deposit Insurance Corporation by $ 1,166,038. In addition, the College held cash of $ 130,861. with a foreign bank which was uninsured. Of the College's $ 17,080,342. in trade accounts receivable, government agencies accounted for 70% 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. There have not been any changes in the risk from the prior year.

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 (2017 - eleven) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 35,535,000. (2017 - $ 37,169,000.) of notional principal against the floating interest position assumed by the Royal Bank of Canada. The carrying value for the swap contracts is the notional principal noted above. The swap contracts have effective interest rates and maturity dates as disclosed in Note 8.

16. Contingent Liability

The College has provided a guarantee on an operating loan, available to a maximum of $ 200,000. held by Justice Knowledge Network Inc. ("JKN"), a wholly-owned subsidiary of the College. The operating loan is being used to finance operations of JKN and is unsecured. As of March 31, 2018, JKN had utilized $ Nil. (2017 - $ Nil.) of this facility.