Holland College
Financial Statements
For the Year Ended March 31, 2019

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Contents

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Independent Auditor's Report

To the Board of Governors of Holland College

Opinion

We have audited the financial statements of Holland College (the College), which comprise the statement of financial position as at March 31, 2019, the statements of operations, changes in net deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2019, and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the College to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants

Charlottetown, Prince Edward Island
July 10, 2019

Holland College
Statement of Financial Position

March 31	2019	2018
Assets		
Current		
Cash	$ 523,407	$ 1,405,082
Receivables (Note 2)	16,372,748	17,811,214
Inventory	847,331	745,892
Prepaid expenses	315,011	323,960
	18,058,497	20,286,148
Due from subsidiary (Note 3)	672,026	649,982
Investment in subsidiary (Note 3)	19,401	37,707
Capital assets (Note 4)	88,479,055	85,373,746
	$ 107,228,979	$ 106,347,583
Liabilities, Deferred Contributions and Net Deficit		
Current		
Payables and accruals (Note 5)	$ 4,616,742	$ 5,799,228
Deferred revenue	3,889,802	3,211,623
Accrued vacation pay	3,020,516	3,124,008
Short-term debt (Note 6)	-	9,149,107
Scheduled cash repayments for long-term debt (Note 7)	3,479,000	3,157,481
	15,006,060	24,441,447
Retirement obligations	5,229,100	4,968,300
Long-term debt (Note 7)	41,549,000	32,377,519
Derivatives (Note 8)	2,928,840	1,976,817
Deferred contributions (Note 9)	31,099,158	30,545,146
Accrued pension liability (Note 10)	26,466,300	18,879,200
	122,278,458	113,188,429
Net Deficit		
Invested in capital assets (Note 11)	11,938,508	10,560,807
Internally restricted for future capital purchases	537,250	1,687,250
Deficit	(27,525,237)	(19,088,903)
	(15,049,479)	(6,840,846)
	$ 107,228,979	$ 106,347,583

On behalf of the Board:

Michael O'Brien Governor

[signature] 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 capital assets	Internally restricted for future property and equipment purchases	Accumulated operating deficit	2019 Total	2018 Total
Balance, beginning of the year	$ 10,560,807	$ 1,687,250	$ (19,088,903)	$ (6,840,846)	$ (2,298,822)
Excess (deficiency) of revenue over expenses	-	-	(2,001,368)	(2,001,368)	2,770,568
Net change in investment in capital assets	1,368,966	-	(1,368,966)	-	-
Net change in internally restricted for future capital asset purchases	-	(1,150,000)	1,150,000	-	-
Pension remeasurements	-	-	(6,216,000)	(6,216,000)	(7,320,900)
Capital grant for land	8,735	-	-	8,735	8,308
Balance, end of the year	$ 11,938,508	$ 537,250	$ (27,525,237)	$ (15,049,479)	$ (6,840,846)

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

Holland College
Statement of Operations

For the year ended March 31	2019	2018
Revenue		
Grants		
Province of Prince Edward Island	$20,369,731	$ 19,994,564
Other grants	3,983,998	3,712,946
Contract training	11,144,970	10,832,483
Sales, recoveries and incidentals	5,126,421	4,751,957
Student fees	20,748,676	20,370,215
Amortization of deferred contributions	3,098,155	3,170,785
	64,471,951	62,832,950
Operating expenses		
Amortization	4,526,878	4,314,498
Maintenance, insurance and property taxes	1,358,479	1,254,497
Other operating costs (Note 12)	6,585,001	6,458,567
Purchases for resale	2,523,265	2,214,613
Rentals	1,269,721	1,465,718
Salaries and benefits	38,694,792	36,745,786
Texts, materials and supplies	2,709,206	2,711,067
Travel	1,253,472	1,253,478
Utilities	3,183,476	2,751,738
	62,104,290	59,169,962
Excess of revenue over expenses before the undernoted	2,367,661	3,662,988
Investment income (loss) - equity method	(18,306)	17,029
Pension expense (Note 10)	(3,398,700)	(2,762,400)
Change in carrying value of derivatives	(952,023)	1,852,951
	(4,369,029)	(892,420)
Excess (deficiency) of revenue over expenses	$ (2,001,368)	$ 2,770,568

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

Holland College
Statement of Cash Flows

For the year ended March 31	2019	2018
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	**$ (2,001,368)**	$ 2,770,568
Items not affecting cash:		
Amortization of capital assets and program development	**4,526,878**	4,314,498
Amortization of deferred contributions	**(3,098,155)**	(3,170,785)
Pension remeasurements and other items	**(6,216,000)**	(7,320,900)
Change in carrying value of derivatives	**952,023**	(1,852,951)
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**1,438,466**	(4,552,736)
Increase in inventory	**(101,440)**	(103,495)
Decrease (increase) in prepaids	**8,949**	(86,886)
Increase (decrease) in payables and accruals	**(1,182,484)**	1,267,323
Increase in deferred revenue	**678,179**	106,402
Increase (decrease) in accrued vacation pay	**(103,493)**	125,339
Increase (decrease) in retirement obligations	**260,800**	(46,800)
Increase in pension liability	**7,587,100**	8,301,100
	2,749,455	(249,323)
Cash flows from investing activities		
Acquisition of capital assets	**(7,632,188)**	(15,942,681)
Change in investment in subsidiary - equity method	**18,306**	(17,029)
Increase in due from subsidiary	**(22,044)**	(85,733)
Increase in deposits	**-**	230,569
	(7,635,926)	(15,814,874)
Cash flows from financing activities		
Repayment of long-term debt	**(2,977,000)**	(2,834,000)
Proceeds from long-term debt	**12,470,000**	1,200,000
Proceeds from short-term debt	**-**	9,149,107
Repayment of short-term debt	**(9,149,107)**	-
Capital grant for land	**8,735**	8,310
Increase in deferred contributions - capital assets	**1,817,009**	6,127,420
Contributions - debt servicing	**1,835,159**	1,440,971
	4,004,796	15,091,808
Net decrease in cash	**(881,675)**	(972,389)
Cash, beginning of the year	**1,405,082**	2,377,471
Cash, end of the year	**$ 523,407**	$ 1,405,082

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 $ 541,915. (2018 - $ 130,861.) 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)

Capital Assets

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

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

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

Capital assets under construction are not amortized until completion.

Vacation Pay

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

Pension Plan

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

Retirement Obligations

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

1. Significant Accounting Policies (continued)

Revenue Recognition

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

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

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

Amounts received for 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 capital assets.

Financial Instruments

Financial instruments are recorded at fair value at initial recognition.

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

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

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

	2019	2018
Trade	**$14,761,302**	$ 16,012,307
Trade - related parties (Note 13)	**1,519,385**	1,068,035
HST receivable	**92,061**	730,872
	$16,372,748	$ 17,811,214

Trade accounts receivable are recorded net of an impairment allowance of $ 296,608. (2018 - $ 182,042.).

Included in trade accounts receivable is a contribution receivable in the amount of $ 900,000. (2018 - $ 1,000,000.) which will be received in annual $ 100,000. installments.

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, 2019 and 2018 and for the years then ended is as follows:

	2019	2018
Balance sheet:		
Total assets	**$ 1,047,305**	$ 999,542
Total liabilities	**1,027,904**	961,835
Total net shareholder's equity	**$ 19,401**	$ 37,707

As at March 31, 2019, $ 672,026. (2018 - $ 649,982.) 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.

	2019	2018
Results of operations:		
Total revenue	**$ 2,034,104**	$ 1,998,315
Total expenses	**2,052,410**	1,977,094
Net income (loss)	**$ (18,306)**	$ 21,221

	2019	2018
Cash flows:		
Cash from operations	**$ 304,767**	$ (34,008)
Cash used in investing activities	**(22,193)**	(39,657)
Cash from financing activities	**-**	27,294
Net increase (decrease) in cash	**$ 282,574**	$ (46,371)

4. Capital Assets

	2019		2018	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 7,607,704**	**$ -**	$ 7,507,158	$ -
Buildings	**88,952,090**	**21,117,630**	84,091,414	18,903,798
Major building alterations	**23,794,962**	**14,850,352**	22,804,728	14,123,932
Equipment	**19,683,281**	**16,002,986**	21,262,951	17,691,698
Parking lot	**597,492**	**185,506**	597,492	170,569
	140,635,529	**52,156,474**	136,263,743	50,889,997
		$ 88,479,055		$ 85,373,746

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 $ 398,912. 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

	2019	2018
Trade	**$ 3,419,137**	$ 3,602,344
Trade - capital assets	**-**	1,078,963
Accrued payroll	**1,197,605**	741,749
Government remittances	**-**	376,172
	$ 4,616,742	$ 5,799,228

6. Short-term debt

	2019	2018
Royal Bank of Canada, construction loan, prime less 0.5%, repaid during the year	**$ -**	$ 5,267,892
Royal Bank of Canada, construction loan, prime less 0.5%, repaid during the year	**-**	2,123,828
Royal Bank of Canada, equipment loan, prime less 0.5%, repaid during the year	**-**	1,757,387
	$ -	$ 9,149,107

7. Long-term Debt

	2019	2018
Royal Bank of Canada, interest rate swap contract, 2.59%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on February 3, 2032	**$ 5,982,000**	$ 6,355,000
Royal Bank of Canada, interest rate swap contract, 4.49%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on April 30, 2030	**5,767,000**	6,139,000
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	**3,752,000**	4,499,000
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	**4,195,000**	4,461,000
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	**3,659,000**	3,901,000
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	**2,601,000**	2,796,000

7. Long-term Debt (continued)

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	**1,770,000**	1,883,000
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	**1,485,000**	1,715,000
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	**1,125,000**	1,177,000
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	**1,065,000**	1,133,000
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	**768,000**	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	**12,754,000**	397,000

7. 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	**105,000**	279,000
	45,028,000	35,535,000
Current portion of long-term debt	**(3,479,000)**	(3,157,481)
Long-term portion of debt	**$41,549,000**	$ 32,377,519

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2019 are as follows: 2020 - $ 3,479,000.; 2021 - $ 3,507,000.; 2022 - $ 3,643,000.; 2023 - $ 3,783,000.; and 2024 - $ 3,474,000.

Included in other operating costs is interest on long-term debt in the amount of $ 1,666,372. (2018 - $ 1,414,162.).

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, 2019 and 2018, 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, 2019		As at March 31, 2018	
	Notional amount	**Fair value favourable (unfavourable)**	Notional amount	Fair value favourable (unfavourable)
3.92% fixed, maturing May 2024	**$ 1,770,000**	**$ (235,912)**	$ 1,883,000	$ (150,655)
3.15% fixed, maturing October 2019	**105,000**	**(420)**	279,000	(2,833)
4.12% fixed, maturing June 2030	**3,659,000**	**(451,558)**	3,901,000	(412,685)
2.94% fixed, maturing August 2031	**4,195,000**	**(244,794)**	4,461,000	(152,517)
4.14% fixed, maturing September 2023	**3,752,000**	**(196,763)**	4,499,000	(237,229)
2.60% fixed, maturing July 2038	**12,754,000**	**(488,343)**	397,000	(46,833)
2.45% fixed, maturing October 2027	**768,000**	**(22,010)**	800,000	(886)
4.49% fixed, maturing April 2030	**5,767,000**	**(828,149)**	6,139,000	(782,741)
2.59% fixed, maturing February 2032	**5,982,000**	**(222,160)**	6,355,000	(73,853)
2.85% fixed, maturing March 2032	**1,065,000**	**(57,155)**	1,133,000	(32,507)
2.91% fixed, maturing February 2030	**2,601,000**	**(134,833)**	2,796,000	(86,243)
2.54% fixed, maturing January 2025	**1,485,000**	**(29,232)**	1,715,000	(15,724)
2.29% fixed, maturing September 2035	**1,125,000**	**(17,511)**	1,177,000	17,889
	$ 45,028,000	**$ (2,928,840)**	$ 35,535,000	$ (1,976,817)

9. Deferred Contributions

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

	2019	2018
Beginning balance	**$ 30,545,146**	$ 26,147,540
Add:		
Contributions - capital assets	**1,817,008**	6,127,420
Contributions - debt servicing	**1,835,159**	1,440,971
Total contributions	**3,652,167**	7,568,391
Less:		
Amounts amortized to revenue - capital assets	**(2,215,725)**	(2,476,832)
Amounts amortized to revenue - debt servicing	**(882,430)**	(693,953)
Total amounts amortized to revenue	**(3,098,155)**	(3,170,785)
	$ 31,099,158	$ 30,545,146

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:

	2019	2018
Change in benefit obligation:		
Benefit obligation - beginning of the year	**$ 144,316,300**	$139,861,800
Current service cost	**1,951,000**	1,827,200
Employees contributions	**1,897,600**	1,772,300
Interest cost on defined benefit obligation	**8,643,000**	8,364,200
Benefit payments	**(7,341,200)**	(7,509,200)
Benefit obligation - end of the year	**$ 149,466,700**	$144,316,300
Change in plan assets:		
Fair value of plan assets - beginning of the year	**$ 125,437,100**	$129,283,700
Interest income on plan assets	**7,399,000**	7,625,200
Administration costs	**(203,700)**	(196,200)
Employer contributions	**1,924,600**	1,830,700
Estimated employee contributions and past service cost	**1,897,600**	1,772,200
Actuarial loss on plan assets	**(6,113,000)**	(7,369,300)
Benefits paid	**(7,341,200)**	(7,509,200)
Benefit asset - end of the year	**$ 123,000,400**	$125,437,100

10. Pension Plan (continued)

	2019	2018
Reconciliation of funded status:		
Present value of defined benefit obligation	**$(149,466,700)**	$(144,316,300)
Fair value of plan assets	**123,000,400**	125,437,100
Accrued benefit liability	**$ (26,466,300)**	$ (18,879,200)
Net expense:		
Current service cost (employer)	**$ 1,951,000**	$ 1,827,200
Administration costs	**203,700**	196,200
Interest income on plan assets	**(7,399,000)**	(7,625,200)
Interest cost on defined benefit obligation	**8,643,000**	8,364,200
Net expense	**$ 3,398,700**	$ 2,762,400
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:

	2019	2018
Property and equipment	$ 88,479,055	$ 85,373,746
Add: accumulative direct increase to net assets	85,523	76,787
Amounts financed by:		
Deferred contributions - property and equipment	(31,099,158)	(30,545,146)
Long-term debt	(45,028,000)	(35,535,000)
Short-term debt	-	(9,149,107)
Purchases to be financed from future borrowings	(498,912)	(1,417,860)
Temporary bridge financing to be repaid	-	1,757,387
	$ 11,938,508	$ 10,560,807

(b) Net change in investment in capital assets:

	2019	2018
Purchase of property and equipment	$ 7,632,188	$ 17,021,640
Amounts funded by:		
Deferred contributions	(1,817,008)	(6,127,420)
Purchases to be financed from future borrowings	(498,912)	(1,417,860)
Prior year purchases financed in current year	1,417,860	833,565
Capital contributions from prior year for current additions	-	(1,210,805)
Issuance of long-term debt	(12,470,000)	(1,200,000)
Issuance of short-term debt	-	(9,149,107)
Repayment of short-term debt	9,149,107	-
Repayment of long-term debt	2,977,000	2,834,000
Contributions - debt servicing	(1,835,159)	(1,440,971)
Amortization of deferred contributions - capital	2,215,725	2,476,832
Amortization of deferred contributions - debt servicing	882,430	693,953
Amortization of property and equipment	(4,526,878)	(4,314,498)
Temporary financing to be repaid	-	1,757,387
Temporary financing repaid during the year	(1,757,387)	-
	$ 1,368,966	$ 756,716

12. Other Operating Costs

		2019		2018
Advertising	**$**	**486,405**	$	561,673
Bad debt expense		**339,913**		31,422
Contract services		**1,104,111**		820,005
Graduation		**132,088**		126,279
Interest on long-term debt		**1,666,372**		1,414,162
Lab fees		**271,231**		272,917
Laundry		**103,698**		76,757
Legal		**70,247**		185,274
Membership fees		**112,560**		92,578
Photocopy		**262,618**		265,123
Postage		**47,765**		53,130
Provider fees		**477,047**		350,426
Registrations and maintenance fees		**203,361**		135,096
Software		**671,548**		695,847
Staff development		**154,245**		164,968
Study tour costs		**81,904**		118,820
Other		**399,888**		1,094,090
	$	**6,585,001**	$	6,458,567

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, 2019 and 2018 and for the years then ended is as follows:

Holland College Foundation Inc.

	2019	2018
Balance sheet:		
Total assets	**$ 8,026,544**	$ 8,162,843
Total liabilities	**307,372**	722,035
Total net assets	**$ 7,719,172**	$ 7,440,808

(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, $ 111,490. (2018 - $ 137,121.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 6,219,442. (2018 - $ 6,030,619.) 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.

	2019	2018
Results of operations:		
Total revenue	**$ 1,173,688**	$ 2,579,439
Total expenses (Note 13 (2))	**1,250,520**	1,250,028
Excess (deficiency) of revenue over expenses	**$ (76,832)**	$ 1,329,411

13. Related Entities (continued)

(2) During the year, the College paid a grant totaling $ 382,750. (2018 - $ 362,787.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized losses of $ 80,228. (2018 - losses of $ 135,862.) on long-term investments during the 2019 fiscal year. During the year, the College received $ 445,720. (2018 - $ 776,852.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 1,293,656. (2018 - $ 591,183.), 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. The figures provided by the Club are not subject to either audit or review. A financial summary of this non-consolidated entity as at March 31, 2019 and 2018 and for the years then ended is as follows:

Holland College Hurricanes Football Club Inc.

	2019	2018
Balance sheet:		
Total assets	**$ 225,729**	$ 183,059
Total liabilities	**229,861**	358,311
Total net assets	**$ (4,132)**	$ (175,252)

	2019	2018
Results of operations:		
Total revenue	**$ 273,131**	$ 137,893
Total expenses	**97,878**	88,632
Excess of revenue over expenses	**$ 175,253**	$ 49,261

The Football Club owes the College $ 225,729. arising from funds advanced to the entity.

14. Commitments

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

2020	$	966,150
2021		433,464
2022		195,170
2023		110,727
2024		18,400
	$	1,723,911

15. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The College is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The College's financial instruments that are exposed to concentrations of credit risk relate primarily to accounts receivable. Of the College's $ 14,761,302. in trade accounts receivable, government agencies accounted for 85.95% 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 (2018 - thirteen) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 45,028,000. (2018 - $ 35,535,000.) 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, 2019, JKN had utilized $ Nil. (2018 - $ Nil.) of this facility.