Holland College
Consolidated Financial Statements
For the Year Ended March 31, 2015

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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 statement of financial position as at March 31, 2015 and the consolidated 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 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 audit. We con56 TD(based on of

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Holland College as at March 31, 2015 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.

Charlottetown, Prince Edward Island
July 14, 2015

Holland College
Consolidated Statement of Financial Position

March 31		2015		2014
Assets				
Current				
Cash	$	**3,923,233**	$	3,588,320
Receivables		**13,285,648**		13,591,786
Inventory		**565,409**		517,936

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Holland College
Consolidated Statement of Changes in Net Deficit

For the year ended March 31	Invested in property and equipment	Invested in program development	Internally restricted for future property and equipment purchases	Internally restricted for future pension funding	Accumulated operating deficit	2015 Total	2014 Total
Balance, beginning of the year	$ 9,272,217	$ 16,383	$ 771,450	$ 1,273,800	$ (13,872,129)	$ (2,538,279)	$ (3,440,662)
Excess (deficit) of revenue over expenses	-	-	-	-	(2,932,411)	(2,932,411)	895,584
Net change in investment in property and equipment	510,732	-	-	-	(510,732)	-	-
Net change in investment in program development	-	(8,002)	-	-	8,002	-	-
Pension remeasurements	-	-	-	-	4,825,400	4,825,400	-
Net change in internally restricted for future pension funding	-	-	-	(463,200)	463,200	-	-
Capital grant for land	7,149	-	-	-	-	7,149	6,799
Balance, end of the year	$ 9,790,098	$ 8,381	$ 771,450	$ 810,600	$ (12,018,670)	$ (638,141)	$ (2,538,279)

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

Holland College
Consolidated Statement of Operations

For the year ended March 31	2015	2014
Revenue		
Grants		
Province of Prince Edward Island	**$18,964,517**	$ 19,123,200
Other grants	**4,077,188**	3,876,148
Contract training	**9,824,350**	10,689,056
Sales, recoveries and incidentals	**4,622,298**	4,431,948
Student fees	**17,525,044**	18,366,868
Amortization of deferred contributions	**3,441,309**	3,278,303
	58,454,706	59,765,523
Expenses		
Amortization	**4,883,089**	4,734,301
Maintenance, insurance and property taxes	**1,160,737**	1,405,267
Other operating costs (Note 14)	**6,220,622**	7,083,064
Purchases for resale	**2,263,557**	2,267,998
Rentals	**1,489,132**	1,634,729
Salaries and benefits	**33,609,528**	33,924,627
Texts, materials and supplies	**2,426,048**	2,564,208
Travel	**1,142,371**	1,135,939
Utilities	**2,889,106**	2,988,104
	56,084,190	57,738,237
Excess of revenue over expenses before the undernoted	**2,370,516**	2,027,286
Investment income (loss) - equity method	**(41,299)**	76,449
Pension expense (Note 10)	**(2,525,000)**	(2,949,600)
Write down of property	**-**	(46,314)
Change in carrying value of derivatives	**(2,736,628)**	1,787,763
	(5,302,927)	(1,131,702)
Excess of revenue over expenses (expenses over revenue)	**$ (2,932,411)**	$ 895,584

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

Holland College
Consolidated Statement of Cash Flows

For the year ended March 31	2015	2014
Cash flows from operating activities		
Excess of revenue over expenses (expenses over revenue)	**$ (2,932,411)**	$ 895,584
Items not affecting cash:		
Amortization of capital assets and program development	**4,883,089**	4,734,301
Amortization of deferred contributions	**(3,441,309)**	(3,278,303)
Amortization of lease inducement	**(70,000)**	(70,000)
Write down of property held for sale	**-**	46,314
Pension remeasurements and other items	**4,825,400**	3,965,200
Change in carrying value of derivatives	**2,736,628**	(1,787,763)
Changes in non-cash working capital:		
Decrease in accounts receivable	**306,138**	1,654,815
Increase in inventory	**(47,473)**	(3,035)
Increase in prepaids	**(749)**	(89,228)
Decrease in payables and accruals	**(221,043)**	(713,430)
Decrease in deferred revenue	**(**	

1. Significant Accounting Policies (continued)

Property and Equipment

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

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

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

Property and equipment under construction are not amortized until completion.

Program Development Costs

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

Vacation Pay

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

Retirement Obligations

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

1. Significant Accounting Policies (continued)

Pension Plan

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

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 or when the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions ar are clase co81-.06fe

1. Significant Accounting Policies (continued)

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. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

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.

Foreign Currency Translation

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

2. Change in Accounting Policy

Effective April 1, 2014, the College adopted the new CPA Canada accounting standard, Section 3463 - Reporting Employee Future Benefits by Not-for-Profit Organizations. This change in accounting policy has been made in accordance with the transitional provisions of the standard which allow for the use of a funding valuation to determine the annual pension asset/liability and related annual pension costs. These transitional provisions require retrospective application and comparative statements for the prior year have been restated. The change in accounting policy had the following effects on the financial statements:

The changes to net assets at the date of transition, April 1, 2013 are as follows:

	April 1, 2013
Opening net assets prior to the adoption of Section 3463	$ 7,250,638
Increase in accrued pension liability due to adoption of funding valuation method of calculating pension liability	(14,656,500)
Opening net deficit, as restated	$ (7,405,862)

A reconciliation of the excess of expenses over revenue reported in the College's most recent previously issued consolidated financial statements to its excess of revenue over expenses after the retrospective application of the standards of CPA Canada Handbook Section 3463 is as follows:

	March 31, 2014
Excess of expenses over revenue, prior to the application of Section 3463	$ (2,912,516)
Decrease in pension expense as a result of the application of Section 3463	3,811,400
Increase in salaries and benefits expense as a result of the application of Section 3463	(3,300)
Excess of revenue over expenses, as restated	$ 895,584

2. Change in Accounting Policy (continued)

A reconciliation of the net assets as reported in the College's most recent previously issued consolidated financial statements to its net assets after the retrospective application of the standards of CPA Canada Handbook Section 3463 is as follows:

	March 31, 2014
Net deficit as restated, April 1, 2013 and noted above	$ (7,405,862)
Excess of revenue over expenses for the year ended March 31, 2014 and noted above	895,584
Pension remeasurements and other items directly attributable to net assets as a result of the application of Section 3463	3,965,200
Capital grant for land directly attributable to net assets	6,799
Net deficit, as restated	$ (2,538,279)

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, 2015 and for the year then ended is as follows:

	2015	2014
Balance sheet:		
Total assets	**$ 744,049**	$ 580,105
Total liabilities	**708,899**	587,567
Total net shareholder's equity (deficit)	**$ 35,150**	$ (7,462)

As at March 31, 2015, $ 562,096. (2014 - $ 665,104.) was owing to the company's parent(e5eJea)-1.2(rch)]TJ-24.0

4. Property and Equipment

		2015	2014
		Accumulated	
	Cost		

5. Program Development Costs

		2015		2014
Program development costs	$	**40,009**	$	40,009
Less: accumulated amortization		**(31,628)**		(23,626)
	$	**8,381**	$	16,383

During the year, the College amortized $ 8,002. (2014 - $ 8,002.) in expenses related to program development costs.

6. Payables and Accruals

Included in accounts payable at year end were $ Nil. (2014 - $ Nil.) of government remittances payable.

7. Long-term Debt

	2015	2014
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	**$ 7,410,000**	$ 7,741,000
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	**7,149,000**	7,452,000
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	**6,571,000**	7,209,000
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	**5,206,000**	5,437,000
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	**4,564,000**	4,766,000
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	**3,345,000**	-

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	**2,497,000**	2,684,000
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	**2,368,000**	2,565,000
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	**1,324,000**	1,384,000
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	**761,000**	910,000
Toronto-Dominion Bank, 3.2%, payable in monthly installments of principal and interest of $ 23,513., secured by a promissory note, repaid during the year	**-**	3,515,960
	41,195,000	43,663,960
Scheduled repayments required in the next 12 months	**2,575,000**	2,468,683
Callable debt (i)	**-**	5,713,277
Current portion of long-term debt	**2,575,000**	8,181,960
Long-term portion of debt	**$38,620,000**	$ 35,482,000

7. Long-term Debt (continued)

(i) Canadian accounting standards for not-for-profit enterprises require that loans that the lender can require to be repaid on demand be classified as current liabilities. The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2015 are as follows: 2016 - $ 2,575,000.; 2017 - $ 2,678,000 .; 2018 - $ 2,782,000.; 2019 - $ 2,879,000.; and 2020 - $ 2,946,000.

Included in other operating costs is interest on long-term debt in the amount of $ 1,640,867. (2014 - $ 1,758,839.).

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

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, 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:

	2015	2014
Change in benefit obligation:		
Benefit obligation - beginning of the year	**$ 127,455,600**	$116,513,100
Current service cost	**1,442,800**	1,698,500
Employees contributions	**1,386,200**	1,352,800
Interest cost on defined benefit obligation	**7,651,300**	7,000,400
Past service cost	**-**	(611,700)
Benefit payments	**(5,525,300)**	(5,783,600)
Actuarial loss	**-**	7,286,100
Benefit obligation - end of the year	**$ 132,410,600**	$127,455,600
Change in plan assets:		
Fair value of plan assets - beginning of the year	**$ 114,688,000**	$101,326,300
Interest income on plan assets	**6,814,500**	5,988,900
Administration costs	**(245,400)**	(239,600)
Employer contributions	**1,911,800**	1,406,900
Estimated employee contributions	**1,386,200**	1,352,800
Actuarial gain on plan assets	**5,055,000**	10,636,300
Benefits paid	**(5,525,300)**	(5,783,600)
Benefit asset - end of the year	**$ 124,084,800**	$114,688,000
Reconciliation of funded status:		
Present value of defined benefit obligation	**$(132,410,600)**	$(127,455,600)
Fair value of plan assets	**124,084,800**	114,688,000
Accrued benefit liability	**$ (8,325,800)**	$ (12,767,600)

10. Pension Plan (continued)

Net expense:	2015	2014
Current service cost (employer)	$ 1,442,800	$ 1,698,500
Administration costs	245,400	239,600
Interest income on plan assets	(6,814,500)	(5,988,900)
Interest cost on defined benefit obligation	7,651,300	7,000,400
Net expense	$ 2,525,000	$ 2,949,600

Significant actuarial assumptions:		
Expected long-term rate of return on plan assets	6.00%	6.00%
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:

	2015	2014
Property and equipment	**$ 75,623,715**	$ 78,654,363
Add: accumulative direct increase to net assets	**53,071**	45,922
Amounts financed by:		
Deferred contributions - property and equipment	**(24,751,635)**	(25,975,671)
Long-term debt	**(41,195,000)**	(43,663,960)
Unamortized contributions - debt servicing	**59,947**	211,563
	$ 9,790,098	$ 9,272,217

(b) Net change in investment in capital assets:

	2015	2014
Purchase of property and equipment	**$ 1,844,439**	$ 3,008,994
Amounts funded by:		
Deferred contributions	**(1,219,210)**	(1,860,970)
Proceeds from disposal of property	**-**	(500,000)
Issuance of long-term debt	**(3,359,000)**	-
Repayment of long-term debt	**5,827,961**	2,372,719
Contributions - debt servicing(		

15. 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, 2015 and 2014 and for the years then ended is as follows:

Holland College Foundation Inc.

	2015	2014
Balance sheet:		
Total assets	**$ 6,712,659**	$ 5,386,964
Total liabilities	**265,394**	130,852
Total net assets	**$ 6,447,265**	$ 5,256,112

(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, $ 1,173,127. (2014 - $ 409,509.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 3,965,148. (2014 - $ 3,819,212.) 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 15 (2)) that were financed by the College and will be repaid from future fundraising initiatives.

	2015	2014
Results of operations:		
Total revenue	**$ 1,765,630**	$ 1,502,878
Total expenses (Note 15 (2))	**636,893**	1,039,987
Excess of revenue over expenses	**$ 1,128,737**	$ 462,891

15. Related Entities (continued)

(2) During the year, the College paid a grant totaling $ 359,762. (2014 - $ 365,469.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized gains of $ 62,416. (2014 - $ 40,560.) on long-term investments during the 2015 fiscal year. During the year, the College received $ 294,809. (2014 - $ 745,985.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 265,394. (2014 - $ 130,852.), representing Project funds approved for release to the College and fundraising costs.

16. Commitments

The College has operating leases for its premises at Slemon Park. The premises are leased at a base rent of $ 12.84 per square foot under a lease expiring July 31, 2015, a base rent of $ 5.26 per square foot under a lease expiring December 31, 2018, a base rent of $ 0.63 per square foot for three additional spaces under lease expiring October 31, 2015, a base rent of $ 7.90 per square foot for a lease expiring March 31, 2016, and a base rent of $ 2.62 per square foot under a lease expiring March 31, 2016. The base rents 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 leases at Slemon Park, the College also has operating leases for other premises. The premises are leased at a base rent of $ 11.00 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 annual payment on the remainder of the contract is $ 194,508. The minimum annual lease and service contract payments for the next five years are as follows:

2016	$ 896,693
2017	423,721
2018	423,721
2019	352,954
2020	140,651
	$ 2,237,740

17. 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 $ 3,916,208. in cash , one financial institution held $ 3,559,676. of all cash assets. The total cash held with one financial institution exceeded the maximum insurable amount from the Canada Deposit Insurance Corporation by $ 3,459,676. Of the College's $ 12,888,732. in trade accounts receivable, government agencies accounted for 74% of trade receivables. The majority of the College's receivables are from government sources and the College works to ensure they meet all eligibility criteria in order to qualify to receive the funding.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The College is exposed to interest rate risk through its long-term debt obligations which are issued with floating interest rates. To manage its current and anticipated exposure to interest rate risks, the College has entered into ten (2014 - nine) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 41,195,000. (2014 - $ 40,148,000.) 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 effect23 Tuterest.16tTJ 0 nohangesa4terJT8g..rimerJT8g..4 Tc