Consolidated Financial Statements of

HOLLAND COLLEGE

Year ended March 31, 2014

Tel: 902 892 5365
Fax: 902 892 0383
www.bdo.ca

BDO Canada LLP
155 Belvedere Avenue, Suite 200
PO Box 2158
Charlottetown PE C1A 8B9 Canada

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, 2014 and the consolidated statements of operations, changes in net assets 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2014 and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Charlottetown, Prince Edward Island
July 15, 2014

HOLLAND COLLEGE

Consolidated Statement of Financial Position

March 31, 2014, with comparative figures for 2013

	2014	2013 (restated)
Assets		
Current assets:		
Cash	$ 3,588,320	$ 3,631,446
Receivables	13,591,786	15,246,603
Inventory	517,936	514,901
Prepaid expenses	197,231	108,003
Property held for sale (note 2)	-	500,000
	17,895,273	20,000,953
Due from subsidiary (note 3)	665,104	-
Investment in subsidiary (note 3)	76,449	-
Property and equipment (note 4)	78,654,361	80,417,980
Program development costs (note 5)	16,383	24,385
	$ 97,307,570	$ 100,443,318
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Payables and accruals (note 6)	$ 5,559,132	$ 6,272,561
Deferred revenue	3,392,932	3,948,060
Accrued vacation pay	2,559,709	2,481,338
Scheduled cash repayments for long-term debt (note 7)	2,468,683	2,347,719
Current liabilities before callable debt	13,980,456	15,049,678
Callable debt (note 7)	5,713,277	-
Total current liabilities	19,693,733	15,049,678
Retirement obligations	3,732,000	3,607,200
Long-term debt (note 7)	35,482,000	43,688,961
Derivatives (note 8)	2,406,411	4,194,174
Deferred contributions (note 9)	25,764,108	26,122,368
Accrued pension liability (note 10)	5,884,400	530,300
	92,962,652	93,192,681
Net assets:		
Invested in property and equipment (note 11)	9,272,214	8,798,055
Invested in program development (note 12)	16,383	24,385
Internally restricted for future capital purchases	869,703	1,169,703
Internally restricted for future pension funding (note 13)	1,273,800	-
Unrestricted, as restated (note 18)	(7,087,182)	(2,741,506)
	4,344,918	7,250,637
Commitments (note 16)		
	$ 97,307,570	$ 100,443,318

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

On Behalf of the Board:

Kathy O'Rourke Governor ____________ Governor

HOLLAND COLLEGE

Consolidated Statement of Operations

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013 (restated note 18)
Revenue:		
Grants		
Province of Prince Edward Island	$ 19,123,200	$ 18,786,047
Other grants	3,876,148	3,685,894
Contract training	10,689,056	10,366,853
Sales, recoveries and incidentals	4,431,948	5,196,607
Student fees	18,366,868	17,876,717
Amortization of deferred contributions	3,278,303	3,548,130
	59,765,523	59,460,248
Expenses:		
Amortization	4,734,301	5,292,744
Maintenance, insurance and property taxes	1,405,267	1,340,049
Other operating costs (note 14)	7,083,066	6,659,743
Purchases for resale	2,267,998	2,447,114
Rentals	1,634,729	1,824,083
Salaries and benefits	33,921,327	33,069,900
Texts, materials and supplies	2,564,208	2,794,261
Travel	1,135,939	1,096,192
Utilities	2,988,104	2,763,184
	57,734,939	57,287,270
Excess of revenue over expenses before the undernoted	2,030,584	2,172,978
Investment income - equity method (note 3)	76,449	-
Pension expense (note 10)	(6,761,000)	(7,231,000)
Write-down of property (note 2)	(46,314)	(176,735)
Change in carrying value of derivatives	1,787,763	8,169,294
	(4,943,102)	761,559
Excess of revenue over expenses (expenses over revenue)	$ (2,912,518)	$ 2,934,537

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

HOLLAND COLLEGE

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative figures for 2013

	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	2014	2013 (restated note 18)
Balance, beginning of year, as restated (note 18)	$ 8,798,055	$ 24,385	$ 1,169,703	$ -	$ (2,741,506)	$ 7,250,637	$ 4,309,633
Excess of revenue over expenses (expenses over revenue)	-	-	-	-	(2,912,518)	(2,912,518)	2,934,537
Net change in investment in property and equipment	467,360	-	-	-	(467,360)	-	-
Net change in investment in program development	-	(8,002)	-	-	8,002	-	-
Net change in internally restricted for future property and equipment purchases	-	-	(300,000)	-	300,000	-	-
Net change in internally restricted for future pension funding	-	-	-	1,273,800	(1,273,800)	-	-
Capital grant for land	6,799	-	-	-	-	6,799	6,467
Balance, end of year	$ 9,272,214	$ 16,383	$ 869,703	$ 1,273,800	$ (7,087,182)	$ 4,344,918	$ 7,250,637

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

HOLLAND COLLEGE

Consolidated Statement of Cash Flows

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses (expenses over revenue)	$ (2,912,518)	$ 2,934,537
Items not involving cash:		
Amortization of capital assets and program development	4,734,301	5,292,744
Amortization of deferred contributions	(3,278,303)	(3,548,130)
Amortization of lease inducement	(70,000)	(70,000)
Write-down of property held for sale	46,314	176,735
Change in carrying value of derivatives	(1,787,763)	(8,169,294)
Change in non-cash operating working capital:		
Decrease (increase) in receivables	1,654,817	(757,455)
Increase in inventory	(3,035)	(33,326)
Decrease (increase) in prepaids	(89,228)	7,796
Decrease in payables and accruals	(713,430)	(1,333,291)
Increase (decrease) in deferred revenue	(555,128)	496,074
Increase in accrued vacation pay	78,371	109,684
Increase in retirement obligations	124,800	405,900
Decrease in pension asset	-	4,906,400
Increase in pension liability	5,354,100	530,300
	2,583,298	948,674
Financing:		
Capital grant for land	6,799	6,467
Increase in deferred contributions - property and equipment	1,860,970	1,943,108
Principal payments on long-term debt	(2,372,719)	(2,456,307)
Contributions - debt servicing	1,129,073	1,072,896
	624,123	566,164
Investing:		
Invested in program development	-	(2,318)
Purchase of property and equipment	(3,008,994)	(7,946,430)
Proceeds on disposal of property	500,000	-
Investment income - equity method	(76,449)	-
Increase in due from subsidiary	(665,104)	-
	(3,250,547)	(7,948,748)
Net decrease in cash	(43,126)	(6,433,910)
Cash, beginning of year	3,631,446	10,065,356
Cash, end of year	$ 3,588,320	$ 3,631,446

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

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

(a) Nature and purpose of organization:

Holland College is incorporated under the Holland College Act of the Province of Prince Edward Island. Dedicated to excellence in performance, the College stands committed to providing quality life-long learning opportunities to support learner, industry and community development. The College is a registered charity under the Canadian Income Tax Act and accordingly, is exempt from income taxes, provided certain requirements of the Act are met.

(b) Basis of accounting:

The consolidated financial statements include the accounts of the College's wholly owned subsidiaries, ATHI Enterprises Inc. and P.E.I. Institute of Adult & Community Education Inc.

The College does not consolidate the entity Holland College Foundation Inc. which operates under its control. Supplementary information on this entity is disclosed in note 15.

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

(c) Cash and cash equivalents:

Cash consists of cash on hand and cash on deposit at financial institutions. Included in cash at year end is $ 358,792. (2013 - $ 369,729.) held in Chinese renminbis.

(d) Inventory:

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

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

(e) Property and equipment:

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

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

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

Property and equipment under construction are not amortized until completion.

(f) Program development costs:

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

(g) Vacation pay:

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

(h) Retirement obligations:

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

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

(i) Pension plan:

The College maintains a contributory defined-benefit pension plan which covers substantially all of its employees. The benefits are determined using a career average formula for service accrued subsequently to January 1, 2007 and best average formula for service accrued prior to that date. Pension plan assets are valued at fair market value for purposes of calculating expected return on plan assets. The cost of the pension plan related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method of estimating the usage frequency and cost of services covered and management's best estimates of investment yields, salary escalation and other factors. The College will amortize actuarial gains and losses (such as changes in actuarial assumptions and experience gains and losses) over the expected average remaining service life of active employees.

(j) Revenue recognition:

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

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

Amounts received for tuition fees and sale of goods and services are classified as deferred revenue and are recognized at the time the goods are delivered or the services provided. Amounts received as compensation from foreign operations are recognized as earned at the time of transfer.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Land contributed at no financial cost is recorded at fair market value with a direct increase to equity in the form of investment in capital assets.

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

(k) Financial instruments:

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

(l) Use of estimates:

The preparation of consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

(m) Foreign currency translation:

The College has a relationship with 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. Surplus funds generated from prior arrangements are adjusted to the Canadian dollar equivalent on a monthly basis at the month end rate.

2. Asset impairment:

During the year, the College abandoned leasehold improvements in a property in Slemon Park, and the net realizable value of the building alterations to the College has been written down to $ Nil. In 2013, certain property owned by the College was determined to be redundant and was sold on June 28, 2013. The property had been carried at a value in excess of the realizable value including selling costs. Accordingly, a write-down to net realizable value has been reflected in the consolidated statement of operations. The write-downs were calculated as follows:

	2014	2013
Net book value	$ 46,314	$ 676,735
Net realizable value	-	(500,000)
Write-down amount	$ 46,314	$ 176,735

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, 2014 and for the year then ended is as follows:

Justice Knowledge Network Inc.

	2014
Balance sheet:	
Total assets	$ 811,541
Total liabilities	735,092
Total shareholder's equity	$ 76,449

As at March 31, 2014, $ 665,104. was owing to the company's parent, Holland College. These amounts have arisen as a result of funds advanced to the company to finance capital additions as well as operating expenditures. These transactions have been measured at the exchange value, which is the amount agreed to by the related parties.

3. Investment in subsidiary (continued):

	2014
Results of operations:	
Total revenues	$ 1,706,054
Total expenses	1,629,605
Net income	$ 76,449

	2014
Cash flows:	
Cash from operations	$ 420,079
Cash used in financing and investing	(253,359)
Net increase in cash	$ 166,720

4. Property and equipment:

	2014		2013	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	$ 5,813,764	$ -	$ 5,713,764	$ -
Buildings	73,240,609	11,301,212	71,875,819	9,459,164
Major building alterations	17,460,950	12,004,138	17,536,928	11,348,670
Equipment	22,663,611	17,705,894	25,241,785	19,644,090
Parking lot	597,492	110,821	597,492	95,884
	119,776,426	41,122,065	120,965,788	40,547,808
Net book value		$ 78,654,361		$ 80,417,980

Equipment with a cost of $ 909,983. was not available for use as of March 31, 2014. Accordingly, no amortization has been recorded with respect to these assets during the year.

Included in the College's amortization expense is $ 4,726,299. (2013 - $ 5,284,742.) 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. These facilities are not reflected in these consolidated financial statements. Major building alterations relates to the cost of betterments and improvements incurred by the College at these sites.

5. Program development costs:

	2014	2013
Program development costs	$ 40,009	$ 40,009
Less: accumulated amortization	(23,626)	(15,624)
	$ 16,383	$ 24,385

During the year, the College amortized $ 8,002. (2013 - $ 8,002.) in expenses related to program development costs.

6. Payables and accruals:

Included in accounts payable at year end were $ 208,225. (2013 - $ 198,227.) of government remittances payable.

7. Long-term debt:

	2014	2013
Royal Bank of Canada, interest rate swap contract, 4.14%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 15 years ending on September 30, 2023	$ 7,209,000	$ 7,822,000
Royal Bank of Canada, interest rate swap contract, 2.59%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on February 3, 2032	7,741,000	8,063,000
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	7,452,000	7,739,000
Royal Bank of Canada, interest rate swap contract, 2.94%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on August 26, 2031	5,437,000	5,661,000
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	4,766,000	4,958,000
Toronto-Dominion Bank, 3.2%, payable in monthly installments of principal and interest of $ 23,513., secured by a promissory note, due February 3, 2015	3,515,960	3,682,680

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	2,684,000	2,862,000
Royal Bank of Canada, interest rate swap contract, 3%, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, due January 8, 2015	2,565,000	2,753,000
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	1,384,000	1,443,000
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	910,000	1,053,000
	43,663,960	46,036,680
Scheduled repayments required in the next 12 months	2,468,683	2,347,719
Callable debt (i)	5,713,277	-
Current portion of long-term debt	8,181,960	2,347,719
Long-term portion of debt	$ 35,482,000	$ 43,688,961

(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, 2014 are as follows: 2015 - $ 8,181,960.; 2016 - $ 2,187,000.; 2017 - $ 2,277,000.; 2018 - $ 2,369,000.; and 2019 - $ 2,485,000.

Included in other operating costs is interest on long-term debt in the amount of $ 1,758,839. (2013 - $ 1,842,787.).

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. 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, 2014		As at March 31, 2013	
	Notional amount	Fair value favorable (unfavorable)	Notional amount	Fair value favorable (unfavorable)
4.47% fixed, maturing June 2025	$ 2,684,000	$ (316,290)	$ 2,862,000	$ (440,688)
3.15% fixed, maturing October 2019	910,000	(37,436)	1,053,000	(58,096)
4.12% fixed, maturing June 2030	4,766,000	(499,633)	4,958,000	(758,375)
2.94% fixed, maturing August 2031	5,437,000	(34,892)	5,661,000	(274,406)
4.14% fixed, maturing September 2023	7,209,000	(665,557)	7,822,000	(951,782)
3.00% fixed, maturing January 2015	2,565,000	(37,119)	2,753,000	(84,532)
4.49% fixed, maturing April 2030	7,452,000	(997,308)	7,739,000	(1,431,181)
2.59% fixed, maturing February 2032	7,741,000	178,882	8,063,000	(137,679)
2.85% fixed, maturing March 2032	1,384,000	2,942	1,443,000	(57,435)
	$ 40,148,000	$ (2,406,411)	$ 42,354,000	$ (4,194,174)

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

	2014	2013
Balance, beginning of year	$ 26,122,368	$ 26,724,494
Add:		
Contributions - property and equipment	1,860,970	1,943,108
Contributions - debt servicing	1,129,073	1,072,896
Total contributions	2,990,043	3,016,004
Less:		
Amounts amortized to revenue - property and equipment	(2,285,562)	(2,576,978)
Amounts amortized to revenue - debt servicing	(1,062,741)	(1,041,152)
Total amounts amortized to revenue	(3,348,303)	(3,618,130)
	$ 25,764,108	$ 26,122,368

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:

	2014	2013
Change in benefit obligation:		
Benefit obligation - beginning of year	$154,139,100	$144,933,600
Current service cost (employer)	3,436,100	3,259,700
Interest cost	6,241,400	6,239,400
Estimated employee contributions	1,352,800	1,247,800
Experience loss (gain)	(726,900)	3,721,000
Benefits paid	(5,783,600)	(5,262,400)
Benefit obligation - end of year	$158,658,900	$154,139,100

10. Pension plan (continued):

	2014	2013
Change in plan assets:		
Fair value of plan assets - beginning of year	$101,326,300	$ 94,978,500
Actual return on plan assets, net of expenses	5,988,900	5,632,100
Employer contributions	1,406,900	1,794,300
Estimated employee contribution	1,352,800	1,247,800
Experience gain	10,396,700	2,936,000
Benefits paid	(5,783,600)	(5,262,400)
Fair value of plan assets - end of year	$114,688,000	$101,326,300
Reconciliation of funded status:		
Funded status - deficit	$ (43,970,900)	$ (52,812,800)
Employer contributions after measurement date	-	-
Unamortized transitional obligation (asset)	(11,123,600)	785,000
Unamortized net actuarial gain	49,210,100	51,497,500
Accrued benefit asset (liability)	$ (5,884,400)	$ (530,300)
Components of expense (income):		
Current service cost (employer)	$ 3,436,100	$ 3,259,700
Interest cost	6,241,400	6,239,400
Actual return on assets	(5,988,900)	(5,632,100)
Amortization of past service costs	-	-
Amortization of net actuarial loss	3,072,400	3,364,000
Net expense	$ 6,761,000	$ 7,231,000

Significant actuarial assumptions:

Discount rate	4.00 %	4.25 %
Expected long-term rate of return on plan assets	6.00 %	6.00 %
Rate of increase in future compensation	2.50 %	2.50 %

11. Investment in property and equipment:

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

	2014	2013
Property and equipment	$ 78,654,361	$ 80,417,980
Property held for sale	-	500,000
Total property and equipment	78,654,361	80,917,980
Add:		
Accumulative direct increase to net assets	45,922	39,123
Amounts financed by:		
Deferred contributions - property and equipment	(25,975,671)	(26,400,266)
Long-term debt	(43,663,960)	(46,036,680)
Unamortized contributions - debt servicing	211,563	277,898
	$ 9,272,214	$ 8,798,055

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

	2014	2013
Purchase of property and equipment	$ 3,008,994	$ 7,946,430
Amounts funded by:		
Deferred contributions	(1,860,970)	(1,943,108)
Proceeds from disposal of property	(500,000)	-
Release of internally restricted loan proceeds	-	(4,533,686)
Repayment of long-term debt	2,372,719	2,381,307
Contributions - debt servicing	(1,129,073)	(1,072,896)
Amortization of deferred contributions - capital	2,285,562	2,576,978
Amortization of deferred contributions - debt servicing	1,062,741	1,041,152
Amortization of property and equipment	(4,726,299)	(5,284,742)
Write-down of property held for sale	(46,314)	(176,735)
	$ 467,360	$ 934,700

12. Invested in program development:

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

	2014	2013
Program development	$ 16,383	$ 24,385
Amounts financed by:		
Deferred contributions	-	-
Long-term debt	-	-
	$ 16,383	$ 24,385

(b) Net change in investment in program development:

	2014	2013
New program development	$ -	$ 2,318
Amounts funded by:		
Amortization of program development	(8,002)	(8,002)
	$ (8,002)	$ (5,684)

13. Internally restricted for future pension funding:

	2014	2013
Balance, beginning of year	$ -	$ 305,817
Transfer to reserve for the year	1,389,600	-
Transfer from reserve for the year	(115,800)	(305,817)
	$ 1,273,800	$ -

14. Other operating costs:

	2014	2013
Advertising	$ 504,345	$ 530,171
Interest on long-term debt	1,758,839	1,842,787
Contract services	1,219,922	1,041,061
Software	562,481	553,772
Provider fees	414,239	343,978
Photocopy	257,233	291,504
Lab fees	272,742	263,980
Legal	292,591	48,678
Staff development	212,558	188,674
Other	1,588,116	1,555,138
	$ 7,083,066	$ 6,659,743

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, 2014 and 2013 and for the years then ended is as follows:

Holland College Foundation Inc.

	2014	2013
Balance sheet:		
Total assets	$ 5,386,964	$ 4,883,513
Total liabilities	130,852	130,852
Total net assets	$ 5,256,112	$ 4,752,661

15. Related entities (continued):

(1) All of the Foundation's net assets must be provided to or used for the benefit of the College or its students. In accordance with donor imposed restrictions, $ 409,509. (2013 - $ 442,199.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 3,819,212. (2013 - $ 3,501,856.) 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.

	2014	2013
Results of operations:		
Total revenue	$ 1,502,878	$ 989,425
Total expenses (note 15 (2))	1,039,987	760,734
Excess of revenue over expenses	$ 462,891	$ 228,691

(2) During the year, the College paid a grant totaling $ 365,469. (2013 - $ 320,715.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized gains of $ 40,560. (2013 - $ 93,698.) on long-term investments during the 2014 fiscal year. During the year, the College received $ 745,985. (2013 - $ 524,521.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 130,852. (2013 - $ 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 $ 0.61 per square foot for three additional spaces under lease expiring October 31, 2014, a base rent of $ 7.78 per square foot for a lease expiring March 31, 2015, and a base rent of $ 2.62 per square foot under a lease expiring March 31, 2015. The base rents will increase each August 1st, July 1st and September 1st, respectively, during the terms of the leases by a percentage equal to the CPI for Prince Edward Island for the previous calendar year. In addition to the leases at Slemon Park, the College also has operating leases for other premises. The premises are leased at a base rent of $ 10.00 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 monthly payments range from $ 14,975. at the beginning of the lease, to $ 16,209. at the end of the lease. The minimum annual lease and service contract payments for the next five years are as follows:

2015	$ 1,192,138
2016	732,689
2017	398,765
2018	398,765
2019	327,997

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 $ 3,581,445. in cash, one financial institution held $ 2,935,604. of all cash assets. The total cash held with one financial institution exceeded the maximum insurable amount from the Canada Deposit Insurance Corporation by $ 2,835,604. Of the College's $ 13,150,532. in trade accounts receivable, government agencies accounted for 84% 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 nine (2013 - nine) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 40,148,000. (2013 - $ 42,354,000.) 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.

18. Prior period restatement:

The prior year's opening accumulated operating surplus and excess of revenue over expenses have been restated in order to record the change in fair value of the College's interest rate swap agreements as at March 31, 2013. As a result of the restatement, accumulated operating surplus as of April 1, 2012 has been decreased by $ 12,363,468., excess of revenue over expenses for the year ended March 31, 2013 has been increased by $ 8,169,294. and total liabilities as of March 31, 2013 have been increased by $ 4,194,174.

Adjustment - accumulated unrestricted net assets	2013
Opening unrestricted net assets, as previously reported	$ 1,452,668
Adjustment for opening carrying value of interest rate swaps	(12,363,468)
Adjustment for annual change in carrying value of interest rate swaps	8,169,294
	$ (2,741,506)

Adjustment - excess of revenue over expenses	2013
Excess of expenses over revenue, as previously reported	$ (5,234,757)
Adjustment for change in carrying value of interest rate swaps	8,169,294
	$ 2,934,537

19. 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.