Holland College
Consolidated Financial Statements
For the Year Ended March 31, 2016

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Contents

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, 2016 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 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 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.

BDO

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Holland College as at March 31, 2016 and the results of its operations, changes in net deficit and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants

Charlottetown, Prince Edward Island
July 12, 2016

Holland College
Consolidated Statement of Financial Position

March 31	2016	2015
Assets		
Current		
Cash	$ 3,223,209	$ 3,923,233
Receivables	15,180,826	13,285,648
Inventory	560,668	565,409
Prepaid expenses	208,167	197,980
	19,172,870	17,972,270
Due from subsidiary (Note 2)	471,871	562,096
Investment in subsidiary (Note 2)	59,392	35,150
Property and equipment (Note 3)	74,739,511	75,623,715
Program development costs (Note 4)	463	8,381
	$ 94,444,107	$ 94,201,612

	2016	2015
Liabilities, Deferred Contributions and Net Deficit		
Current		
Payables and accruals (Note 5)	$ 5,891,278	$ 5,338,088
Deferred revenue	3,332,486	3,286,874
Accrued vacation pay	2,921,357	2,710,163
Scheduled cash repayments for long-term debt (Note 6)	2,728,000	2,575,000
	14,873,121	13,910,125
Retirement obligations	4,517,000	4,149,100
Long-term debt (Note 6)	37,169,000	38,620,000
Derivatives (Note 7)	5,533,194	5,143,039
Deferred contributions (Note 8)	25,120,970	24,691,689
Accrued pension liability (Note 9)	17,182,500	8,325,800
	104,395,785	94,839,753
Net Deficit		
Invested in property and equipment (Note 10)	9,895,700	9,790,098
Invested in program development (Note 11)	463	8,381
Internally restricted for future capital purchases	771,450	771,450
Internally restricted for future pension funding (Note 12)	347,400	810,600
Deficit	(20,966,691)	(12,018,670)
	(9,951,678)	(638,141)
	$ 94,444,107	$ 94,201,612

On behalf of the Board:

_______________ Governor _______________ Governor

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

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	2016 Total	2015 Total
Balance, beginning of the year	$ 9,790,098	$ 8,381	$ 771,450	$ 810,600	$ (12,018,670)	$ (638,141)	$ (2,538,279)
Excess of expenses over revenue	-	-	-	-	(539,943)	(539,943)	(2,932,411)
Net change in investment in property and equipment	98,096	-	-	-	(98,096)	-	-
Net change in investment in program development	-	(7,918)	-	-	7,918	-	-
Pension remeasurements	-	-	-	-	(8,781,100)	(8,781,100)	4,825,400
Net change in internally restricted for future pension funding	-	-	-	(463,200)	463,200	-	-
Capital grant for land	7,506	-	-	-	-	7,506	7,149
Balance, end of the year	$ 9,895,700	$ 463	$ 771,450	$ 347,400	$ (20,966,691)	$ (9,951,678)	$ (638,141)

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

Holland College
Consolidated Statement of Operations

For the year ended March 31	2016	2015
Revenue		
Grants		
Province of Prince Edward Island	**$19,208,474**	$ 18,964,517
Other grants	**4,067,532**	4,077,188
Contract training	**9,713,503**	9,824,350
Sales, recoveries and incidentals	**4,947,487**	4,622,298
Student fees	**18,551,157**	17,525,044
Amortization of deferred contributions	**3,466,630**	3,441,309
	59,954,783	58,454,706
Operating expenses		
Amortization	**4,657,835**	4,883,089
Maintenance, insurance and property taxes	**1,357,109**	1,160,737
Other operating costs (Note 13)	**6,550,211**	6,220,622
Purchases for resale	**2,253,302**	2,263,557
Rentals	**1,048,900**	1,489,132
Salaries and benefits	**34,850,082**	33,609,528
Texts, materials and supplies	**2,638,676**	2,426,048
Travel	**1,218,409**	1,142,371
Utilities	**2,660,877**	2,889,106
	57,235,401	56,084,190
Excess of revenue over expenses before the undernoted	**2,719,382**	2,370,516
Investment income (loss) - equity method	**24,242**	(41,299)
Pension expense (Note 9)	**(2,423,600)**	(2,525,000)
Write down of property and equipment	**(469,812)**	-
Change in carrying value of derivatives	**(390,155)**	(2,736,628)
	(3,259,325)	(5,302,927)
Excess of expenses over revenue	**$ (539,943)**	$ (2,932,411)

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	2016	2015
Cash flows from operating activities		
Excess of expenses over revenue	**$ (539,943)**	$ (2,932,411)
Items not affecting cash:		
Amortization of capital assets and program development	**4,657,835**	4,883,089
Amortization of deferred contributions	**(3,466,630)**	(3,441,309)
Amortization of lease inducement	**(23,333)**	(70,000)
Write down of property and equipment	**469,812**	-
Pension remeasurements and other items	**(8,781,100)**	4,825,400
Change in carrying value of derivatives	**390,155**	2,736,628
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**(1,895,178)**	306,138
Decrease (increase) in inventory	**4,741**	(47,473)
Increase in prepaids	**(10,187)**	(749)
Increase (decrease) in payables and accruals	**553,191**	(221,043)
Increase (decrease) in deferred revenue	**45,612**	(106,058)
Increase in accrued vacation pay	**211,194**	150,454
Increase in retirement obligations	**367,900**	417,100
Increase (decrease) in pension liability	**8,856,700**	(4,441,800)
	840,769	2,057,966
Cash flows from investing activities		
Acquisition of property and equipment	**(4,235,526)**	(1,844,439)
Change in investment in subsidiary - equity method	**(24,242)**	41,299
Decrease in due from subsidiary	**90,225**	103,008
	(4,169,543)	(1,700,132)
Cash flows from financing activities		
Repayment of long-term debt	**(2,598,000)**	(5,827,961)
Proceeds from long-term debt	**1,300,000**	3,359,000
Capital grant for land	**7,506**	7,149
Increase in deferred contributions - property and equipment	**2,618,284**	1,219,210
Contributions - debt servicing	**1,300,960**	1,219,681
	2,628,750	(22,921)
Net increase (decrease) in cash	**(700,024)**	334,913
Cash, beginning of the year	**3,923,233**	3,588,320
Cash, end of the year	**$ 3,223,209**	$ 3,923,233

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

The College does not consolidate the entity Holland College Foundation Inc. which operates under its control. Supplementary information on this entity is disclosed in Note 14.

The 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 2.

The consolidated 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 $ 279,774. (2015 - $ 355,974.) held in Chinese renminbis.

Inventory

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

1. Significant Accounting Policies (continued)

Property and Equipment

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

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

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

Property and equipment under construction are not amortized until completion.

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.

1. Significant Accounting Policies (continued)

Revenue Recognition

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

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

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

Amounts received for tuition fees and sale of goods and services are classified as deferred revenue and are recognized at the time the goods are delivered or the services provided. Amounts received as compensation from foreign operations are recognized as earned at the time of transfer or when the amount to be received can be reasonably estimated and collection is reasonably assured.

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

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

Financial Instruments

Financial instruments are recorded at fair value at initial recognition.

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

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

1. Significant Accounting Policies (continued)

Use of Estimates

The preparation of 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. 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, 2016 and 2015 and for the years then ended is as follows:

	2016	2015
Balance sheet:		
Total assets	**$ 732,745**	$ 744,049
Total liabilities	**673,353**	708,899
Total net shareholder's equity	**$ 59,392**	$ 35,150

As at March 31, 2016, $ 471,871. (2015 - $ 562,096.) 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.

	2016	2015
Results of operations:		
Total revenue	**$ 1,961,568**	$ 1,864,248
Total expenses	**1,937,326**	1,821,636
Net income	**$ 24,242**	$ 42,612

	2016	2015
Cash flows:		
Cash from operations	**$ 4,801**	$ 284,948
Cash used in investing activities	**(57,111)**	(45,994)
Net increase (decrease) in cash	**$ (52,310)**	$ 238,954

3. Property and Equipment

	2016		2015	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 5,813,764**	**$ -**	$ 5,813,764	$ -
Buildings	**73,494,655**	**14,975,570**	73,479,729	13,138,204
Major building alterations	**19,063,553**	**12,833,475**	17,592,537	12,673,726
Equipment	**21,650,625**	**17,930,838**	22,369,047	18,291,166
Parking lot	**597,492**	**140,695**	597,492	125,758
	120,620,089	**45,880,578**	119,852,569	44,228,854
		$ 74,739,511		$ 75,623,715

Equipment with a cost of $ 660,000. was not available for use as of March 31, 2016. Accordingly, no amortization has been recorded with respect to these assets during the year.

Included in the College's amortization expense is $ 4,649,917. (2015 - $ 4,875,087.) 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.

4. Program Development Costs

	2016	2015
Program development costs	**$ 40,009**	$ 40,009
Less: accumulated amortization	**(39,546)**	(31,628)
	$ 463	$ 8,381

During the year, the College amortized $ 7,918. (2015 - $ 8,002.) in expenses related to program development costs.

5. Payables and Accruals

Included in accounts payable at year end were $ Nil. (2015 - $ Nil.) of government remittances payable.

6. Long-term Debt

	2016	2015
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	**$ 7,069,000**	$ 7,410,000
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	**6,830,000**	7,149,000
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	**5,908,000**	6,571,000
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	**4,966,000**	5,206,000
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	**4,353,000**	4,564,000

6. Long-term Debt (continued)

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	**3,168,000**	3,345,000
Royal Bank of Canada, interest rate swap contract, 4.47% including .25% credit spread, payable in monthly installments of principal and interest as determined by a floating rate calculation, secured by a promissory note, amortized over 20 years ending on June 20, 2025	**2,301,000**	2,497,000
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	**2,157,000**	2,368,000
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	**1,276,000**	-
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	**1,262,000**	1,324,000
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	**607,000**	761,000
	39,897,000	41,195,000
Current portion of long-term debt	**(2,728,000)**	(2,575,000)
Long-term portion of debt	**$37,169,000**	$ 38,620,000

6. Long-term Debt (continued)

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2016 are as follows: 2017 - $ 2,728,000.; 2018 - $ 2,833,000.; 2019 - $ 2,945,000.; 2020 - $ 2,986,000.; and 2021 - $ 2,996,000.

Included in other operating costs is interest on long-term debt in the amount of $ 1,565,002. (2015 - $ 1,640,867.).

7. 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, 2016 and 2015, 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, 2016		As at March 31, 2015	
	Notional amount	**Fair value favourable (unfavourable)**	Notional amount	Fair value favourable (unfavourable)
4.47% fixed, maturing June 2025	**$ 2,301,000**	**$ (380,084)**	$ 2,497,000	$ (408,871)
3.15% fixed, maturing October 2019	**607,000**	**(26,055)**	761,000	(40,047)
4.12% fixed, maturing June 2030	**4,353,000**	**(886,678)**	4,564,000	(843,700)
2.94% fixed, maturing August 2031	**4,966,000**	**(578,749)**	5,206,000	(475,255)
4.14% fixed, maturing September 2023	**5,908,000**	**(732,437)**	6,571,000	(833,876)
4.49% fixed, maturing April 2030	**6,830,000**	**(1,576,702)**	7,149,000	(1,528,167)
2.59% fixed, maturing February 2032	**7,069,000**	**(635,263)**	7,410,000	(465,426)
2.85% fixed, maturing March 2032	**1,262,000**	**(138,755)**	1,324,000	(110,966)
2.91% fixed, maturing February 2030	**3,168,000**	**(349,212)**	3,345,000	(295,731)
2.54% fixed, maturing January 2025	**2,157,000**	**(147,999)**	2,368,000	(141,000)
2.29% fixed, maturing September 2035	**1,276,000**	**(81,260)**	-	-
	$ 39,897,000	**$ (5,533,194)**	$ 41,195,000	$ (5,143,039)

8. 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.

	2016	2015
Beginning balance	**$ 24,691,689**	$ 25,764,108
Add:		
Contributions - property and equipment	**2,618,284**	1,219,210
Contributions - debt servicing	**1,300,960**	1,219,681
Total contributions	**3,919,244**	2,438,891
Less:		
Amounts amortized to revenue - property and equipment	**(2,385,603)**	(2,443,248)
Amounts amortized to revenue - debt servicing	**(1,104,360)**	(1,068,062)
Total amounts amortized to revenue	**(3,489,963)**	(3,511,310)
	$ 25,120,970	$ 24,691,689

9. 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.

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:

	2016	2015
Change in benefit obligation:		
Benefit obligation - beginning of the year	**$ 132,410,600**	$127,455,600
Current service cost	**1,679,800**	1,442,800
Employees contributions	**1,623,600**	1,386,200
Interest cost on defined benefit obligation	**7,969,100**	7,651,300
Past service cost	**368,700**	-
Benefit payments	**(5,791,900)**	(5,525,300)
Actuarial loss	**(2,520,700)**	-
Benefit obligation - end of the year	**$ 135,739,200**	$132,410,600
Change in plan assets:		
Fair value of plan assets - beginning of the year	**$ 124,084,800**	$114,688,000
Interest income on plan assets	**7,384,300**	6,814,500
Administration costs	**(159,000)**	(245,400)
Employer contributions	**2,143,200**	1,911,800
Estimated employee contributions and past service cost	**1,992,300**	1,386,200
Actuarial gain (loss) on plan assets	**(11,097,000)**	5,055,000
Benefits paid	**(5,791,900)**	(5,525,300)
Benefit asset - end of the year	**$ 118,556,700**	$124,084,800

9. Pension Plan (continued)

Reconciliation of funded status:		
Present value of defined benefit obligation	**$(135,739,200)**	$(132,410,600)
Fair value of plan assets	**118,556,700**	124,084,800
Accrued benefit liability	**$ (17,182,500)**	$ (8,325,800)

Net expense:	**2016**	2015
Current service cost (employer)	**$ 1,679,800**	$ 1,442,800
Administration costs	**159,000**	245,400
Interest income on plan assets	**(7,384,300)**	(6,814,500)
Interest cost on defined benefit obligation	**7,969,100**	7,651,300
Net expense	**$ 2,423,600**	$ 2,525,000

Significant actuarial assumptions:		
Expected long-term rate of return on plan assets		
Members prior to April 1, 2015	6.00%	6.00%
Members after April 1, 2015	5.00%	N/A
Rate of increase in future compensation	3.00%	3.00%

10. Investment in Property and Equipment

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

	2016	2015
Property and equipment	**$ 74,739,511**	$ 75,623,715
Add: accumulative direct increase to net assets	**60,578**	53,071
Amounts financed by:		
Deferred contributions - property and equipment	**(25,257,623)**	(24,751,635)
Long-term debt	**(39,897,000)**	(41,195,000)
Unamortized contributions - debt servicing	**136,654**	59,947
Loan proceeds internally restricted for future property and equipment purchases	**113,580**	-
	$ 9,895,700	$ 9,790,098

(b) Net change in investment in capital assets:

	2016	2015
Purchase of property and equipment	**$ 4,235,526**	$ 1,844,439
Amounts funded by:		
Deferred contributions	**(2,618,284)**	(1,219,210)
Issuance of long-term debt	**(1,300,000)**	(3,359,000)
Loan proceeds internally restricted for future property and equipment purchases	**113,580**	-
Repayment of long-term debt	**2,598,000**	5,827,961
Contributions - debt servicing	**(1,300,960)**	(1,219,681)
Amortization of deferred contributions - capital	**2,385,603**	2,443,248
Amortization of deferred contributions - debt servicing	**1,104,360**	1,068,062
Amortization of property and equipment	**(4,649,917)**	(4,875,087)
Write down of property held for sale	**(469,812)**	-
	$ 98,096	$ 510,732

11. Invested in Program Development

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

		2016		2015
Program development	**$**	**463**	$	8,381
Amounts financed by:				
Deferred contributions		**-**		-
Long-term debt		**-**		-
	$	**463**	$	8,381

(b) Net change in investment in program development:

		2016		2015
Amounts funded by:				
Amortization of program development	**$**	**(7,918)**	$	(8,002)
	$	**(7,918)**	$	(8,002)

12. Internally Restricted for Future Pension Funding

		2016		2015
Balance, beginning of the year	**$**	**810,600**	$	1,273,800
Transfer from reserve for the year		**(463,200)**		(463,200)
	$	**347,400**	$	810,600

13. Other Operating Costs

	2016	2015
Advertising	**$ 643,188**	$ 570,397
Bad debt expense	**89,800**	39,029
Contract services	**1,018,812**	1,053,581
Graduation	**120,886**	106,630
Interest on long-term debt	**1,565,002**	1,640,867
Lab fees	**212,078**	223,981
Laundry	**114,578**	130,741
Legal	**244,314**	26,307
Membership fees	**100,425**	114,008
Photocopy	**259,132**	253,316
Postage	**69,379**	89,467
Provider fees	**403,868**	342,644
Registrations and maintenance fees	**120,037**	95,048
Software	**614,209**	552,787
Staff development	**142,119**	165,940
Study tour costs	**200,534**	200,014
Other	**631,850**	615,865
	$ 6,550,211	$ 6,220,622

14. Related Entities

Holland College Foundation Inc.

The College controls Holland College Foundation Inc. The Foundation raises funds from the community. The Foundation is incorporated under the laws of the Province of Prince Edward Island and is a registered charity under the Income Tax Act. All resources of the Foundation must be provided for the benefit of the College or its students.

The Foundation has not been consolidated in the College's consolidated financial statements. Financial statements of the Foundation are available upon request. A financial summary of this non-consolidated entity as at March 31, 2016 and 2015 and for the years then ended is as follows:

Holland College Foundation Inc.

	2016	2015
Balance sheet:		
Total assets	**$ 5,654,874**	$ 6,712,659
Total liabilities	**330,934**	265,394
Total net assets	**$ 5,323,940**	$ 6,447,265

(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, $ 109,257. (2015 - $ 1,173,127.) of the Foundation's net assets must be used to purchase capital assets for the College. $ 3,846,410. (2015 - $ 3,965,148.) of the Foundation's net assets are subject to donor imposed restrictions that they be maintained permanently with investment revenue earned to be used for scholarships and bursaries for College students. At year end, amounts owing to the College related to outstanding donations committed to the College as of year end as well as fundraising costs associated with the capital campaign (see Note 14 (2)) that were financed by the College and will be repaid from future fundraising initiatives.

	2016	2015
Results of operations:		
Total revenue	**$ 1,083,341**	$ 1,765,630
Total expenses (Note 14 (2))	**2,007,256**	636,893
Excess of revenue over expenses (expenses over revenue)	**$ (923,915)**	$ 1,128,737

14. Related Entities (continued)

(2) During the year, the College paid a grant totaling $ 330,455. (2015 - $ 359,762.) to Holland College Foundation Inc. for payment of the administration costs of the Foundation. The Foundation recognized changes in unrealized losses of $ 199,410. (2015 - gains of $ 62,416.) on long-term investments during the 2016 fiscal year. During the year, the College received $ 1,538,014. (2015 - $ 294,809.) in donations from the Foundation. The donations were used to fund expenditures and capital projects. The Foundation owes the College $ 331,934. (2015 - $ 265,394.), representing Project funds approved for release to the College and fundraising costs.

15. Commitments

The College has operating leases for its premises at Slemon Park. The premises are leased at a base rent of $ 5.26 per square foot under a lease expiring December 31, 2018, a base rent of $ 0.64 per square foot for three additional spaces under lease expiring October 31, 2016, a base rent of $ 7.85 per square foot for a lease expiring March 31, 2017, and a base rent of $ 2.62 per square foot under a lease expiring March 31, 2017. 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 $ 10.00 to $ 13.21 per square foot. Further, the College also signed a five year service agreement in April 2016 with Kongsberg Maritime Simulation. The annual payment for 2017 is $ 211,323. increasing by 2% each year thereafter. In addition, the College received an operating grant during the year for one of its premises at Slemon Park in lieu of rent, heat and electricity in the amount of $ 402,668. (2015 - $ Nil.). This grant has been recognized as expense recoveries and as a reduction to rental expense. The minimum annual lease and service contract payments for the next five years are as follows:

2017	$ 873,757
2018	524,104
2019	458,199
2020	250,867
2021	245,551
	$ 2,352,478

16. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The College is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The College's financial instruments that are exposed to concentration of credit risk relate primarily to cash and accounts receivable. Of the $ 3,215,735. in cash, one financial institution held $ 2,935,402. of all cash assets. The total cash held with one financial institution exceeded the maximum insurable amount from the Canada Deposit Insurance Corporation by $ 2,835,402. In addition, the College held cash of $ 279,774. with a foreign bank which was uninsured. Of the College's $ 14,591,796. in trade accounts receivable, government agencies accounted for 71% 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 eleven (2015 - ten) interest rate swap contracts whereby it has fixed the interest rate on a total of $ 39,897,000. (2015 - $ 41,195,000.) 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 7.

17. 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.

18. Comparative Figures

Certain comparative figures have been restated to conform to the current year's presentation.