

BISHOP'S UNIVERSITY

FINANCIAL STATEMENTS

Year ended June 30, 2008

BISHOP'S UNIVERSITY

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Year ended June 30, 2008

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AUDITORS' REPORT

To the Members of the Corporation of
Bishop's University

We have audited the balance sheet of BISHOP'S UNIVERSITY as at June 30, 2008 and the statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained below we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because we were unable to confirm the long-term receivable amount from the ministère de l'Éducation, des Loisirs et du Sport du Québec for conditional grants amounting to \$6,828,175 or verify this amount by other means, we are not able to determine whether any adjustments might be necessary to accounts receivable, grants from ministère de l'Éducation, des Loisirs et du Sport du Québec, excess of expenses over revenue and fund balances.

The University has prepared its financial statements in accordance with the recommendations in the *Cahier des définitions, des termes et des directives de présentation du rapport financier annuel pour les universités du Québec* (the «Cahier»), as they are applied in the annual financial report submitted to the ministère de l'Éducation, du Loisir et du Sport du Québec. These recommendations are consistent with Canadian generally accepted accounting principles with the main exceptions relating to accrued vacation pay, pension cost, employee future benefits, capital assets, and income recognition. Note 4 describes how the Cahier's recommendations differ from Canadian generally accepted accounting principles.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to the long-term receivable amount described above and the effects of the accounting methods described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the University as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

 Samson Bélair / Deloitte & Touche s.e.n.c.r.l.

February 12, 2009

¹ Chartered accountant auditor permit n° 8516

BISHOP'S UNIVERSITY

REVENUE AND EXPENSES Year ended June 30

| | Operating Fund | | Restricted Funds | | Capital Fund | | Total | |
|---|----------------------|----------------------|------------------|------------------|----------------------|-------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| REVENUE | | | | | | | | |
| Student academic fees | \$ 7,684,478 | \$ 8,147,598 | \$ - | \$ - | \$ - | \$ - | \$ 7,684,478 | \$ 8,147,598 |
| Other student fees | 337,212 | 393,921 | - | - | - | - | 337,212 | 393,921 |
| Management fees | 57,290 | 65,000 | - | - | - | - | 57,290 | 65,000 |
| Grants - ministère de l'Éducation, du Loisir et du Sport du Québec (Note 6) | 16,679,164 | 19,377,368 | 138,992 | 133,701 | 1,270,351 | 1,390,752 | 18,088,507 | 20,901,821 |
| Other | 435,406 | 483,956 | 438,853 | 436,968 | 147,275 | 77,900 | 1,021,534 | 998,824 |
| Donations - Bishop's University Foundation | - | - | 2,115,930 | 1,866,842 | 391,490 | 75,000 | 2,507,420 | 1,941,842 |
| Research grants | - | - | 868,292 | 769,376 | - | - | 868,292 | 769,376 |
| Rental income - Champlain Regional College | 1,053,500 | 918,550 | - | - | - | - | 1,053,500 | 918,550 |
| Student services | 1,852,885 | 1,597,166 | - | - | - | - | 1,852,885 | 1,597,166 |
| Ancillary enterprises | 7,527,352 | 7,628,941 | - | - | - | - | 7,527,352 | 7,628,941 |
| Financed by the Operating Fund (Note 5) | - | - | 40,000 | 49,900 | 1,339,668 | 1,720,413 | 1,379,668 | 1,770,313 |
| | 35,627,287 | 38,612,500 | 3,602,067 | 3,256,787 | 3,148,784 | 3,264,055 | 42,378,138 | 45,133,352 |
| EXPENSES | | | | | | | | |
| Teaching | 16,806,189 | 18,125,341 | 747,668 | 480,955 | - | - | 17,553,857 | 18,606,296 |
| Funded research | - | - | 860,053 | 820,750 | - | - | 860,053 | 820,750 |
| Academic support: | | | | | | | | |
| Library | 1,854,123 | 2,150,739 | 118,485 | 193,913 | - | - | 1,972,608 | 2,344,652 |
| Information technology and audio-visual | 1,075,661 | 1,003,767 | - | - | - | - | 1,075,661 | 1,003,767 |
| Administration support: | | | | | | | | |
| Administration | 3,133,249 | 3,524,595 | 104,049 | 207,756 | - | - | 3,237,298 | 3,732,351 |
| Alumni and development office | 535,686 | 612,888 | - | - | - | - | 535,686 | 612,888 |
| Land and buildings | 3,373,686 | 3,790,681 | - | - | - | - | 3,373,686 | 3,790,681 |
| Student services | 1,764,599 | 1,583,134 | 444,217 | 331,312 | - | - | 2,208,816 | 1,914,446 |
| Student scholarship and bursaries | 25,701 | 9,622 | 885,875 | 996,011 | - | - | 911,576 | 1,005,633 |
| Ancillary enterprises | 7,280,725 | 7,767,244 | - | - | - | - | 7,280,725 | 7,767,244 |
| Interest | 269,375 | 150,520 | - | - | - | - | 269,375 | 150,520 |
| Interest charge on long-term debt and temporary financing | - | - | - | - | 963,552 | 877,517 | 963,552 | 877,517 |
| Interest on derivative financial instrument | - | - | - | - | 87,029 | 78,412 | 87,029 | 78,412 |
| Depreciation of capital assets | - | - | - | - | 1,947,232 | 1,966,801 | 1,947,232 | 1,966,801 |
| Amortization of other assets | - | - | - | - | 69,804 | 102,735 | 69,804 | 102,735 |
| Capital assets written off (Note 3) | - | - | - | - | 331,987 | 224,143 | 331,987 | 224,143 |
| Retirement allowances and severance costs (Note 7) | 3,204,057 | 351,207 | - | - | - | - | 3,204,057 | 351,207 |
| Pension buyback | - | 468,917 | - | - | - | - | - | 468,917 |
| Variation of the fair value of investments | - | - | - | - | 160,408 | - | 160,408 | - |
| Variation of the fair value of derivative financial instrument | - | - | - | - | 370,860 | 64,735 | 370,860 | 64,735 |
| Variation of the fair value of long-term debt | - | - | - | - | 319,100 | - | 319,100 | - |
| Pension plan amortization (Note 15) | - | 783,804 | - | - | - | - | - | 783,804 |
| | 39,323,051 | 40,322,459 | 3,160,347 | 3,030,697 | 4,249,972 | 3,314,343 | 46,733,370 | 46,667,499 |
| EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) | (3,695,764) | (1,709,959) | 441,720 | 226,090 | (1,101,188) | (50,278) | (4,355,232) | (1,534,147) |

BISHOP'S UNIVERSITY

CHANGES IN FUND BALANCES
Year ended June 30

| | Operating Fund | | | Restricted Funds | | | Capital Fund | | | Total |
|--|-----------------|----------------|--------------|------------------|---------------|---------------|---------------|---------------|------|-------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | |
| FUND BALANCES, BEGINNING OF YEAR As previously reported | (4,084,474) | (2,374,515) | 1,707,832 | 1,481,742 | 27,445,798 | 27,496,076 | 25,069,156 | 26,603,303 | | |
| Changes in accounting policies (Note 2) | - | - | - | - | 273,000 | - | 273,000 | - | | |
| FUND BALANCES, BEGINNING OF YEAR - as restated | (4,084,474) | (2,374,515) | 1,707,832 | 1,481,742 | 27,718,798 | 27,496,076 | 25,342,156 | 26,603,303 | | |
| EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) | (3,695,764) | (1,709,959) | 441,720 | 226,090 | (1,101,188) | (50,278) | (4,355,232) | (1,534,147) | | |
| FUND BALANCES, END OF YEAR | \$ (7,780,238) | \$(4,084,474) | \$ 2,149,552 | \$ 1,707,832 | \$ 26,617,610 | \$ 27,445,798 | \$ 20,986,924 | \$ 25,069,156 | | |

BISHOP'S UNIVERSITY

BALANCE SHEET
June 30

| | Operating Fund | | Restricted Funds | | Capital Fund | | Total |
|---|----------------|---------------|------------------|--------------|---------------|---------------|---------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | |
| ASSETS | | | | | | | |
| CURRENT ASSETS | | | | | | | |
| Cash | \$ 2,301,448 | \$ 1,567,839 | \$ - | \$ - | \$ - | \$ 48,000 | \$ 2,349,448 |
| Accounts receivable - ministère de l'Éducation, du Loisir et du Sport du Québec | 1,630,414 | 27,478 | - | - | - | - | 1,630,414 |
| Due from Bishop's University Foundation | 328,624 | 69,851 | - | - | - | - | 328,624 |
| Prepaid expenses | 1,267,111 | 1,723,273 | - | - | - | - | 1,267,111 |
| | \$ 5,527,597 | \$ 4,493,067 | \$ - | \$ - | \$ - | \$ 48,000 | \$ 5,575,597 |
| INTERFUND ACCOUNT (Note 5) | | | | | | | |
| INVESTMENTS (Note 8) | 1,382,231 | (107,354) | 2,149,552 | 1,707,832 | (3,531,783) | (1,600,474) | 4 |
| CAPITAL ASSETS (Note 9) | - | - | - | - | 1,187,450 | 941,485 | 1,187,450 |
| OTHER ASSETS (Note 10) | - | - | - | - | 50,984,279 | 49,095,150 | 50,984,279 |
| LONG-TERM RECEIVABLES (Note 6) | 7,309,510 | 5,218,422 | - | - | 604,191 | 652,757 | 604,191 |
| | \$ 14,219,338 | \$ 9,604,135 | \$ 2,149,552 | \$ 1,707,832 | \$ 49,312,137 | \$ 49,191,932 | \$ 65,681,027 |
| | | | | | | | \$ 60,503,899 |
| LIABILITIES | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Bank indebtedness and credit facility (Note 11) | \$ 3,698,109 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,698,109 |
| Banker's acceptances (Note 12) | 6,000,000 | 2,900,025 | - | - | 6,456,000 | 6,629,000 | 12,456,000 |
| Accounts payable and accrued liabilities (Note 13) | 3,054,477 | - | - | - | - | - | 3,054,477 |
| Accounts payable - ministère de l'Éducation, du Loisir et du Sport du Québec | 3,744,254 | 1,043,216 | - | - | 76,762 | 253,617 | 3,821,016 |
| Derivative financial instrument | 3,321,377 | 3,210,809 | - | - | 624,478 | 3,321,377 | 624,478 |
| Unearned revenue | - | - | - | - | 839,373 | 772,542 | 3,210,809 |
| Current portion of long-term debt (Note 14) | - | - | - | - | - | - | 839,373 |
| | \$ 19,818,217 | \$ 13,154,050 | \$ - | \$ - | \$ 7,996,613 | \$ 7,655,159 | \$ 27,814,830 |
| RETIREMENT ALLOWANCES & SEVERANCE COSTS (Note 7) | 2,181,359 | 534,559 | - | - | 14,697,914 | 14,090,975 | 2,181,359 |
| LONG-TERM DEBT (Note 14) | 21,999,576 | 13,688,609 | - | - | 22,694,527 | 21,746,134 | 21,999,576 |
| | (7,780,238) | (4,084,474) | 2,149,552 | 1,707,832 | 26,617,610 | 27,445,798 | (7,780,238) |
| | (7,780,238) | (4,084,474) | 2,149,552 | 1,707,832 | 26,617,610 | 27,445,798 | (4,084,474) |
| | \$ 14,219,338 | \$ 9,604,135 | \$ 2,149,552 | \$ 1,707,832 | \$ 49,312,137 | \$ 49,191,932 | \$ 65,681,027 |
| | | | | | | | \$ 60,503,899 |
| FUND BALANCES | | | | | | | |
| Unrestricted | | | | | | | |
| Externally restricted | | | | | | | |
| Invested in capital assets | | | | | | | |
| | (7,780,238) | (4,084,474) | 2,149,552 | 1,707,832 | 26,617,610 | 27,445,798 | 20,986,924 |
| | \$ 14,219,338 | \$ 9,604,135 | \$ 2,149,552 | \$ 1,707,832 | \$ 49,312,137 | \$ 49,191,932 | \$ 65,681,027 |
| | | | | | | | \$ 60,503,899 |
| COMMITMENTS (Note 16) | | | | | | | |

APPROVED BY THE CORPORATION
 Director
 Director

BISHOP'S UNIVERSITY**CASH FLOWS**

Year ended June 30

2008

2007

OPERATING ACTIVITIES

Excess of expenses over revenue

\$(4,355,232) \$(1,534,147)

Items not affecting cash:

Depreciation of capital assets

1,947,232 1,966,781

Write-off of capital assets

88,539 -

Amortization of other assets

69,804 102,735

Amortization of sinking fund

- 489,000

Variation of the fair value of investments

160,408 -

Variation of the fair value of derivative financial instruments

370,860 64,735

Variation of the fair value of long-term debt

319,100 -

Gain on investments

(35,790) -

Equity earnings

- (12,520)

(1,435,079) 1,076,584

Net changes in non-cash working capital items:

Accounts receivable

(2,799,758) 838,327

Prepaid expenses

456,165 169,697

Variation in amount due from Bishop's University Foundation

(258,773) (2,485)

Accounts payable and accrued liabilities

2,932,253 1,307,910

Unearned revenue

110,568 9,581

Retirement allowances and severance costs

1,646,800 122,991

652,176 3,522,605

INVESTING ACTIVITIES

Acquisition of investments

(291,750) (114,381)

Disposal of investments

70,668 10,000

Acquisition of capital assets

(3,924,899) (2,497,798)

Acquisition of other assets

(21,239) (15,238)

(4,167,220) (2,617,417)

FINANCING ACTIVITIES

Changes in credit facility

3,116,337 (2,282,396)

Change in banker's acceptances

(173,000) 2,837,000

Additional long-term debt

998,202 6,815,000

Repayment of long-term debt

(245,032) (3,599,240)

Contribution to sinking fund

(275,000) (438,000)

Variation in long-term receivable

(2,056,074) (2,402,661)

1,365,433 929,703

BISHOP'S UNIVERSITY

CASH FLOWS

Year ended June 30

2008

2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(2,149,611)

1,834,891

**CASH AND CASH EQUIVALENTS (DEFICIENCY)
BEGINNING OF YEAR**

1,567,839

(267,052)

**CASH AND CASH EQUIVALENTS (DEFICIENCY),
END OF YEAR (Note 18)**

\$(581,772) \$

1,567,839

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

1. STATUS OF INCORPORATION AND NATURE OF ACTIVITIES

Bishop's University was created in 1843 by a special act of the parliament of the Province of Canada under the name of Bishop's College. It was granted university status in 1853 as University of Bishop's College and changed its name to Bishop's University ("University") in 1958. The mission of the University includes post-secondary education, research and community service. The University is a registered charity and, under section 149 of the Income Tax Act, is exempt from payment of income tax.

2. CHANGES IN ACCOUNTING POLICIES

The University adopted the following recommendations of CICA Handbook:

a) Section 3855, Financial Instruments – Recognition and Measurement. This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets or liabilities held for trading, financial assets available-for-sale and derivative financial instruments, whether part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

b) Section 3861, Financial instruments – Disclosure and Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The University has made the following classifications:

- Cash is classified as held for trading and is measured at fair value.
- Accounts receivable, amounts due from other entities and long-term receivables are classified as loans and receivables and are recorded at amortized cost using the effective interest method.
- Investments are classified as held for trading and are measured at fair value.
- Bank indebtedness, credit facilities and banker's acceptances are classified as held for trading and are measured at fair value.
- Accounts payable and accrued liabilities, retirement allowances and severance costs and long-term debt are classified as other liabilities and are measured at amortized cost using the effective interest method.
- The derivative financial instrument is classified as held for trading and is measured at fair value.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

2. CHANGES IN ACCOUNTING POLICIES (continued)

These new standards were applied retroactively as of July 1, 2007 without restatement of prior years.

The impacts of these changes in accounting policies on the financial statements for the year ended June 30, 2008 and as at that date are summarized in the following table:

| Increase (decrease) | \$ |
|--|-----------|
| Conversion from cost to market at July 1, 2007: | |
| Investments | 149,500 |
| Long-term debt | 123 500 |
| Fund balance, beginning of year | 273,000 |
| Current year impact of change in accounting policies | |
| Long-term debt | 319,100 |
| Excess revenues (expenditures) | (319,100) |

Future changes in accounting policies

Financial instruments

In December 2006, the CICA issued Section 3862, Financial instruments - Disclosures; Section 3863, Financial instruments - Presentation; and Section 1535, Capital disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the University will adopt the new standards for its fiscal year beginning July 1, 2008. Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments establishes standards for presentation of financial instruments and non-financial derivatives. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

3. ACCOUNTING POLICIES

The financial statements are prepared following the recommendations of the *Cahier des définitions, des termes et des directives de présentation du rapport financier annuel pour les universités du Québec* (the «Cahier»), stipulated by the ministère de l'Éducation, du Loisir et du Sport du Québec («MELS»).

These accounting policies are in conformity with Canadian generally accepted accounting principles, except for accrued vacation pay and unpaid overtime, pension cost, employee future benefits, capital assets, presentation of the bond sinking fund in reduction of long-term debt and income recognition, as described in note 4.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. ACCOUNTING POLICIES (continued)

Fund accounting

These financial statements are prepared on a fund accounting basis using the restricted fund method. The funds used are categorized as follows:

- Operating Fund, which includes teaching, academic and administration support, student services as well as ancillary enterprises such as residences and food services, sports centre, theatre and parking, all with no external restriction.
- Restricted Funds, represent amounts received by the University which have donor or other external restrictions over the use of capital and/or the income earned thereon and are used mainly to support student scholarships and services, academic enrichment and research activities.
- Capital Fund, which includes funds expended on assets of a long-term nature including capital assets and certain investments.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the University's designation of such instruments. Settlement date accounting is used.

Classification:

| | |
|--|-----------------------|
| Cash | Held for trading |
| Accounts receivable, due from other entities and long-term receivables | Loans and receivables |
| Investments | Held for trading |
| Bank indebtedness, credit facilities and banker's acceptances | Held for trading |
| Accounts payable and accrued liabilities | Other liabilities |
| Retirement allowances, severance costs and long-term debt | Other liabilities |
| Derivative financial instrument | Held for trading |

Items classified as held for trading are recognized at fair value and changes on fair value are included in other income/expense.

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities are recorded at amortized cost using the effective interest method.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. ACCOUNTING POLICIES (continued)

Transaction costs

Transaction costs related to held for trading financial instruments are expensed as incurred. Transaction costs related to other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The University uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of revenue and expenses reported in the financial statements. Actual results could differ from these estimates.

Revenue recognition

Contributions of an unrestricted nature are recognized as revenue of the Operating Fund. Restricted contributions are recognized as revenue of the appropriate Restricted Fund. All the contributions are recognized in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Tuition fees are recorded as revenue in the financial year in which the course sessions are held.

Government grants

The reported operating grant revenue represents grants received and due from the MELS for the twelve-month period ended May 31. Pursuant to the requirements of the MELS, the operating grant instalment for the month of June is deferred as unearned revenue and taken into income the following financial year.

Government of Quebec operating grants are recorded in the financial year for which they are granted. A portion of these grants are based on second prior year student enrollment information. The grant amount is adjusted to reflect actual figures in future years based on then current calculation methods.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. ACCOUNTING POLICIES (continued)

Government grants (continued)

A portion of the government grant is contingent upon the University attaining certain objectives. Corrections to the amount of the grants may only be known after the year-end and adjustments, if any, will only be made at that time.

Capital expenditure grants are specifically designated for the purchase of capital assets and are recorded upon payment by the MELS. Capital expenditure grants also include grants related to the payment of interest on long-term debt and temporary financing of capital expenditures authorized by the MELS.

Consolidation

The net result of the not-for-profit organization affiliated with the University, the Bishop's University Foundation, is not consolidated in these financial statements. However key information is reported in Note 17.

Pension plan and fringe benefits

Pursuant to the requirements of the MELS, no provision is recorded for unpaid vacation or unpaid overtime.

The University sponsors a defined benefit pension plan for eligible full-time employees and a money purchase pension plan for eligible part-time employees. In addition, the University sponsors a non-registered supplemental pension for full-time employees.

The University contributes to these plans as per legal and plan requirements and in accordance with the most recent actuarial evaluations. Pension costs are charged to the Operating Fund on a cash basis as plan funding is provided.

As required by the MELS, the expenses of employee benefit costs are charged to the Operating Fund when disbursed and no provision is made for future benefit costs.

Capital assets in Capital Fund

Capital assets are carried at cost. Contributed capital assets are recorded at their fair value at the date of contribution.

Capital assets purchased within the Operating Fund or the Restricted Funds are charged to expenditures in the respective fund in the same period in which the related operating revenue is recorded in the Capital Fund. The cost of such acquisitions is also added to capital assets and the fund balance in the Capital Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. ACCOUNTING POLICIES (continued)

Capital assets in Capital Fund (continued)

Capital assets of ancillary enterprises are added to the Capital Fund and the payments on the related long-term debt or the contribution to financing for acquisitions are carried as an expenditure in the Operating Fund.

Assets of a capital nature that do not meet the MELS monetary capitalization threshold are capitalized in the year and immediately written-off in the Capital Fund.

The annual depreciation rates and methods are prescribed by the MELS. Depreciation is based on their estimated useful life using the following methods, duration and rates:

| | Methods | Duration/Rates |
|---------------------------------|---------------------|----------------|
| Buildings | diminishing balance | 2% |
| Furnishings | straight-line | 5 years |
| Equipment | straight-line | 8 years |
| Computer, software and hardware | straight-line | 5 years |
| Library collection | straight-line | 40 years |
| Rolling equipment | straight-line | 5 years |
| Parking lots | straight-line | 20 years |

Other assets

Bishop's University holds an interest, representing 1/19th of the cost of a high speed telecommunication system pursuant to an agreement between the MELS, the Réseau inter-ordinateurs scientifique Québécois (RISQ) inc. and the universities. The annual depreciation is established by using the straight-line method over the term of the contract signed by MELS and the University.

Bond discounts

The amortization of bond discounts is accounted for using the effective interest method over the term of the related bond.

Derivative financial instruments

Derivative financial instruments held for risk management purposes that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in revenue and expenses of the Capital Fund. Gains or losses on instruments not qualifying for hedge accounting upon adoption of AcG-13 and EIC-128 are recognized in revenues and expenses in the same period as those on the hedged item.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. ACCOUNTING POLICIES (continued)

Interfund accounts

The interfund accounts are without interest or repayment terms.

Carrying charges on long-term debt

For the long-term debt obligations, the Government of Quebec funds annual principal and interest payment requirements on behalf of the University, which are recorded as decreases in the related debt.

Retirement Allowances and severance costs

Retirement allowances and severance costs are charged to Operating Fund expenditures in the year that a retirement agreement is signed.

Cash and cash equivalents

The University's cash and cash equivalents include cash less outstanding cheques. Amounts drawn under the credit facility are considered to be a financing activity and are not included in cash and cash equivalents (Note 18).

4. DIFFERENCE BETWEEN CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The differences between the accounting requirements under the *Cahier des définitions, des termes et des directives de présentation du rapport financier annuel pour les universités du Québec* (the «Cahier») stipulated by the MELS, as applied by the University, and Canadian generally accepted accounting principles are the following:

- In the course of operations, capital assets are purchased within the Operating and Restricted Funds. However, the MELS requires that these assets be recorded as expenses of the respective fund, and capitalized, amortized and recorded as revenue in the Capital Fund. During the year, the Capital assets acquired by the Operating Fund totalled \$1,339,668 (\$1,720,413 in 2007).
- Expenses are recorded on the accrual basis, with the exception of vacation pay and unpaid overtime. As required by the MELS, the University accounts for vacation pay on a cash basis. Under the accrual method, the estimated vacation pay accrual would have been \$640,000 (\$603,000 in 2007) and the estimated overtime accrual would have been \$69,400 (\$64,600 in 2007), resulting in an increase of \$41,800 in the excess of expenses over revenue for the year (decrease of \$44,400 in 2007).

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**4. DIFFERENCE BETWEEN CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)**

- The Government of Quebec contributes annually to a bond sinking fund on behalf of the University. This fund is intended for repayment of bonds at maturity and consequently the MELS requires that the amount be presented as a reduction of long-term debt.
- Employee benefits and pension cost are expensed when paid, rather than accrued during the employee's service. The impractical nature of determining the calculation of future costs for disclosure purposes is such that the amount was not determined as of the date of this report.
- The MELS requires the June 2008 operating grant instalment of \$1,669,000 to be recorded as unearned revenue rather than as an Operating Fund revenue (\$1,415,000 in 2007). Had this grant been accounted for in accordance with Canadian generally accepted accounting principles the excess of expenses over revenues would have been a decrease of \$254,000 (decrease of \$92,000 in 2007)
- Had the above items been accounted for as at June 30, 2008, the total of expenses over revenue would have decreased by \$212,200 to an excess of expenses over revenue of \$4,143,032. This amount does not include the effect of accounting for employee future benefits which has not been quantified.

5. GOVERNMENT ASSISTANCE

The MELS financially supports certain capital projects of the University each year for which the form of funding is finalized at a later date. Included in the interfund amounts due to and from the Operating and Capital Funds respectively is approximately \$548,282 (\$298,758 in 2007) of capital expenditures and interest on temporary financing incurred as at year-end and for which the funding has yet to be either received or finalized by the Government. The then remaining interfund balance as at June 30, 2008 of approximately \$2,983,501 (\$1,301,716 in 2007) represents capital projects which have been financed by the University through the Operating Fund.

The interfund accounts are without interest and repayment conditions.

NOTES TO FINANCIAL STATEMENTSJune 30, 2008

| 6. GRANTS OF MELS | 2008 | 2007 |
|--|---------------|---------------|
| The Operating Fund grants received from the MELS are an important source of Operating Revenue; as such, the University is largely dependent on those grants for its normal operations. | | |
| Operating Fund | | |
| Operating grant | \$ 16,152,564 | \$ 18,509,368 |
| Matching gift | 526,600 | 868,000 |
| | <hr/> | <hr/> |
| | \$ 16,679,164 | \$ 19,377,368 |
| <hr/> | | |
| Student services | \$ 169,000 | \$ 169,200 |
| <hr/> | | |
| Capital Fund | | |
| Subsidy - interest on long-term debt | \$ 585,220 | \$ 427,792 |
| Repayment of long-term debt | 130,439 | 127,816 |
| Sinking fund credits | 275,000 | 438,000 |
| Temporary financing of capital acquisitions | 16,592 | 107,644 |
| Equipment | 263,100 | 289,500 |
| | <hr/> | <hr/> |
| | \$ 1,270,351 | \$ 1,390,752 |
| <hr/> | | |
| Restricted Funds | | |
| Research and other revenue | \$ 138,992 | \$ 133,701 |

Included in the long-term receivables under the Operating Fund are \$6,828,175 in conditional grants for the years ended June 30, 2006, 2007 and 2008 and a \$501,300 receivable dating from 2003. Both receivables are from the MELS.

The MELS budget rules specify that each Quebec University must present annually either balanced Operating Fund Results or a plan to return to financial equilibrium to benefit from the MELS Operating Fund grants in their entirety. Conditional grants, representing approximately 13% of the MELS Operating Fund grants, are withheld until this condition is met.

BISHOP'S UNIVERSITY**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

7. RETIREMENT ALLOWANCES AND SEVERANCE COSTS

A special early retirement offer has been available to employees since 1996. During the year Bishop's University also made available to Faculty special retirement options and a severance package was negotiated with a senior administrator. The following amounts will be due on retirement or departure:

| | Balance due 2007 | New allowances | Paid allowances | Balance due 2008 |
|-------------|---------------------|-------------------|--------------------|---------------------|
| 2001 - 2002 | \$ 13,456 | \$ - | \$ 2,900 | \$ 10,556 |
| 2006 - 2007 | 159,393 | 16,815 | 159,392 | 16,816 |
| 2007 - 2008 | 271,210 | 1,404,158 | 1,394,965 | 280,403 |
| 2008 - 2009 | 73,062 | 587,776 | - | 660,838 |
| 2009 - 2010 | 17,438 | 845,499 | - | 862,937 |
| 2010 - 2011 | - | 290,072 | - | 290,072 |
| 2011 - 2012 | - | 59,737 | - | 59,737 |
| | \$ 534,559 | \$ 3,204,057 | \$ 1,557,257 | \$ 2,181,359 |

8. INVESTMENTS

| | 2008 | 2007 |
|---|--------------|------------|
| Balanced Fund, McLean Budden, representing charitable annuity donation fund | \$ 819,347 | \$ 669,943 |
| Money Market Fund, McLean Budden, representing Supplemental Employee Retirement Plan (SERP) | 2,427 | 25,599 |
| iNovia Capital inc. 400 shares, (representing 0.5% of the capital) | 4,000 | 4,000 |
| MSBI Investment Fund - Limited partnership, 1 unit, (representing 0.5% of partnership) (Note 16) | 161,226 | 41,480 |
| Sixtron Advanced Materials Inc., 267 708 common shares A, (cost : \$96,763) (representing a total of 6% of votes with the preferred shares) | - | 13 |
| Sixtron Advanced Materials Inc., 409 257 preferred shares A-2, (cost : \$235,790) | 200,000 | - |
| Sixtron Advanced Materials Inc., convertible loan, converted in preferred shares A-2 during the year | - | 75,000 |
| Sixtron Advanced Materials Inc., Advance, converted in preferred shares A-2 during the year | - | 75,000 |
| Sixtron Advanced Materials Inc., convertible loan, converted in preferred shares A-2 during the year | - | 50,000 |
| Coopérative de Solidarité Air Sherbrooke (1 unit) | 450 | 450 |
| | \$ 1,187,450 | \$ 941,485 |

BISHOP'S UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

9. CAPITAL ASSETS

| | 2008 | | |
|--|----------------------|--------------------------|----------------------|
| | Cost | Accumulated depreciation | Net value |
| Land | \$ 417,644 | \$ - | \$ 417,644 |
| Land improvements | 2,271,344 | - | 2,271,344 |
| Buildings | 56,458,332 | 21,498,005 | 34,960,327 |
| Furnishings, equipment, rolling equipment, computer hardware | 4,995,114 | 3,025,237 | 1,969,877 |
| Software | 682,124 | 406,536 | 275,588 |
| Library collection | 13,825,605 | 3,256,159 | 10,569,446 |
| Parking lots | 654,515 | 134,462 | 520,053 |
| | <u>\$ 79,304,678</u> | <u>\$ 28,320,399</u> | <u>\$ 50,984,279</u> |

| | 2007 | | |
|--|----------------------|--------------------------|----------------------|
| | Cost | Accumulated depreciation | Net value |
| Land | \$ 304,284 | \$ - | \$ 304,284 |
| Buildings | 56,249,483 | 20,785,893 | 35,463,590 |
| Furnishings, equipment, rolling equipment, computer hardware | 5,128,070 | 2,871,506 | 2,256,564 |
| Software | 641,372 | 377,614 | 263,758 |
| Library collection | 13,165,937 | 2,910,518 | 10,255,419 |
| Parking lots | 654,515 | 102,980 | 551,535 |
| | <u>\$ 76,143,661</u> | <u>\$ 27,048,511</u> | <u>\$ 49,095,150</u> |

During the year ended June 30, 2008, \$675,346 of fully depreciated capital assets were written off in conformity with MELS requirements (\$628,295 in 2007).

BISHOP'S UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

| 10. OTHER ASSETS | 2008 | 2007 |
|--|-------------|-------------|
| Telecommunication system (RISQ), at amortized cost | \$ 542,764 | \$ 592,106 |
| Bond discount, at amortized cost | 26,302 | 42,083 |
| Other | 35,125 | 18,568 |
| | <hr/> | <hr/> |
| | \$ 604,191 | \$ 652,757 |

11. BANK INDEBTEDNESS AND CREDIT FACILITY

The University has an authorized line of credit of \$9,000,000 bearing interest at either prime rate or banker's acceptances rate plus 0.25% stamping fees and renewable on December 31, 2008.

Since April 2008, the University has exceeded its authorized line of credit. As at June 30, 2008, the amount over the authorized line of credit was \$116,337.

12. BANKER'S ACCEPTANCES

As part of the financing of a new residence, the University entered into a \$7.2 million declining 25-year interest rate swap contract with a bank in 2003. This contract effectively converts a floating interest rate into a fixed rate of 5.42% until 2028. As part of this financing, the University has an authorized line of credit facility of \$7.2 million by way of banker's acceptances bearing interest at prime rate plus 0.25% stamping fees.

As part of its credit facility (Note 11), the University has \$6 million of banker's acceptances bearing interest from 2.92% to 3.14% and renewable in July, August and September 2008.

| 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | 2008 | 2007 |
|---|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 2,780,159 | \$ 2,206,135 |
| Due to the Pension Plans for employees | 274,318 | 693,890 |
| | <hr/> | <hr/> |
| | \$ 3,054,477 | \$ 2,900,025 |

BISHOP'S UNIVERSITY**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

| 14. LONG-TERM DEBT | 2008 | 2007 |
|---|---------------|---------------|
| Serviced by the University , to finance Heating Tunnel - capital renovations 10 year term loan, bearing an annual interest rate of 5%, renewable in September 2016, repayable in monthly instalments of \$5,739 including interest | 780,235 | 798,864 |
| To finance the construction of food Kiosk, 6 year term loan, bearing an annual interest rate of 8%, maturing in July 2013, repayable in monthly instalments of \$4,646, including interest | 254,646 | - |
| Serviced by the Government of Quebec Main projets MELS capital grants are authorized under the five-year university capital investment plan and are funded by the Government of Quebec out of public borrowing in the University's name (process known as grant bonds). As a result, the long-term debt listed here below is managed, administrated and serviced by the government of Quebec. | | |
| Bonds | | |
| Series 1B, 3.95%, maturing on February 26, 2010 | \$ 6,196,000 | \$ 6,099,000 |
| Less: accumulated sinking fund credits | (1,100,000) | (825,000) |
| | 5,096,000 | 5,274,000 |
| 8 year term loan, bearing an annual interest rate of 4.26%, renewable in March 2014, repayable in annual instalments in capital of \$80,000 | 1,839,800 | 1,920,000 |
| 6 year term loan, bearing an annual interest rate of 4.394%, renewable in September 2013, repayable in annual instalments in capital of \$286,440 | 6,042,500 | 6,000,000 |
| Other projects To finance repayment of loan to CIBC regarding construction of Centennial Theatre: 10 year term loan, bearing an annual interest rate of 5.07%, maturing in December 2012, repayable in semi-annual instalments of \$35,883, including interest | 292,253 | 341,462 |
| Balance forward | \$ 14,305,434 | \$ 14,334,326 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

14. LONG-TERM DEBT (continued)

| | | |
|---|----------------------|----------------------|
| Balance forwarded | 14,305,434 | 14,334,326 |
| To finance construction of Kuehner, Munster and Abott student residences: 50 year mortgage loans, bearing annual interest rates varying from 5.125% to 5.75%, maturing at varying dates from December 2014 to 2016, repayable in semi-annual instalments of \$39,285, including interest | 501,551 | 529,191 |
| To finance Centennial Theatre renovations subsidized by the Ministère de la Culture, Communication et Condition féminine: 5 year term loan, bearing an annual interest rate of 5%, renewable in May 2013, repayable in semi-annual instalments of \$29,832, including interest | 730,302 | - |
| | 15,537,287 | 14,863,517 |
| Current portion | (839,373) | (772,542) |
| | <u>\$ 14,697,914</u> | <u>\$ 14,090,975</u> |

Scheduled principal and interest payments of the various series of bonds and term loans are based on annual subsidies from the Government of Quebec which are subject to the required credits being voted annually by the Government of Quebec. The rights to these annual credits are assigned to a trust with a trust company for the exclusive benefit of the registered holders of the related bond series.

Principal due within each of the next five years on long-term debt is as follows:

| | |
|--------|--------------------------------------|
| 2009 - | \$839,373 |
| 2010 - | \$850,805 |
| 2010 - | \$4,449,000 (subject to refinancing) |
| 2011 - | \$588,419 |
| 2012 - | \$601,818 |
| 2013 - | \$1,194,205 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

15. PENSION PLANS

- 1) The University sponsors a defined benefit pension plan for eligible full-time employees (the "Full-time Plan").

The estimated market value of net assets available for benefits and the actuarial present value of the accrued pensions for funding purposes are as follows:

| | 2008 | 2007 |
|--|--------------------|-------------------|
| <hr/> | | |
| Pension plan financial statement purpose: | | |
| Market value of net assets available for benefits | \$ 95,089,605 | \$ 97,373,070 |
| <hr/> | | |
| Funding purposes: | | |
| Market value of net assets available for benefits | \$ 95,089,605 | \$ 97,373,070 |
| Estimated actuarial present value of accrued pension benefits | <u>100,722,100</u> | <u>96,625,400</u> |
| Estimated actuarial surplus (deficit) on a going-concern basis | \$(5,632,495) | \$ 747,670 |
| <hr/> | | |

The actuarial information for funding purposes as summarized above is based on the extrapolation to June 30, 2008, of a formal valuation as at December 31, 2006, which showed an actuarial surplus for funding purposes of \$1,444,200.

At the date of the last formal actuarial valuation, December 31, 2006, the solvency market value of net assets was \$96,297,600 while the actuarial solvency value of accrued pension benefits was \$105,540,700 resulting in a solvency deficiency of \$9,243,100.

The next formal actuarial valuation of the Pension Plan for Full-time Employees of Bishop's University is due no later than June 30, 2009. Subsequent to year end, the Pension Committee of the Pension Plan for Full-time Employees of Bishop's University has proceeded with a formal actuarial valuation as at June 30, 2008. It is the intention of the Committee that the results of that valuation will be submitted to the Régie des Rentes du Québec no later than March 31, 2009.

- 2) The University also sponsors a defined contribution pension plan for eligible part-time employees. The contributions to this plan by the University amounted to approximately \$97,000 (\$90,000 in 2007).
- 3) The University also maintains a Supplemental Employee Retirement Plan (SERP) for members of the Full-time Plan. The estimated actuarial liability is estimated at \$1,435,000 as at June 30, 2008 of which \$2,427 is funded. Should the Full-time Plan be in an actuarial surplus, the University may take contribution holidays under the Full-time Plan in order to fund this SERP liability.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

16. COMMITMENTS

The University has entered into long-term lease agreements for equipment expiring at different dates between July 31, 2008 to July 31, 2013. Future minimum lease payments will aggregate \$675,613 including the following payments over the next five years:

| | |
|--------|-----------|
| 2009 - | \$156,900 |
| 2010 - | \$156,400 |
| 2011 - | \$128,300 |
| 2012 - | \$112,400 |
| 2013 - | \$112,400 |

The University also has commitments for payments to MSBI Investment Fund, a limited partnership, created to promote the commercialisation of discoveries and inventions in various domains of science and technology. This project is also supported financially by Bishop's University Foundation, McGill University, l'Université de Sherbrooke, certain hospitals and by the Quebec Government. Commitments by the University, totaling \$56,000 over the next two years, are as follows :

| | |
|--------|----------|
| 2009 - | \$18,500 |
| 2010 - | \$37,500 |

The University has undertaken several capital projects and as a result has commitments totalling \$124,600. These commitments are expected to be met in the normal course of the operations.

BISHOP'S UNIVERSITY**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

17. RELATED ENTITY - BISHOP'S UNIVERSITY FOUNDATION

The Bishop's University Foundation (Foundation) raises funds from the University's alumni and from the community. The Foundation is incorporated under Part III of the Quebec Companies Act and is a Registered Canadian Charitable Public Foundation under the Income Tax Act. According to the Foundation's bylaws, all resources of the Foundation must be provided to the University or used for the University's benefit.

The Foundation is not consolidated in the University's financial statements. A financial summary of this non-consolidated entity as at June 30, 2008 and 2007 and for the years then ended is as follows:

| Financial position | 2008 | 2007 |
|---|----------------------|----------------------|
| Current assets | \$ 419,334 | \$ 146,155 |
| Investments, at fair value in 2008 and at cost in 2007 (quoted market value in 2007 - \$27,903,867) | 24,750,819 | 24,599,020 |
| Total assets | \$ 25,170,153 | \$ 24,745,175 |
| Current liabilities | \$ 328,624 | \$ 70,251 |
| Fund balances (Note a) | 24,841,529 | 24,674,924 |
| | \$ 25,170,153 | \$ 24,745,175 |

- a) In accordance with donor - designated gifts, \$23,756,668 (\$22,753,450 in 2007) of the Foundation's assets must be maintained for at least 10 years from the date of the gift. The investment revenue earned is mainly used to support student scholarships and services, academic enrichment and support and research activities.

Subsequent to the year end, the market value of investments held by the Bishop's University Fondation has decreased by approximately 10% to \$22,368,266 at December 31, 2008.

| Results of operations | 2008 | 2007 |
|---|-----------------------|---------------------|
| Investment income | \$ 965,516 | \$ 1,477,793 |
| Donations | 2,500,123 | 1,478,017 |
| Total revenues | 3,465,639 | 2,955,810 |
| Total expenditures (Note b) | (2,702,749) | (2,130,484) |
| Gain on disposal of investments | 88,441 | 885,863 |
| Unrealized lost on investments held for trading | (3,989,573) | - |
| Excess (expenditures over revenues) revenues over expenditures | \$(3,138,242) | \$ 1,711,189 |

BISHOP'S UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

17. RELATED ENTITY - BISHOP'S UNIVERSITY FOUNDATION (continued)

b) Total expenditures include contributions of \$2,547,417 (\$1,976,842 in 2007) as donations and management fees to the University.

| Cash flows | 2008 | 2007 |
|----------------------|--------------|-------------|
| Operating activities | \$(110,174) | \$ 787,815 |
| Investing activities | 383,858 | (648,950) |
| Cash increase | \$ 273,684 | \$ 138,865 |

18. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

2008

2007

The cash and the bank indebtedness include the following elements:

| | | |
|---|----------------|--------------|
| Cash | \$ - | \$ 1,567,839 |
| Regular bank overdraft | (581,772) | - |
| Bank overdraft representing credit facility | (3,116,337) | - |
| | \$(3,698,109) | \$ 1,567,839 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

19. SUBSEQUENT EVENT

Subsequent to year end, the market value of the net assets available for benefits for funding purposes of the Pension Plan for Full-time Employees of Bishop's University has decreased by 18% from the estimate of \$95,089,605 at June 30, 2008 to approximately \$78,300,000 at December 31, 2008. A decline in net asset value may have an impact on the future finances of the University should the net asset market value not recover by the next formal actuarial valuation to be performed no later than June 30, 2011.

20. FINANCIAL INSTRUMENTS

Credit risk

The University provides credit in the normal course of its operations and maintains provisions for potential losses. A significant portion of the University's receivables is due from governments which is believed to be at low risk of default.

Interest rate risk

The University has concluded a long-term interest rate swap agreement to minimize short-term debt financing costs and to manage interest rate fluctuations risk. This agreement covers the conversion of variable interest rates into fixed rates.

The long-term debt bears fixed interest rates for the loans. Consequently, the long-term debt interest rate fluctuation risk is minimal.

Fair value

For financial instruments such as accounts receivable, due from Bishop's University Fondation, long-term receivables, bank indebtedness and credit facility, banker's acceptances and accounts payable and accrued liabilities, the carrying values are equivalent to their fair value, by the nature of the short-term maturities of these financial instruments.

The fair value of long-term debt, excluding reductions for the sinking fund, based on rates currently available to the University for debt with similar terms and maturities.