

SEC Number **1093**
PSE CODE
File Number

CENTRO ESCOLAR UNIVERSITY

Company's Full Name

**9 Mendiola Street
San Miguel, Manila**

Company's Address

735-68-61 to 71

Telephone Number

March 31

Fiscal Year Ending
(Month & Day)

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE,
SRC RULE 17(2)(b) THEREUNDER**

Form Type

(Amendment Designation [If applicable])

Third Quarter Report – December 31, 2015

Period Ended Date

N/A

(Secondary License Type and File Number)

cc: Philippine Stock Exchange

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 – Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC 17(2)(b) THEREUNDER**

1. For the quarterly period ended December 31, 2015
2. Commission identification number 1093
3. BIR Tax identification No. 240-000-531-126
4. Exact name of registrant as specified in its charter **CENTRO ESCOLAR UNIVERSITY**
5. Province, country or other jurisdiction of incorporation or organization Manila, Philippines
6. Industry Classification Code _____ (SEC Use only)
7. Address of registrant's principal office 9 Mendiola St.
San Miguel, Manila
8. Registrant's telephone number, including area code: (02) 735-68-61 to 71
9. Former name, former address and former fiscal year, if change since last report N/A
10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	372,414,400

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [] No []

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [] No []

(b) has been subject to such filing requirements for the past 90 days.

Yes [] No []

Part I. FINANCIAL INFORMATION

Item I. FINANCIAL STATEMENTS

The financial statements are attached to this SEC Form 17-Q.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited financial statements of the University for the nine months ended December 31, 2015 (Third quarter of the University).

RESULTS OF OPERATIONS

For the nine months ended December 31, 2015, the University had a gross revenue of ₱1,251,718,779 and a net income of ₱251,373,906.

Three months ended December 31, 2015 versus Three months ended December 31, 2014.

For the three months ended December 31, 2015, the revenues amounted to ₱492,745,621 as compared to ₱475,777,497 for the same period in 2014. Net income of ₱78,165,713 was registered for the three months ended December 31, 2015 as compared to ₱116,746,132 net income for the same period in 2014.

Operating expenses increased to ₱401,663,329 for the three months period ended December 31, 2015 from ₱350,467,055 for the same period in 2014.

KEY PERFORMANCE INDICATORS (KPI)

Basic performance indicators are employed and comparisons are then made against internal targets and the previous periods performance.

Performance	December 2015 (Nine Months)	December 2014 (Nine Months)	Manner of computation	Significance
Revenue Growth	2.22%	6.19%	Difference between current and last year's tuition and other fees divided by last year's revenues	Measures revenue growth
Return on Revenue	20.78%	25.47%	Net income divided by tuition and other school fees	Shows how much profit is derived from every peso of tuition and other school fees
Dividend Pay-out Ratio	59.26%	61.76%	Dividends divided by net income	Indicates how earnings support dividend payment
Return on Equity	9.66%	11.97%	Net profit divided by average stockholder's equity	Measures extent of profit earned
Return on Assets	6.56%	8.33%	Net profit divided by average total assets	Measures use of assets to generate income

LIQUIDITY

The principal sources of liquidity of the University are cash generated from operations. The principal uses of liquidity for payment of liabilities, operating expenditures, capital expenditures and cash dividends.

The University's cash balance on December 31, 2015 decreased to ₱515,223,533 from ₱516,443,049 as of March 31, 2015.

The University has always relied on internally generated cash to fund its working capital needs and capital expenditures.

The University's current ratio stands at 0.95:1 as of December 31, 2015. The University does not anticipate any liquidity problems in the next 12 months as it consistently maintains a strong cash position.

There is no trend/event or uncertainty that will have a material impact on the company's liquidity, net sales, revenues, and income from continuing operations.

The internal sources of liquidity are tuition and miscellaneous fees, the registrant being a university.

There is no event that will trigger direct or contingent financial obligation that is material to the University, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the University with unconsolidated entities for the year ended December 31, 2015.

MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

For SY 2015-2016, CEU approved the renovation, improvement of various laboratories, repainting of hallways, construction of 2 case study rooms in School of Accountancy and Management in CEU Mendiola. Renovation and retrofitting of Centrodome Gym and construction of covered walkway in CEU Malolos. Construction of three storey building to house School of Dentistry and Pharmacy in CEU Malolos. Renovation of rooms, tiling of GP building ground floor and repainting of exterior walls in CEU Makati. Waterproofing of rooftop of Gil Puyat building, renovation, tiling of board room in CEU Legaspi, Makati.

Segment Reporting

The University operates in three geographical segments – Manila, Malolos and Makati campuses. The financial information on the operations of these segments are based on segment assets, segment property and equipment (net), segment liabilities, segment revenues, operating expenses and net income/loss.

FINANCIAL CONDITION

The current assets of the University as of the third quarter ended December 31, 2015 were ₱934,715,707 as compared with ₱565,012,450 on March 31, 2015. The increase in current assets by ₱369,703,257 over March 31, 2015 balance was mainly due to increase in tuition and other receivables.

Receivables from tuition and other fees increased by ₱344,509,537 because majority of enrollees in the second semester of school year 2015 to 2016 were on installment basis. There were collectibles during the periodical examinations of the students.

This account consists of:

	December 2015	March 2015
Students	402,290,104	57,780,567
Accrued interest receivable	499,403	255,557
Others:		
Advances to employees	24,962,390	8,775,395
Advance to CE-IS stockholders	1,250,000	1,250,000
Accrued rent receivable	88,615	302,676
	429,090,512	68,364,195
Less allowance for doubtful accounts	28,898,533	28,898,533
	400,191,979	39,465,662

The total current liabilities of the University as of December 31, 2015 were ₱986,795,424 higher by ₱486,554,282 from the balance as of March 31, 2015.

Deferred tuition fee and other school fees as of the Third quarter of 2015 were ₱468,088,117. This amount was due to enrollment for the second semester of school year 2015-2016. These items were recognized as income upon realization and accrued until the end of first semester.

Unappropriated Retained Earnings increased by ₱102,408,147, due to declaration of dividends amounting to ₱148,965,760. Net income for the third quarter ended December 31, 2015 was ₱ 251,373,906.

The nature and amount of items affecting assets, liabilities, equity, net income and cash flow are ordinary and occur in the usual course of company operations.

There is no significant element of income or loss arising from continuing operations.

There are no material changes in the estimates of amounts reported in prior interim periods of the current financial year. Thus, there is no effect on the amounts reflected in the current interim period.

There have been no material events subsequent to the end of the interim period, nor any other changes in the composition of the issuer. Also, there are no changes in contingent liabilities or contingent assets since the last annual balance sheet date. Neither does there exist any material contingencies or events that are material to the understanding of the current interim period.

CEU operations are generally affected by seasonality. There is usually a 10% to 12% drop in the number of students in the second semester, as compared to the first semester. There are generally fewer students enrolled during summer months.

There are no issuances, repurchases or repayments of debt and equity securities.

Drop in enrollment, a seasonal aspect, had a material effect on the financial condition or results of operations of the university.

ADDITIONAL DISCLOSURES

In view of the global financial conditions, Centro Escolar University hereby assesses its financial risk exposures on its financial instruments as of date of these financial statements.

1. Financial Risk

a. Currency risk

- i. The majority of the University's short-term investments is maintained in peso government securities and time deposits. As of the end of December 31 2015, ₱325,439,872. worth of money market placements were maintained in peso government securities and time deposits.

- ii. As of the end of December 2015, US\$131,307 were maintained in dollar time deposits. The University maintains these deposits in order to service its academic purchases from the United States. Examples of these purchases are library books, subscriptions as well as purchases of equipment used in education.
- b. Interest risk
 - i. In 2006, the company purchased the Seaboard Centre Condominium from Allysum Realty Corporation, Seaboard-Eastern Insurance Co., Inc., and Charm Scene, Limited. The purchase price was fixed at ₱500 million. There was a down payment of P100 million and the balance was payable in 10 years at P40 million per year. There was a fixed advanced interest of 100 million, which was imputed in the purchase price. Except for the advanced interest, there were no further cash outlays for interest for this transaction.
 - c. Credit risk
 - i. The University's clientele is composed of students who are admitted to the University only upon full or installment payment of tuition fees. When the student failed to pay for his/her tuition fee, the University allows the student to take the examination but withhold his grades and clearance until the student settled his accounts.
 - ii. The University maintains policies on providing for doubtful accounts. As of the end of December 2015, the provision for doubtful accounts was at ₱28.88 million.
 - d. Market risk
 - i. As of the end of December 31, 2015, the University foresees no market risk until the end of its fiscal year March 31, 2016.
 - e. Liquidity risk
 - i. The University maintains a sufficient cash balance to sustain its operations as well as provide dividends for shareholders. The University foresees no liquidity risk.

2. Disclosure regarding financial instruments

PFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project.

After careful consideration of the result of its impact evaluation, the Group decided not to early adopt PFRS 9 for its 2013 reporting ahead of its effectivity date and therefore do not reflect the impact of the said standard on its quarterly financial statements. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Group will conduct another impact evaluation using the consolidated financial statements as of and for the year ended March 31, 2015. Should the Group decide to

early adopt the said standard for its 2016 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2016 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

Except for the short-term placements as described above, the University maintains no other financial instruments.

DIVIDEND DECLARATION

During the special board meeting of the University on July 28, 2015. the Board of Directors declared a cash dividend equivalent to twenty centavos (0.20) per share to stockholders of record as of record date of August 18, 2015 with payment date on September 14, 2015.

During the regular board meeting of the University on November 27, 2015. the Board of Directors declared a cash dividend equivalent to twenty centavos (0.20) per share to stockholders of record as of record date of December 21, 2015 with payment date on January 21, 2016.

EARNINGS/LOSS PER SHARE

The earnings per share is ₱0.67 based on the outstanding common shares of 372,414,400 for the nine months period ended December 31, 2015 and earnings per share of ₱0.81 for the same period of December 31, 2014.

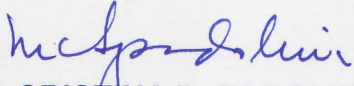
PART II. OTHER INFORMATION

There are no other information not otherwise previously reported on SEC Form 17-C.

SIGNATURES

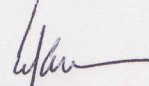
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTRO ESCOLAR UNIVERSITY



MA. CRISTINA D. PADOLINA
President and Vice Chairman

Date 02/12/2016



CESAR F. TAN
Principal Financial Officer

Date 02/12/2016

CENTRO ESCOLAR UNIVERSITY		
BALANCE SHEET		
As of December 31, 2015		
(With Comparative Figures for March 31, 2015)		
	Unaudited	Audited
	December 2015	March 2015
ASSETS		
Current Assets		
Cash and cash equivalents	515,223,533	516,443,049
Tuition and other receivables - net	400,191,979	39,465,662
Inventories	9,647,652	7,701,756
Other current assets	9,652,543	1,401,983
Total Current Assets	934,715,707	565,012,450
Noncurrent Assets		
Property and Equipment	3,171,758,713	2,942,451,814
Other assets	31,207,238	14,605,676
Total Noncurrent Assets	3,202,965,951	2,957,057,490
	4,137,681,658	3,522,069,940
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	342,160,008	265,771,423
Dividends payable	176,282,356	174,102,976
Current portion of long-term liability	-	40,000,000
Income tax payable	264,943	20,366,743
Deferred tuition fees	468,088,117	0
Total Current Liabilities	986,795,424	500,241,142
Noncurrent Liabilities		
Long-term liability	38,180,393	34,675,786
Deferred income tax liability -net	236,382,170	236,259,567
Retirement liability	222,636,988	199,614,908
Total Noncurrent Liabilities	497,199,551	470,550,261
Total Liabilities	1,483,994,975	970,791,403
Stockholders' Equity		
Capital stock	372,414,400	372,414,400
Additional paid-in capital	664,056	664,056
Revaluation increment in property	1,315,441,022	1,315,441,022
Revaluation reserve on available-for-sale financial assets	200,090	200,090
Remeasurement loss on retirement plan - net	(95,067,014)	(95,067,013)
Retained earnings		
Unappropriated	272,892,114	170,483,967
Appropriated	786,000,000	786,000,000
Noncontrolling interest	1,142,015	1,142,015
Total Stockholders' Equity	2,653,686,683	2,551,278,537
	4,137,681,658	3,522,069,940

CENTRO ESCOLAR UNIVERSITY				
STATEMENT OF INCOME				
FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2015 AND 2014				
	3 mos. Ended	3 mos. Ended	9 mos. Ended	9 mos. Ended
	DEC. 2015	DEC. 2014	DEC. 2015	DEC. 2014
REVENUES				
Tuition and other school fees	479,213,418	465,131,494	1,209,834,246	1,183,563,611
Interest income	2,345,475	1,968,894	7,039,291	4,552,832
Auxiliary services	-503,550	-341,509	2,677,889	5,219,075
Miscellaneous	11,690,278	9,018,618	32,167,353	26,690,228
	492,745,621	475,777,497	1,251,718,779	1,220,025,746
EXPENSES				
General and administrative expenses	400,771,662	348,762,579	983,923,672	904,122,050
Interest expense	891,667	1,704,476	3,504,622	5,859,984
	401,663,329	350,467,055	987,428,294	909,982,034
Income before Income tax	91,082,292	125,310,442	264,290,485	310,043,712
Provision for Income tax	12,916,579	8,564,310	12,916,579	8,564,310
NET INCOME	78,165,713	116,746,132	251,373,906	301,479,402
Earnings Per Share	0.21	0.31	0.67	0.81
CENTRO ESCOLAR UNIVERSITY				
STATEMENT OF COMPREHENSIVE INCOME				
FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2015 AND 2014				
	3 mos. Ended	3 mos. Ended	9 mos. Ended	9 mos. Ended
	DEC. 2015	DEC. 2014	DEC. 2015	DEC. 2014
NET INCOME (LOSS)	78,165,713	116,746,132	251,373,906	301,479,402
OTHER COMPREHENSIVE INCOME (LOSS)				
Revaluation increment on land	0	0	0	0
Income tax effect	0	0	0	0
TOTAL COMPREHENSIVE INCOME (LOSS)	78,165,713	116,746,132	251,373,906	301,479,402

CENTRO ESCOLAR UNIVERSITY				
STATEMENT OF CASH FLOWS				
FOR THE THREE MONTH PERIOD AND NINE MONTH PERIOD ENDED DECEMBER 31, 2015				
(With Comparative Figures for the three month period and nine months period ended December 31, 2014)				
	Three Months Period		Nine Months Period	
	December	December	December	December
	2015	2014	2015	2014
CASH FLOWS FROM OPERATING				
ACTIVITIES				
Net income	78,165,713	116,746,132	251,373,906	301,479,402
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	20,102,797	17,374,941	62,173,674	54,865,393
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Tuition and other receivables	(202,007,680)	(148,381,982)	(360,713,111)	(323,364,970)
Inventories	136,252	1,184,364	(1,006,385)	719,140
Other current assets	(149,873)	1,028,032	(9,067,468)	(807,901)
Increase (decrease) in:				
Accounts payable and accrued expenses	(111,337,683)	21,503,311	76,388,585	20,977,604
Dividends payable	71,379,277	(90,111)	2,179,380	(6,867,710)
Retirement liability	7,674,027	(126,688)	23,022,080	15,619,937
Income tax payable	(1)	0	(20,101,800)	(14,395,524)
Deferred income tax liability	0	0	122,603	0
Current portion of current liabilities		0	(40,000,000)	(40,000,000)
Deferred tuition and other school fees	300,120,036	294,625,847	468,088,117	459,804,002
Net cash provided by operating activities	164,082,865	303,863,846	452,459,581	468,029,373
CASH FLOWS FROM INVESTING				
ACTIVITIES				
Other assets	1,588,126	(2,124,084)	(16,737,371)	(3,461,462)
Additions to property and equipment	11,288,562	(19,578,856)	(291,480,573)	(61,835,306)
Net cash used in investing activities	12,876,688	(21,702,940)	(308,217,944)	(65,296,768)
CASH FLOWS FROM FINANCING				
ACTIVITIES				
Long term liability	891,667	1,704,475	3,504,607	5,859,983
Payment of cash dividends	(74,482,880)	0	(148,965,760)	(186,207,200)
Net cash used in financing activities	(73,591,213)	1,704,475	(145,461,153)	(180,347,217)
NET INCREASE IN CASH AND CASH				
EQUIVALENTS	103,368,340	283,865,381	(1,219,516)	222,385,388
CASH AND CASH EQUIVALENTS AT				
BEGINNING	411,855,193	291,799,447	516,443,049	353,279,440
CASH AND CASH EQUIVALENTS AT				
OF THIRD QUARTER	515,223,533	575,664,828	515,223,533	575,664,828

CENTRO ESCOLAR UNIVERSITY		
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY		
As of December 31, 2015		
(With Comparative Figures for December 2014)		
	Dec. 2015	Dec. 2014
CAPITAL STOCK = P1 par value		
Authorized - 800,000,000 shares		
Issued - 372,414,400 shares	372,414,400	372,414,400
ADDITIONAL PAID-IN CAPITAL	664,056	664,056
REVALUATION INCREMENT IN PROPERTY	1,315,441,022	1,315,441,022
UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENT	200,090	191,018
REMEASUREMENT LOSS ON RETIREMENT PLAN - NET	(95,067,014)	(100,300,119)
NONCONTROLLING INTEREST	1,142,015	1,254,034
RETAINED EARNINGS		
Unappropriated		
Balance at beginning of year	170,483,968	421,381,927
Comprehensive Income (Loss)	251,373,906	301,479,402
Other Comprehensive Income(Loss)	-	-
Total Comprehensive Income(Loss)	251,373,906	301,479,402
Cash dividends	(148,965,760)	(186,207,200)
Balance at end of quarter	272,892,114	536,654,129
Appropriated		
Balance at beginning of year	786,000,000	450,000,000
Balance at end of quarter	786,000,000	450,000,000
TOTAL STOCKHOLDERS' EQUITY	2,653,686,683	2,576,318,540

CENTRO ESCOLAR UNIVERSITY
AGING OF ACCOUNTS RECEIVABLE
As of December 31, 2015

School Year	Amount	Percent
2015-2016	344,509,537	85.64%
2014-2015	57,780,567	14.36%
Total	402,290,104	100.00%

CENTRO ESCOLAR UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The accompanying consolidated financial statements include the accounts of Centro Escolar University (the University) and its wholly owned subsidiary, Centro Escolar University Hospital Inc. (the Hospital) (collectively referred to as the Group).

The University, a publicly listed entity, was organized on June 3, 1907 to establish, maintain, and operate an educational institution or institutions for the instruction and training of the youth in all branches of the arts and sciences, offering classes in primary, secondary, and tertiary levels.

In accordance with Commission on Higher Education (CHED) Memorandum Order No. 32, the University was granted autonomy status to be in force and in effect for five school years beginning the first semester of school year 2007 to 2008. Under this existing autonomy status, the University is free from monitoring and evaluation activities of the CHED and has the privilege to determine and prescribe curricular programs, among other benefits as listed in the memorandum order. The three general criteria used by the CHED for the selection and identification of institutions which shall receive autonomy status are institutions: (a) established as centers of excellence or centers of development and/or with Federation of Accrediting Agencies of the Philippines Level III Accredited programs; (b) with outstanding overall performance of graduates in the government licensure examinations; and (c) with long tradition of integrity and untarnished reputation.

The University invested in the Hospital, which was incorporated on June 10, 2008. The Hospital is consolidated beginning 2009. The primary purpose of the Hospital is to establish, maintain and operate a hospital, medical and clinical laboratories and such other facilities that shall provide healthcare or any method of treatment for illnesses or abnormal physical or mental health in accordance with advancements in modern medicine and to provide education and training facilities in the furtherance of the health-related professions. As of June 30, 2013, the Hospital has not yet started operations.

The registered principal office of the Group is 9 Mendiola Street, San Miguel, Manila.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements are prepared using the historical cost basis, except for land, which is carried at revalued amount and available-for-sale (AFS) financial assets which are measured at fair value.

The consolidated financial statements are presented in Philippine Peso (₱), which is also the Group's functional currency.

Statement of Compliance

The accompanying consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the financial statements of the University and its wholly owned subsidiary, the Hospital, which were incorporated in the Philippines.

The financial statements of the Hospital are prepared for the same reporting year as the University.

A subsidiary is consolidated when control is transferred to the Group and ceases to be consolidated when control is transferred out of the Group. Control is presumed to exist when the University owns more than 50% of the voting power of an entity unless in exceptional cases, it can be clearly demonstrated that such ownership does not constitute control. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany balances and transactions, intercompany profits and unrealized gains and losses have been eliminated in the consolidation.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards and interpretations, which became effective beginning April 1, 2014. Unless otherwise indicated, the adoption of these new and amended standards and interpretations did not have impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)*
These amendments clarify the meaning of ‘currently has a legal enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.
- PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.
- PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*

The provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10, *Consolidated Financial Statements*.

The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- **Philippine Interpretation IFRIC 21, Levies (IFRIC 21)**
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specific minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.
- **Annual Improvements to PFRS (2010-2012 cycle)**
In the 2010-2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.
- **Annual Improvements to PFRS (2011-2013 cycle)**
In the 2011-2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards-First time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements.

The Registrant has no knowledge of any seasonal aspects that had a material effect on the financial condition or results of the operations.

Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and are subject to an insignificant risk of change in value.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less costs of marketing and distribution. Cost includes the invoice amount, freight and other incidental costs and is determined using the first-in, first-out method.

Financial Assets and Liabilities

Date of Recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In

the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments which are classified at FVPL.

As of December 31, 2015 and March 31, 2015, the Group has no financial asset or liability at PL and HTM financial assets.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value ('Day 1' difference) in the profit and loss unless it qualifies for recognition as some other type of assets. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit and loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost in the consolidated statement of financial position. Amortization is determined using the effective interest rate method and is included under interest income in the profit and loss. The losses arising from impairment of such financial assets are recognized in the profit and loss. Gains and losses are recognized in the profit and loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Included under this category are the Group's cash and cash equivalents and tuition and other receivables.

AFS Financial Assets

AFS financial assets are non-derivative instruments that are either designated in this category or are not classified in any of the other categories. AFS financial assets are carried at fair value in the consolidated statement of financial position.

Changes in the fair value of such assets are accounted for as other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognized as other comprehensive income is included in the profit and loss.

Classified under this category are the Group's investments in equity shares.

Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder.

After initial recognition, these liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Other financial liabilities consist primarily of accounts payable and accrued expenses, dividends payable and long-term liability.

Impairment of Financial Assets

The Group assesses at each statement of financial position date whether a financial asset or a group of financial assets is impaired.

Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss is recognized in the profit and loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit and loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the profit and loss, is transferred from other comprehensive income to the profit and loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the profit and loss. Increases in fair value after impairment are recognized under other comprehensive income.

Derecognition of Financial Assets and Liabilities

Financial Assets

The derecognition of financial asset takes place when the Hospital has either (a) transferred substantially all the risks and rewards of the ownership or (b) when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the assets or a portion of the asset.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability expires, is discharged or cancelled.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross in the consolidated statement of financial position.

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the assets to their working condition and location for their intended use.

Land is carried at revalued amount. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus net of tax effect is included under other comprehensive income except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the profit and loss, in which case the increase is recognized in the profit and loss. A revaluation decrease is recognized in the profit and loss, except to the extent that it offsets an existing surplus on the same asset recognized under other comprehensive income.

Construction in progress, included in property and equipment, is stated at cost. This includes cost of building construction. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul cost, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of property and equipment is computed using the straight-line method over 10 years except for buildings, which are depreciated over 50 years.

Leasehold improvements are amortized over the useful lives of the improvements or the lease term, whichever is shorter.

The useful life and depreciation and amortization method are reviewed at least at each statement of financial position date to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Impairment of Nonfinancial Assets

The carrying values of nonfinancial assets (i.e., property and equipment) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the profit and loss.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortization) had no impairment loss been recognized for the asset in prior years. Any reversal of an impairment loss is credited to current operations.

Other Current Assets

Advances to suppliers and contractors

Advances to suppliers and contractors represent amounts paid to suppliers and contractors for purchases not yet received as of statement of financial position date. This is subsequently reversed to asset or expense accounts when the asset or services are received.

Prepayments

Prepayments are initially measured at the amounts paid and subsequently recognized as expense over the period on which the prepayments apply.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the statement of financial position date.

Deferred Income Tax

Deferred income tax is provided using the liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply on the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Tuition and Other School Fees

Tuition and other school fees are recognized as income when earned over the corresponding school term.

Interest Income

Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Auxiliary Services and Miscellaneous Income

Revenue is recognized when services are rendered.

Retirement Costs

Retirement costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit valuation method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

Retirement cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses to the extent recognized, past service cost to the extent recognized and the effect of any curtailment or settlement. Actuarial gains and losses are recognized as income or expense using the corridor approach. The excess of the net cumulative actuarial gains and losses over the greater of 10% of the present value of the defined benefit obligation at the end of the previous reporting period and of 10% of the fair value of any plan assets is distributed over the expected average remaining working life of the employees as income or expense.

The liability recognized in the consolidated statement of financial position with respect to the defined benefit retirement plan is the present value of the defined benefit obligation at the statement of financial position date and actuarial gains and losses not recognized less past service cost not yet recognized and the fair value of the plan asset⁰⁰⁷³. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using rates that have terms to maturity approximating the terms of the related retirement liability.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a property that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the property.

The capitalization of borrowing costs as part of the cost of the property: (a) commences when the expenditures and borrowing costs for the property are incurred and activities that are necessary to prepare the property for its intended use; (b) is suspended during extended periods in which active development, improvement and construction of the property are interrupted; and (c) ceases when substantially all the activities necessary to prepare the property for its intended use are complete.

Equity

Capital stock is measured at par value for all shares issued. When the University issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional Paid-in Capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the University, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained earnings represent accumulated earnings of the Group less dividends declared. Unappropriated retained earnings represent accumulated earnings available for dividend declaration subject to certain adjustments per SEC Memorandum Circular No. 11, Series of 2008 while appropriated retained earnings represent portion appropriated by the University's BOD for expansion of school facilities and laboratory equipment, payment of long-term liability and contribution to the retirement fund.

Expense Recognition

Expenses are recognized in the profit and loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the consolidated statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Lease payments are recognized on a straight-line basis over the lease term or based on a certain percentage of the net income of the leased property, pursuant to the terms of the lease contracts.

Foreign Currency Transactions and Translations

Transactions denominated in foreign currencies are recorded in Philippine Peso based on the exchange rates prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated to Philippine Peso at exchange rates prevailing at the statement of financial position date. Foreign exchange differentials between rate at transaction date and rate at settlement date or statement of financial position date of foreign currency denominated monetary assets or liabilities are credited to or charged against current operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency exchange gains or losses are recognized in the profit and loss.

Basic and Diluted Earnings Per Share (EPS)

Basic EPS amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year and adjusted for the effect of dilutive options and dilutive convertible preferred shares, if any.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the geographic locations, designated as the Group branches, with each segment representing a strategic business unit that offers varying courses depending on demands of the market. Financial information on business segments is presented in Note 19.

Provisions

A provision is recognized only when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and, a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-

tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events after the Statement of Financial Position Date

Post year-end events that provide additional information about the Group's position at statement of financial position date (adjusting events) are reflected in the consolidated financial statements, if any. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment

In the process of applying the Group's accounting policies, management has made the judgment below apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

Operating Lease - Group as Lessee

The Group has entered into lease on premises it uses for its Makati-Buendia campus. The Group has determined based on an evaluation of (a) the terms and condition of the arrangement, (b) the economic life of the asset as against the lease term and (c) the minimum lease payments of the contract as against the fair value of the asset, that all significant risks and rewards of ownership of the properties are not transferrable to the Group and so accounts for the contract as operating lease.

Operating Lease - Group as Lessor

The Group has entered into commercial property leases on its Mendiola campus. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risk and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation and uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating Allowance for Doubtful Accounts

The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of the allowance for doubtful accounts is evaluated by management on the basis of factors affecting the collectibility of the receivables. In addition, a review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made on a continuous basis. The carrying value of tuition and other receivables as of December 31, 2015 and March 31, 2015 amounted to ₱400.19 million and ₱39.46 million, respectively.

Estimating Useful Lives of Property and Equipment

The Group estimates the useful lives of its property and equipment based on the year over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

The carrying value of property and equipment as of December 31, 2015 and March 31, 2015 amounted to ₱3,171.75 million and ₱2,942.45 million, respectively.

Estimating Retirement Obligation and Other Retirement Benefits

The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts.

Those assumptions are described in Note 16 and include among others, discount and salary increase rates. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations.

Retirement liability amounted to ₱222.63 million and ₱199.61 million as of December 31, 2015 and March 31, 2015.

Revaluation of Land

The Group engaged the services of an independent appraiser to determine the fair values of its land carried at revalued amount. Key assumptions used by the independent appraiser are disclosed in Note 9. The revalued amount of land included under property and equipment in the consolidated statements of financial position amounted to ₱1,65 billion and ₱1,65 billion as of December 31, 2015 and March 31, 2015, respectively .

3. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	December 2015	March 2015
Cash on hand and in banks	162,544,692	146,564,470
Short-term deposits	352,678,841	369,878,579
	<u>515,223,533</u>	<u>516,443,049</u>

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

5. Tuition and Other Receivables

	December 2015	March 2015
Students	402,290,104	57,780,567
Accrued interest receivable	499,403	255,557
Others:		
Advances to employees	24,962,390	8,775,395
Advance to CE-IS stockholders	1,250,000	1,250,000
Accrued rent receivable	88,615	302,676
	<u>429,090,512</u>	<u>68,364,195</u>
Less allowance for doubtful accounts	28,898,533	28,898,533
	<u>400,191,979</u>	<u>39,465,662</u>

Other receivables comprise of Meralco refund and advances and loans to faculty members and employees, which are collectible through salary deductions.

The allowance pertains to the Group's tuition fee receivable which was impaired through collective assessment.

6. Inventories

This account consists of:

	December 2015	March 2015
Uniforms and outfits	5,645,547	4,238,531
Materials production	1,991,386	2,063,129
Supplies	2,010,719	1,400,096
	<u>9,647,652</u>	<u>7,701,756</u>

7. Other Current Assets

This account consists of:

	December 2015	March 2015
Prepayment	2,522,776	1,323,891
Others	7,129,767	78,092
	9,652,543	1,401,983

8. Other Assets

This account consists of:

	December 2015	March 2015
Advances to suppliers and contractors	26,595,289	13,993,727
Available-for-sales financial assets	4,611,949	611,949
	31,207,238	14,605,676

9. Property and Equipment

This account consists of:	March 2015	Addition (deductions)	December 2015
Cost:			
Land	178,631,845	196,000,000	374,631,845
Land improvements	29,035,222	0	29,035,222
Buildings and improvements	1,606,648,335	66,654,521	1,673,302,856
Furniture and equipment	461,903,498	13,482,714	475,386,212
Laboratory equipment	300,195,520	6,752,036	306,947,556
Library books	95,456,896	4,960,778	100,417,674
Transportation equipment	10,943,259	1,294,611	12,237,870
Auxiliary power equipment	9,385,955	0	9,385,955
	2,692,200,530	289,144,660	2,981,345,190
Less accumulated depreciation	1,211,349,853	62,173,674	1,273,523,527
	1,480,850,677	226,970,986	1,707,821,663
Appraisal increase:			
Land	1,461,601,137	0	1,461,601,137
Land improvements	93,609	0	93,609
Buildings and improvements	2,761,229	0	2,761,229
	1,464,455,975	0	1,464,455,975
Less accumulated depreciation	2,854,838	0	2,854,838
	1,461,601,137	0	1,461,601,137
Construction in progress		2,335,913	2,335,913
	2,942,451,814	229,306,899	3,171,758,713

10. Accounts Payable and Accrued Expenses

This account consists of:

	December 2015	March 2015
Accounts payable	300,585,061	188,674,507
Accrued expenses	35,479,273	72,387,709
Deposits	2,749,693	2,617,779
Others	3,345,981	2,091,428
	<u>342,160,008</u>	<u>265,771,423</u>

Others include miscellaneous payables for culminating fees and alumni fees, among others.

11. Long-term Liability

As of December 31, 2015, this account consists of:

	December 2015	March 2015
Long-term liability	38,180,393	78,203,552
Less prepaid interest	0	3,527,766
	<u>38,180,393</u>	<u>74,675,786</u>
Less current portion of long-term liability	0	40,000,000
	<u>38,180,393</u>	<u>34,675,786</u>

The long-term liability for the property acquired in 2007 amounting to ₱500 million consists of ₱100 million prepaid interest and ₱400 million, payable in 10 annual installment of ₱40 million each payable every July 5 starting 2007 until fully paid on July 5, 2016. In case of delay in the payment of annual installment, the Group will pay interest to the vendor based on annual treasury bills rate plus 5% and penalty of 12% per annum.

The long-term liability is carried at discounted value using a discount rate of 9.70%. The interest and bank charges paid in advance in 2007 were booked under prepaid interest which is a contra account of the long-term liability. This account will be amortized over the term of the obligation using effective interest rate method.

12. Stockholders' Equity

Capital Stock

The University's capital stock consists of the following number of shares:

Common shares - ₱1 par value	
Authorized	800,000,000
Issued	372,414,400
Outstanding	372,414,400

Appropriated Retained Earnings

On March 27, 2015, the University's BOD approved the detailed expansion program and projects of the University relating to the additional appropriated retained earnings amounting to ₱336.00 million. These projects include the budget for capital expenditures for the fiscal year April 2015 to March 2016 and the planned constructions of the following in Malolos Campus:

- 5-storey dormitory for students, faculty and employees of the University;
- 2-storey building for School of Dentistry;
- 2-storey building to house a food court with students' area in the ground floor and commercial spaces in the second floor;
- renovation of the Centrodome;
- multi-purpose activity center and swimming pool for use of students; and
- renovation and extension of buildings and various laboratories.

On April 26, 2013, the University's BOD approved the detailed expansion program and projects of the University relating to the appropriated retained earnings amounting to ₱450.00 million. These projects include the budget for capital expenditures for the fiscal year April 2013 to March 2014, the planned construction of a 3-storey building for the proposed setting up of a pre-school, elementary and high school in preparation for the K-12 program and to support the proposed five-year development plan for Malolos campus.

The estimated date of completion of the said projects as set by the University is within one (1) to five (5) years.

13. Tuition and Other School Fees

This account consists of:

	December 2015	December 2014
Tuition fees	593,087,773	576,758,525
Other fees	350,590,274	343,856,235
Income from other school services	266,156,199	262,948,851
	1,209,834,246	1,183,563,611

Other fees include registration fees, health services fees, library fees, laboratory fees, development fees, practicum fees, internship fees and review fees. Income from other

school services comprise of fees for diploma and certificates, transcript of records, student handbooks, identification cards, entrance and qualifying examinations and various collections for specific items or activities.

14. Miscellaneous Income

Miscellaneous Income include rent, foreign currency exchange gains, swimming fee, dental pre-board, dental materials, photograph fee, handling fee, insurance fee and others.

15. General and Administrative Expenses

This account consists of:

	Dec. 2015	Dec. 2014
Salaries ,SSS contributions and other employee benefits	546,321,555	477,304,259
Light and water	64,336,500	85,949,522
Depreciation and amortization	62,173,674	54,865,393
Development	29,732,740	25,249,750
Library	27,340,909	26,632,406
Rental	18,603,151	14,997,571
Janitorial and security services	26,084,712	24,833,998
Transportation and communications	21,721,934	20,445,649
Retirement expense	23,022,080	23,619,936
Recruitment and placement	15,523,455	14,852,420
Stationery and office supplies	12,481,921	13,286,454
Publications	898,752	751,090
Management information	20,691,491	16,839,401
Repairs and maintenance	20,434,042	16,886,280
Guidance and counseling	10,738,070	8,588,077
Laboratory	16,994,119	17,591,393
Instructional and academic expenses	6,990,630	19,373,047
Entertainment, amusement and recreation	9,349,601	8,857,329
Insurance	2,803,660	2,553,207
Directors' and administrative committee	3,226,300	3,348,615
Professional fees	3,273,442	2,671,418
Registration expenses of students	4,648,147	3,963,859
Membership fees and dues	4,759,155	290,813
Comprehensive and oral examinations	1,913,191	553,062
Affiliation	2,940,986	2,065,578
Miscellaneous	26,919,455	17,751,525
	<u>983,923,672</u>	<u>904,122,050</u>

16. Retirement Plan

The Group has a funded, noncontributory retirement plan which provides for death, disability and retirement benefits for all of its permanent employees. The annual contributions to the retirement plan consist of a payment covering the current service cost for the year plus payments toward funding the unfunded actuarial liabilities.

17. Income Taxes

The current provision for income tax represents the 10% income tax on special corporations.

The significant components of the Group's net deferred income tax liabilities follow:

	December 2015	March 2015
Deferred income tax assets on:		
Retirement liability	19,961,491	19,961,491
Long-term liability	7,467,579	7,467,579
Unamortized excess of contribution over the normal cost	5,143,504	5,143,504
Allowance for doubtful accounts	2,889,853	2,889,853
Others	1,943,143	2,065,746
	37,405,570	37,528,173
Deferred income tax liabilities on:		
Revaluation increment on land	146,160,114	146,160,114
Undepreciated cost of property and equipment	127,627,408	127,627,408
Unrealized foreign currency exchange gain	218	218
	273,787,740	273,787,740
Net deferred tax liabilities	236,382,170	236,259,567

The Group claims the tax deductions from capital expenditures for tax purposes when incurred.

18. Operating Lease

Group as Lessee

On July 29, 2004, the Group entered into a 25-year operating lease which commenced on January 1, 2005 with Philtrust Bank for the lease of its building in Makati. The contract requires for ₱24.00 million fixed minimum annual rentals plus a percentage of the annual income of the Group's Makati-Buendia campus.

Group as Lessor

The Group leases out portions of its spaces to concessioners which is renewable every two (2) years.

19. Segment Reporting

The University operates in geographical segments. Financial information on the operations of these segments are summarized as follows:

December 2015						
	Mendiola	Malolos	Makati-Gil Puyat	Makati-Legaspi	Malolos Intergrated School	Total
Segment assets	2,492,733,549	879,218,658	106,855,752	645,304,458	13,569,241	4,137,681,658
Segment property and equipment - net	1,755,569,533	779,573,823	67,018,188	569,597,169		3,171,758,713
Segment liabilities	1,256,010,236	68,141,172	69,374,801	88,940,930	1,527,836	1,483,994,975
Segment revenues	857,806,155	133,917,395	141,982,837	113,504,385	4,508,007	1,251,718,779
Operating expenses	735,032,606	83,707,809	99,261,158	62,048,787	3,873,312	983,923,672
Depreciation expense	37,751,291	6,570,119	6,446,809	11,405,455		62,173,674
Net income (loss)	109,859,971	50,209,586	42,721,679	47,950,975	631,695	251,373,906
December 2014						
	Mendiola	Malolos	Makati-Gil Puyat	Makati-Legaspi	Malolos Intergrated School	Total
Segment assets	2,285,356,710	837,653,262	109,526,136	653,363,882	12,698,896	3,898,598,886
Segment property and equipment - net	1,538,381,472	751,094,827	68,925,025	575,710,753		2,934,112,077
Segment liabilities	1,079,539,445	64,349,362	53,432,839	124,102,497	856,203	1,322,280,346
Segment revenues	846,389,192	133,181,345	123,771,959	114,771,402	1,911,848	1,220,025,746
Operating expenses	671,453,612	83,103,080	86,933,917	60,062,286	2,569,155	904,122,050
Depreciation expense	33,956,166	5,984,571	4,811,687	10,112,969		54,865,393
Net income (loss)	166,371,269	50,078,265	36,838,042	48,849,133	(657,307)	301,479,402

20. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Transaction with related parties are made at terms similar to those offered to third parties.

In the ordinary course of business, the Group has transactions with Philtrust Bank, an affiliate under common control, as follow:

- a. Lease of a building in Makati as lessee
- b. Savings account and short-term investments.

The Group avails of advertising services of Manila Bulletin Publishing Corporation, an affiliate under common control.

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plan.

21. Basic/Diluted EPS

The income and share data used in the basic/diluted EPS computations are as follows:

	December 2015	December 2014
Net income(loss)(a)	251,373,906	301,479,402
Weighted average number of outstanding common shares(b)	372,414,400	372,414,400
Basic/diluted earnings (loss) per share (a/b)	0.67	0.81

There were no dilutive financial instruments during the year.

22. Financial Assets and Liabilities

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

- *Cash and cash equivalents, tuition and other receivables and accounts payable and accrued expenses* - due to short-term nature of these accounts, the fair values approximate the carrying amounts.
- *AFS financial assets* - fair values of quoted AFS financial assets are based on quoted prices published in markets. Fair values of unquoted AFS financial assets approximate carrying amounts due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair value.
- *Long-term liability* - fair value is estimated using the discounted cash flow methodology using the prevailing risk free rates plus the applicable spread.

23. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, AFS investments and long-term liability. The main purpose of these financial instruments is to raise funds for the Group's operations and capital expenditures. The Group has various other financial instruments such as tuition and other receivables and accounts payable and accrued expenses that arise directly from operations.

The main risk arising from the Group's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss.

The Group's risk management policy to mitigate credit risk on its accounts receivable from students include the refusal of the Group to release pertinent records like examination

permit, transcript of records and transfer credentials, if applicable, until the student's account is cleared/paid. As of balance sheet date, there are no significant concentrations of credit risk.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial assets and liabilities. Liquidity risk may result from a counterparty failing on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and maturing debts. As an inherent part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements in the prevailing exchange rate between the Philippine Peso (PHP) and the United States Dollar (USD). The revenues and the operating expenses of the Group are denominated in PHP. However, the Group maintains certain deposits with banks which are denominated in USD.

The Group closely monitors the movements in the USD/PHP exchange rate and makes a regular assessment of future foreign exchange movements. The Group then manages the balance of its USD-denominated deposits based on this assessment.

There is no other impact on the Group's equity other than those already affecting income before income tax.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives and policies or processes during the years ended March 31, 2015 and December 31, 2015.

The Group monitors capital using a debt-to-equity ratio which is debt divided by total stockholder's equity. The Group includes within debt, interest-bearing loans and accounts payable and accrued expenses.

The following table shows how the Group computes for its debt-to-equity ratio as of December 31, 2015 and March 31, 2015:

	December 2015	March 2015
Accounts payable and accrued expenses (a)	342,160,008	265,771,423
Long-term liability (b)	38,180,393	74,675,786
Liabilities (c)	380,340,401	340,447,209
Total Stockholders' Equity (d)	2,653,686,683	2,551,278,537
Debt-to-Equity ratio (c/d)	0.14:1	0.14:1

CENTRO ESCOLAR UNIVERSITY
LIST OF FINANCIAL RATIOS
December 2015

		Third Quarter Dec. 2015	Third Quarter Dec. 2014
Current ratio	$\frac{\text{Current assets}}{\text{Current Liabilities}}$	0.95:1	1.15:1
Debt to equity ratio	$\frac{\text{Accounts Payable+Accrued Expenses+Interest bearing loans}}{\text{Total Equity (capital)}}$	0.14:1	0.12:1
Interest rate coverage	$\frac{\text{Net income before income tax}}{\text{Interest expense}}$	75.41	52.91
Revenue growth	$\frac{(\text{Current period tuition+other school fees})-(\text{Present period tuition+other school fees})}{\text{Present period tuition + other school fees}}$	2.22%	6.19%
Return on Revenue	$\frac{\text{Net income}}{\text{Tuition + other school fees}}$	20.78%	25.47%
Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	9.66%	11.97%
Return on assets	$\frac{\text{Net Income}}{\text{Average total assets}}$	6.56%	8.33%