

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, 2017**

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, 2017
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 and amount of debt outstanding	Number of shares of common stock 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 1. 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, 2017 (Third quarter of the University).

#### **RESULTS OF OPERATIONS**

For the nine months ended December 31, 2017, the University had a gross revenue of ₱1,037,590,475 and a net income of ₱89,548,837.

#### **Three months ended December 31, 2017 versus Three months ended December 31, 2016.**

For the three months ended December 31, 2017, the revenues amounted to ₱391,153,561 as compared to ₱448,416,405 for the same period in 2016. Net income of ₱79,162,673 was registered for the three months ended December 31, 2017 as compared to ₱124,277,799 net income for the same period in 2016.

Operating expenses decreased to ₱311,990,888 for the three months period ended December 31, 2017 from ₱324,138,606 for the same period in 2016.

#### **KEY PERFORMANCE INDICATORS (KPI)**

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

Performance	Dec. 2017	Dec. 2016	Manner of computation	Significance
	(Nine Months)	(Nine Months)		
Revenue Growth	-10.08%	-8.65%	Difference between current and last year's tuition and other fees divided by last year's revenues	Measures revenue growth
Return on Revenue	9.01%	21.76%	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	120.23%	30.98%	Dividends divided by net income	Indicates how earnings support dividend payment
Return on Equity	2.97%	8.20%	Net profit divided by average stockholder's equity	Measures extent of profit earned
Return on Assets	2.21%	6.09%	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 are for payment of liabilities, operating expenditures, capital expenditures and cash dividends.

The University's cash balance on December 31, 2017 decreased to ₱ 328,286,321 from ₱435,796,757 as of March 31, 2017.

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 0.99:1 as of December 31, 2017. 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 University'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, 2017.

## MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

For SY 2017-2018, CEU approved the construction of a 3-storey commercial building at CEU Malolos. Renovation of the Centrodome, Renovation and extension of buildings and various laboratories.

### 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, 2017 were ₱812,905,572, as compared with ₱541,528,185 on March 31, 2017. The increase in current assets of ₱271,377,387 over March 31, 2017 balance was mainly due to increase in tuition and other receivables.

Receivables from tuition and other fees increased by ₱377,852,785 because majority of enrollees in the second semester of school year 2017 to 2018 were on installment basis. There were collectibles during the periodical examinations of the students.

This account consists of:		
	December 2017	March 2017
Students	494,983,316	117,130,531
Accrued interest receivable	0	120,372
Others:		
Advances to employees	5,513,234	5,959,758
Advance to CE-IS stockholders	1,250,000	1,250,000
Accrued rent receivable	1,988,224	1,646,460
Other receivable	7,244,713	437,589
	510,979,488	126,544,710
Less allowance for doubtful accounts	39,505,051	39,505,051
	471,474,437	87,039,659

The total current liabilities of the University as of December 31, 2017 were ₱817,811,858 higher by ₱419,026,104 from the balance as of March 31, 2017.

Deferred tuition fee and other school fees as of the third quarter of 2017 were ₱373,008,548. This amount was due to enrollment for the second semester of school year 2017-2018. These items were recognized as income upon realization and accrued until the end of second semester.

Unappropriated Retained Earnings decreased by ₱194,934,143 due to net income of ₱89,548,837, dividends of ₱ 74,482,880 and additional appropriated retained earnings amounting to ₱210 million for expansion projects of the University.

The nature and amount of items affecting assets, liabilities, equity, net income and cash flow are ordinary and occur in the usual course of University 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 any material contingencies or events that are material to the understanding of the current interim period exist.

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 2017, ₱105,042,064 worth of money market placements were maintained in Peso government securities and time deposits.
- ii. As of the end of December 2017, US\$114,240 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. The University has no purchases or transactions that bear interest.
- 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 fails to pay for his/her tuition fee, the University allows the student to take the examinations but withholds his/her grades and clearance until the student settles his/her accounts.
  - ii. The University maintains policies on providing for doubtful accounts. As of the end of December 2017, the provision for doubtful accounts was at ₱39.50 million.
- d. Market risk
  - i. As of the end of December 2017, the University foresees no market risk until the end of its fiscal year March 31, 2018.
- e. Liquidity risk
  - i. The University maintains a sufficient cash balance to sustain its operations, as well as to 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 the impact of the said standard on its quarterly financial statements is not reflected. 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, 2017 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 Regular Board Meeting of the University on September 29, 2017, 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 October 20, 2017) with payment date on November 17, 2017.

## EARNINGS/LOSS PER SHARE

The earnings per share is ₱0.24 based on the outstanding common shares of 372,414,400 for the nine-month period ended December 31, 2017, and earnings per share of ₱0.65 for the same period of December 31, 2016.

## 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.

### CENTROESCOLARUNIVERSITY



**MA. CRISTINA D. PADOLINA**  
President and Vice Chairman

Date 02/12/2018



**CESAR F. TAN**  
Principal Financial Officer

Date 02/12/2018



<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>BALANCE SHEET</b>		
<b>As of December 31, 2017</b>		
<b>(With Comparative Figures for March 31, 2017)</b>		
	<b>Unaudited</b>	<b>Audited</b>
	<b>Dec. 2017</b>	<b>March 2017</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	328,286,321	435,796,757
Tuition and other receivables - net	471,474,437	87,039,659
Inventories	4,044,162	8,070,681
Other current assets	9,100,652	10,621,088
Total Current Assets	812,905,572	541,528,185
<b>Noncurrent Assets</b>		
Property and Equipment	3,359,038,050	3,200,783,707
Goodwill	47,605,695	47,605,695
Other assets	58,325,349	30,343,434
Total Noncurrent Assets	3,464,969,094	3,278,732,836
	4,277,874,666	3,820,261,021
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	269,886,961	280,606,407
Dividends payable	174,916,349	108,225,615
Income tax payable	0	9,953,732
Deferred tuition fees	373,008,548	0
Total Current Liabilities	817,811,858	398,785,754
<b>Noncurrent Liabilities</b>		
Deferred income tax liability -net	246,246,619	242,128,875
Retirement liability	189,706,370	170,302,530
Total Noncurrent Liabilities	435,952,989	412,431,405
Total Liabilities	1,253,764,847	811,217,159
<b>Stockholders' Equity</b>		
Capital stock	372,414,400	372,414,400
Additional paid-in capital	664,056	664,056
Revaluation increment in property	1,350,002,971	1,350,002,971
Revaluation reserve on available-for-sale financial assets	112,970	112,970
Remeasurement loss on retirement plan - net	(56,949,473)	(56,949,473)
Retained earnings		
Unappropriated	359,276,343	554,210,386
Appropriated	996,000,000	786,000,000
Noncontrolling interest	2,588,552	2,588,552
Total Stockholders' Equity	3,024,109,819	3,009,043,862
	4,277,874,666	3,820,261,021

<b>CENTRO ESCOLAR UNIVERSITY</b>				
<b>STATEMENT OF INCOME</b>				
<b>FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2017 AND 2016</b>				
	<b>3 mos. Ended</b>	<b>3 mos. Ended</b>	<b>9 mos. Ended</b>	<b>9 mos. Ended</b>
	<b>DEC. 2017</b>	<b>DEC. 2016</b>	<b>DEC. 2017</b>	<b>DEC. 2016</b>
<b>REVENUES</b>				
Tuition and other school fees	376,704,496	431,531,875	993,792,873	1,105,217,394
Interest income	706,817	929,158	2,979,297	3,192,746
Auxiliary services	244,361	4,159,484	2,768,191	3,883,606
Miscellaneous	13,497,887	11,795,888	38,050,114	36,440,255
	<b>391,153,561</b>	<b>448,416,405</b>	<b>1,037,590,475</b>	<b>1,148,734,001</b>
<b>EXPENSES</b>				
General and administrative expenses	311,990,888	324,138,606	948,041,638	907,101,463
Interest expense	0	0	0	1,172,736
	<b>311,990,888</b>	<b>324,138,606</b>	<b>948,041,638</b>	<b>908,274,199</b>
<b>NET INCOME (LOSS)</b>	<b>79,162,673</b>	<b>124,277,799</b>	<b>89,548,837</b>	<b>240,459,802</b>
<b>Earnings (loss) Per Share</b>	<b>0.21</b>	<b>0.33</b>	<b>0.24</b>	<b>0.65</b>
<b>CENTRO ESCOLAR UNIVERSITY</b>				
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2017 AND 2016</b>				
	<b>3 mos. Ended</b>	<b>3 mos. Ended</b>	<b>9 mos. Ended</b>	<b>9 mos. Ended</b>
	<b>DEC. 2017</b>	<b>DEC. 2016</b>	<b>DEC. 2017</b>	<b>DEC. 2016</b>
<b>NET INCOME (LOSS)</b>	<b>79,162,673</b>	<b>124,277,799</b>	<b>89,548,837</b>	<b>240,459,802</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Revaluation increment on land	0	0	0	0
Income tax effect	0	0	0	0
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>79,162,673</b>	<b>124,277,799</b>	<b>89,548,837</b>	<b>240,459,802</b>

CENTRO ESCOLAR UNIVERSITY				
STATEMENT OF CASH FLOWS				
FOR THE THREE MONTH PERIOD AND NINE MONTH PERIOD ENDED DECEMBER 31, 2017				
(With Comparative Figures for the three month period and nine months period ended December 31, 2016)				
	Three Months Period		Nine Months Period	
	December	December	December	December
	2017	2016	2017	2016
<b>CASH FLOWS FROM OPERATING</b>				
<b>ACTIVITIES</b>				
Net income	79,162,673	124,277,799	89,548,837	240,459,802
Adjustments to reconcile net income to net cash				
provided by operating activities:				
Depreciation	24,274,997	21,508,686	70,501,873	63,757,088
Provision for credit losses				
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Tuition and other receivables	(130,364,373)	(159,278,212)	(384,434,778)	(415,156,290)
Inventories	124,920	(267,553)	4,026,519	1,521,262
Other current assets	(1,436,003)	(4,482)	1,520,436	(3,036,003)
Increase (decrease) in:				
Accounts payable and				
accrued expenses	(6,299,972)	8,631,724	(10,719,446)	(129,299,185)
Dividends payable	(5,286,447)	(30,465)	66,690,734	243,209
Income tax payable	0	0	(9,953,732)	0
Retirement liability	6,467,947	(2,024,062)	19,403,840	9,927,815
Deferred income tax liability	0	0	4,117,744	0
Deferred tuition and other school fees	123,533,318	210,542,002	373,008,548	418,942,101
<b>Net cash provided by operating activities</b>	<b>90,177,060</b>	<b>203,355,437</b>	<b>223,710,575</b>	<b>187,359,799</b>
<b>CASH FLOWS FROM INVESTING</b>				
<b>ACTIVITIES</b>				
Additions to property and equipment	(29,091,064)	(116,198,389)	(228,756,216)	(175,204,138)
Other assets	(288,302)	(2,719,200)	(27,981,915)	7,427,620
<b>Net cash used in investing activities</b>	<b>(29,379,366)</b>	<b>(118,917,589)</b>	<b>(256,738,131)</b>	<b>(167,776,518)</b>
<b>CASH FLOWS FROM FINANCING</b>				
<b>ACTIVITIES</b>				
Payment of long term liability	0	0	0	1,172,751
Payment of cash dividends	0	0	(74,482,880)	(74,482,880)
<b>Net cash used in financing activities</b>	<b>0</b>	<b>0</b>	<b>(74,482,880)</b>	<b>(73,310,129)</b>
<b>NET INCREASE IN CASH AND CASH</b>				
<b>EQUIVALENTS</b>	<b>60,797,694</b>	<b>84,437,848</b>	<b>(107,510,436)</b>	<b>(53,726,848)</b>
<b>CASH AND CASH EQUIVALENTS AT</b>				
<b>BEGINNING</b>	<b>267,488,627</b>	<b>228,269,656</b>	<b>435,796,757</b>	<b>366,434,352</b>
<b>CASH AND CASH EQUIVALENTS AT</b>				
<b>THIRD QUARTER</b>	<b>328,286,321</b>	<b>312,707,504</b>	<b>328,286,321</b>	<b>312,707,504</b>

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</b>		
<b>As of December 31, 2017</b>		
<b>(With Comparative Figures for December 31, 2016)</b>		
	<b>Dec. 2017</b>	<b>Dec. 2016</b>
<b>CAPITAL STOCK = P1 par value</b>		
Authorized - 800,000,000 shares		
Issued - 372,414,400 shares	372,414,400	372,414,400
<b>ADDITIONAL PAID-IN CAPITAL</b>	664,056	664,056
<b>REVALUATION INCREMENT IN PROPERTY</b>	1,350,002,971	1,350,002,971
<b>UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENT</b>	112,970	137,018
<b>REMEASUREMENT LOSS ON RETIREMENT PLAN - NET</b>	(56,949,473)	(26,889,389)
<b>NONCONTROLLING INTEREST</b>	2,588,552	1,244,928
<b>RETAINED EARNINGS</b>		
<b>Unappropriated</b>		
Balance at beginning of year	<b>554,210,386</b>	<b>366,587,058</b>
Additional appropriated retained earning for the University expansion projects	(210,000,000)	
Balance	<b>344,210,386</b>	<b>366,587,058</b>
Comprehensive Income (Loss)	89,548,837	240,459,802
Other Comprehensive Income(Loss)	-	-
Total Comprehensive Income(Loss)	<b>89,548,837</b>	<b>240,459,802</b>
Cash dividends	(74,482,880)	(74,482,880)
<b>Balance at end of quarter</b>	<b>359,276,343</b>	<b>532,563,980</b>
<b>Appropriated</b>		
Balance at beginning of year	786,000,000	786,000,000
Additional appropriated retained earning for the University expansion projects	210,000,000	
Balance	<b>996,000,000</b>	<b>786,000,000</b>
<b>Balance at end of quarter</b>	<b>1,355,276,343</b>	<b>1,318,563,980</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>3,024,109,819</b>	<b>3,016,137,964</b>

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>AGING OF ACCOUNTS RECEIVABLE</b>		
<b>As of December 31, 2017</b>		
School Year	Amount	Percent
2017-2018	406,551,772	82.13%
2016-2017	88,431,544	17.87%
<b>Total</b>	<b>494,983,316</b>	<b>100.00%</b>

Please note that the terms of aging of accounts receivable is by school year or semester.

**CENTROESCOLARUNIVERSITY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

The consolidated financial statements include the financial statements of Centro Escolar University (the University), Centro Escolar University Hospital, Inc. (the Hospital), a wholly owned subsidiary, Centro Escolar Integrated School (CEIS) and Centro Escolar Las Piñas (CELP) formerly Las Piñas College (LPC), a newly acquired business, (collectively referred to as the Group<sup>™</sup>).

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 the Commission on Higher Education (CHED) Memorandum Order No. 32, the University's Mendiola and Makati campuses were granted Autonomous Status to be in force and in effect for five years from November 15, 2007 to November 14, 2012 per Resolution Nos. 087-2012 and 148-2012. Private Higher Education Institutions (HEIs) granted Autonomous Status in 2007 to 2009 and deregulated status in 2009 and 2010 shall retain their respective status until December 31, 2015 by virtue of CHED Memorandum Order No. 21, series of 2015. On May 16, 2016, the CHED extended the Autonomous Status of these two campuses until May 31, 2019. Under this Autonomous Status, the University is free from monitoring and evaluation of 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 as follows:

- a. Institutions 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's Malolos campus was granted Autonomous Status for a period of five years effective November 15, 2009 to November 14, 2014 per Resolution Nos. 087-2012 and 148-2012. Such Autonomous Status was extended until December 31, 2015 by virtue of CHED Memorandum Order No. 21, series of 2015. On May 16, 2016, the CHED extended the Autonomous Status of the University's Malolos campus until May 31, 2019.

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. In January 2016, the Hospital entered into an agreement with HemotekRenalCenter (Hemotek), a dialysis clinic, for the former to provide laboratory examinations to Hemotek patients.

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

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## **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 January 1, 2015. Unless otherwise indicated, adoption of these new and amended standards and interpretations did not have material impact on the University.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standards (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*

- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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 cost or net realizable value (NRV), whichever is lower. 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, 2017 and March 31, 2017, 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 asset. 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 take 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.

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### **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, 2017 and March 31, 2017 amounted to ₱ 471.47 million and ₱87.03 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, 2017 and March 31, 2017 amounted to ₱3,359.03 million and ₱3,200.78 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 ₱189.70 million and ₱170.30 million as of December 31, 2017 and March 31, 2017.

*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 ₱1.86 billion and ₱1.86 billion as of December 31, 2017 and March 31, 2017, respectively .

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**4. Cash and Cash Equivalents and Short-term Investments**

This account consists of:

	December 2017	March 2017
Cash on hand and in banks	189,021,234	298,281,716
Short-term deposits	139,265,087	137,515,041
	328,286,321	435,796,757

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.

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## 5. Tuition and Other Receivables

	December 2017	March 2017
Students	494,983,316	117,130,531
Accrued interest receivable	0	120,372
Others:		
Advances to employees	5,513,234	5,959,758
Advance to CE-IS stockholders	1,250,000	1,250,000
Accrued rent receivable	1,988,224	1,646,460
Other receivable	7,244,713	437,589
	510,979,488	126,544,710
Less allowance for doubtful accounts	39,505,051	39,505,051
	471,474,437	87,039,659

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 receivables which was impaired through collective assessment.

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## 6. Inventories

This account consists of:

	December 2017	March 2017
Uniforms and outfits	1,738,146	6,128,528
Materials production	961,005	942,195
Supplies	1,345,010	999,958
	4,044,162	8,070,681

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## 7. Other Current Assets

This account consists of:

	December 2017	March 2017
Prepayment	8,698,928	10,427,835
Others	401,724	193,253
	9,100,652	10,621,088

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## 8. Other Assets

This account consists of:

Other Assets	December 2017	March 2017
Advances to suppliers and contractors	51,440,507	22,994,316
Software costs	5,398,000	5,398,000
Refundable security deposits	962,013	1,426,289
Available-for-sales financial assets	524,829	524,829
	58,325,349	30,343,434

## 9. Property and Equipment

This account consists of:	March 2017	Addition (deductions)	December 2017
<b>Cost:</b>			
Land	363,501,702	142,927,969	506,429,671
Land improvements	31,735,222	0	31,735,222
Buildings and improvements	1,687,456,664	12,415,311	1,699,871,975
Furniture and equipment	497,983,747	21,873,184	519,856,931
Laboratory equipment	340,067,930	7,775,692	347,843,622
Library books	116,183,301	5,489,068	121,672,369
Transportation equipment	11,301,063	698,307	11,999,370
Auxiliary power equipment	9,479,705	0	9,479,705
	3,057,709,334	191,179,532	3,248,888,866
Less accumulated depreciation	1,356,928,928	70,501,873	1,427,430,801
	1,700,780,407	120,677,658	1,821,458,065
Appraisal increase:			
Land	1,500,003,300	0	1,500,003,300
Land improvements	93,609	0	93,609
Buildings and improvements	2,761,229	0	2,761,229
	1,502,858,138	0	1,502,858,138
Less accumulated depreciation	2,854,838	0	2,854,838
	1,500,003,300	0	1,500,003,300
Construction in progress	0	37,576,685	37,576,685
	3,200,783,707	158,254,344	3,359,038,050

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## 10. Accounts Payable and Accrued Expenses

This account consists of:		
	December 2017	March 2017
Accounts payable	240,084,189	185,460,291
Accrued expenses	21,686,644	87,753,528
Deposits	2,798,465	4,922,500
Others	5,317,664	2,470,088
	269,886,961	280,606,407

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

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## 11. Stockholders' Equity

### Capital Stock

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

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

### Appropriated Retained Earnings

On June 23, 2017, the University's BOD approved the expansion projects of the University relating to the additional appropriated retained earnings amounting to ₱210.00 million. These projects include the planned construction of the following in Malolos campus:

- 3-storey building for Science-related courses;
- 4-storey building for the increased number of students in S.Y. 2019-2020; and
- 3-storey building to house of food court with student's area and commercial spaces.

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 2015, 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.

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## 12. Tuition and Other School Fees

This account consists of:

	December 2017	December 2016
Tuition fees	552,416,380	561,936,262
Other fees	253,102,754	310,005,429
Income from other school services	188,273,739	233,275,703
	993,792,873	1,105,217,394

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.

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## 13. Miscellaneous Income

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

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#### 14. General and Administrative Expenses

This account consists of:

	Dec. 2017 <sup>a</sup>	Dec. 2016 <sup>a</sup>
Salaries ,SSS contributions and other employee benefits	432,850,081	461,532,555
Light and water	75,506,643	68,513,914
Depreciation and amortization	70,501,873	63,757,088
Development	25,073,761	23,750,828
Library	20,264,068	19,313,692
Rental	17,331,878	19,534,432
Janitorial and security services	36,397,931	28,835,072
Transportation and communications	20,797,462	20,727,382
Retirement expense	20,581,272	28,081,481
Recruitment and placement	11,099,429	12,934,612
Stationery and office supplies	13,336,280	13,984,344
Publications	1,175,322	786,895
Management information	16,604,455	18,594,891
Repairs and maintenance	31,637,549	29,843,268
Guidance and counseling	6,787,601	8,619,053
Laboratory	15,440,315 <sup>a</sup>	16,433,746 <sup>a</sup>
Instructional and academic expenses	8,759,970	7,316,377
Entertainment, amusement and recreation	4,829,097	6,110,717
Insurance	1,834,997	3,015,131
Directors' and administrative committee	3,872,332	3,685,800
Professional fees	3,605,499	4,312,816
Registration expenses of students	1,650,836	2,260,348
Taxes and Licenses and Membership fees and dues	21,516,822	12,434,455
Comprehensive and oral examinations	1,417,795	1,159,371
Affiliation	2,796,098	2,864,511
Miscellaneous	82,372,270	28,698,684
	<b>948,041,638</b>	<b>907,101,463</b>

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#### 15. 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.

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#### 16. 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 2017	March 2017
Deferred income tax assets on:		
Retirement liability	17,030,253	17,030,253
Accrued expenses	4,006,524	8,124,268
Long-term liability	0	0
Unamortized excess of contribution over the normal cost	4,106,046	4,106,046
Excess of acquisition cost over fair value of net assets acquired from business combination	4,073,966	4,073,966
Allowance for doubtful accounts	3,950,505	3,950,505
Others	2,801,773	2,801,773
	35,969,067	40,086,811
Deferred income tax liabilities on:		
Revaluation increment on land	150,000,330	150,000,330
Undepreciated cost of property and equipment	132,161,762	132,161,762
Unrealized foreign currency exchange gain	53,594	53,594
	282,215,686	282,215,686
Net deferred tax liabilities	246,246,619	242,128,875

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

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## 17. 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 2017								
	Mendiola	Malolos	Makati- Gil Puyat	Makati-Legaspi	Malolos Intergrated School	Makati-Legaspi Hospital (Pre-operating)	Las Piñas College	Total
Segment assets	2,502,921,624	839,230,876	132,762,303	602,424,566	65,463,458	33,958,305	101,113,533	4,277,874,666
Segment property and equipment - net	1,942,861,886	787,689,238	66,574,606	551,155,051	283,724	1,347,269	9,126,276	3,359,038,050
Segment liabilities	1,048,679,703	43,346,357	57,926,371	35,359,943	27,453,861	3,114,119	37,884,492	1,253,764,847
Segment revenues	688,153,433	72,078,465	116,315,952	76,746,195	44,673,440	2,069,540	37,553,451	1,037,590,475
Operating expenses	663,122,011	70,685,378	104,955,462	50,800,080	21,721,468	3,724,338	33,032,901	948,041,638
Depreciation expense	43,341,470	7,003,266	6,961,140	11,228,069	7,276	551,155	1,409,497	70,501,873
Net income (loss)	25,031,595	1,393,087	11,360,491	25,946,115	22,951,798	(1,654,798)	4,520,550	89,548,837
December 2016								
	Mendiola	Malolos	Makati- Gil Puyat	Makati-Legaspi	Malolos Intergrated School	Makati-Legaspi Hospital (Pre-operating)	Las Piñas College	Total
Segment assets	2,438,877,596	881,577,811	128,318,025	636,240,399	36,012,042	33,319,809	25,244,808	4,179,590,490
Segment property and equipment - net	1,849,688,040	798,212,580	67,944,508	566,406,791	-	2,082,142	5,336,272	3,289,670,333
Segment liabilities	930,070,120	53,322,999	58,005,939	82,420,207	18,246,577	642,220	20,744,464	1,163,452,526
Segment revenues	782,513,695	101,472,226	129,960,516	91,840,056	21,112,382	1,389,966	20,445,160	1,148,734,001
Operating expenses	643,821,687	75,804,889	100,352,181	56,005,497	15,343,053	1,936,111	13,838,045	907,101,463
Depreciation expense	39,956,694	7,000,977	6,905,522	8,878,337	-	551,155	464,403	63,757,088
Net income (loss)	138,692,010	25,667,336	29,608,335	34,661,822	5,769,329	(546,145)	6,607,115	240,459,802

## 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 follows:

- 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.



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## 21. Basic/Diluted EPS

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

	December 2017	December 2016
Net income(loss)(a)	89,548,837	240,459,802
Weighted average number of outstanding common shares(b)	372,414,400	372,414,400
Basic/diluted earnings (loss) per share (a/b)	0.24	0.65

There were no dilutive financial instruments during the year.

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## 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.

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## 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 year ended March 31, 2017 and quarter ended December 31, 2017.

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, 2017 and March 31, 2017.

	December 2017	March 2017
Accounts payable and accrued expenses (a)	269,886,961	280,606,407
Long-term liability (b)	0	0
Liabilities (c)	269,886,961	280,606,407
Total Stockholders' Equity (d)	3,024,109,819	3,009,043,862
Debt-to-Equity ratio (c/d)	0.09:1	0.09:1

CENTRO ESCOLAR UNIVERSITY			
LIST OF FINANCIAL RATIOS			
December 31, 2017			
		Third quarter	Third quarter
		December 31, 2017	December 31, 2016
Current ratio	$\frac{\text{Current assets}}{\text{Current Liabilities}}$	0.99:1	1.05:1
Debt to equity ratio	$\frac{\text{Accounts Payable+Accrued Expenses+Interest bearing loans}}{\text{Total Equity (capital)}}$	0.09:1	0.08:1
Interest rate coverage	$\frac{\text{Net income before income tax}}{\text{Interest expense}}$	-	68.61:1
Revenue growth	$\frac{(\text{Current period tuition+other school fees})-(\text{Present period tuition+other school fees})}{\text{Present period tuition + other school fees}}$	-10.08%	-8.65%
Return on Revenue	$\frac{\text{Net income}}{\text{Tuition + other school fees}}$	9.01%	21.76%
Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	2.97%	8.20%
Return on assets	$\frac{\text{Net Income}}{\text{Average total assets}}$	2.21%	6.09%