

# COVER SHEET

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S.E.C. Registration Number

C	E	N	T	R	O	E	S	C	O	L	A	R	U	N	I	V	E	R	S	I	T	Y				

(Company's Full Name)

9	M	E	N	D	I	O	L	A	S	T	.	S	A	N	M	I	G	U	E	L					
M	A	N	I	L	A																				

(Business address: No. Street City / Town / Province)

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Contact Person

8735-6861 to 71

Contact Number

0	5
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Month

3	1
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Day

Fiscal Year

		17-Q	
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FORM TYPE

1	0
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Month

4 <sup>th</sup> Friday
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Day

Annual Meeting

\_\_\_\_\_  
Secondary License Type, If Applicable

\_\_\_\_\_  
Dept. Requiring this Doc.

\_\_\_\_\_  
Amended Articles Number/Section

\_\_\_\_\_  
Total No. of Stockholders

\_\_\_\_\_  
Total Amount of Borrowings  
Domestic

\_\_\_\_\_  
Foreign

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To be accomplished by SEC Personnel concerned

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LCU

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CASHIER

SEC Number 1093  
PSE CODE  
File Number

**CENTROESCOLARUNIVERSITY**

Company's Full Name

**9 Mendiola Street  
San Miguel, Manila**

Company's Address

**735-68-61 to 71**

Telephone Number

**May 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])

**First Quarter Report –August 31, 2022**

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 August 31, 2022
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) 8735-68-61 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 three months ended August 31, 2022.

#### **RESULTS OF OPERATIONS**

For the three months ended August 31, 2022, the University had a gross revenue of ₱412,449,646 and a net income of ₱71,457,525.

Three months ended August 31, 2022 (First Quarter This Year) versus Three months ended August 31, 2021 (First Quarter Last Year).

For the three months ended August 31, 2022, the revenues amounted to ₱412,449,646 as compared to ₱ 237,269,443 for the same period in 2021. Net income of ₱ 71,457,525 was registered for the three months ended August 31, 2022 as compared to ₱ 80,893,646 net loss for the same period in 2021.

Operating expenses increased to ₱ 340,992,121 for the three months period ended August 31, 2022 from ₱ 318,163,086 for the same period in 2021.

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

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

Performance	First Quarter	First Quarter	Manner of computation	Significance
	August 2022	August 2021		
Revenue Growth	65.35%	-16.57%	Difference between current and last year's tuition and other fees divided by last year's revenues	Measures revenue growth
Return on Revenue	19.83%	-37.13%	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	0	0	Dividends divided by net income	Indicates how earnings support dividend payment
Return on Equity	1.32%	-1.81%	Net income divided by average total stockholder's equity	Measures extent of profit earned
Return on Assets	0.98%	-1.29%	Net income 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 August 31, 2022 increased to ₱911,368,347 from ₱ 561,585,710 as of May 31, 2022.

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 1.24:1 as of August 31, 2022. 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 August 31, 2022.

## **MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES**

For SY 2022-2023, CEU approved the improvements of offices, classroom, laboratories including laboratory equipment. Replacement of computer units and tables in the computer laboratories and offices. Construction of streets inside CEU Malolos campus and development of drainage system to avoid flooding.

## **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 first quarter ended August 31, 2022 were ₱1,810,638,261 as compared with ₱957,799,560 on May 31, 2022. The increase in current assets of ₱852,838,701 over May 31, 2021 balance was mainly due to increase in tuition and other receivables.

Receivables from tuition and other fees increased by ₱490,550,362 .

This account consists of:	August 2022	May 31, 2022
Students	839,709,693	365,287,676
Accrued interest receivable	156,004	156,808
Nontrade receivables	10,128,470	10,140,716
Others:		
Advances to employees	49,780,660	39,730,100
Accrued rent receivable	6,412,674	6,602,099
Other receivable	7,852,910	1,572,649
	914,040,410	423,490,048
Less allowance for ECL	136,905,626	136,905,626
	777,134,784	286,584,422

The total current liabilities of the University as of August 31, 2022 were ₱1,457,241,625, higher by ₱761,435,896 from the balance as of May 31, 2022.

Deferred revenue as of the first quarter of 2023 were ₱732,764,063

Unappropriated Retained Earnings increased by ₱71,457,525 due to net income for first quarter of 2023.

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 August 2022, ₱235,733,358 worth of money market placements were maintained in Peso government securities and time deposits.
- ii. As of the end of August 2022, US\$118,192 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 August 2022, the provision for doubtful accounts was at ₱136.90 million.

d. Market risk

- i. As of the end of August 2022, the University foresees no market risk until the end of its fiscal year May 31, 2023.

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, 2018 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**

There is no dividend for the first quarter ended August 31, 2022.

### **EARNINGS/LOSS PER SHARE**

The income per share is ₱0.19 based on the outstanding common shares of 372,414,400 for the first quarter ended August 31, 2022, and loss per share of ₱0.22 for the first quarter ended August 31, 2021.

## **PART II. OTHER INFORMATION**


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



**SIGNATURES**

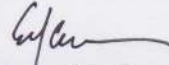
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CENTROESCOLARUNIVERSITY**



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

Date October 14, 2022



**CESAR F. TAN**  
Principal Financial Officer

Date October 14, 2022

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>BALANCE SHEET</b>		
<b>As of August 31, 2022</b>		
<b>(With Comparative Figures for May 31, 2022)</b>		
	<b>Unaudited</b>	<b>Audited</b>
	<b>August 2022</b>	<b>May 2022</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	911,368,347	561,585,710
Tuition and other receivables - net	777,134,784	286,584,422
Inventories	23,456,442	18,573,805
Other current assets	98,678,688	91,055,623
Total Current Assets	1,810,638,261	957,799,560
<b>Noncurrent Assets</b>		
Property and Equipment	5,704,009,170	5,721,282,796
Right-of-use- asset	149,840,515	149,840,515
Goodwill	47,605,695	47,605,695
Other assets	21,525,713	18,315,903
Total Noncurrent Assets	5,922,981,093	5,937,044,909
	7,733,619,354	6,894,844,469
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	595,981,684	530,611,109
Deferred revenue	732,764,063	33,101,671
Dividends payable	113,382,730	116,979,801
Current portion of lease liability	15,113,148	15,113,148
Income tax payable	0	-
Total Current Liabilities	1,457,241,625	695,805,729
<b>Noncurrent Liabilities</b>		
Deferred income tax liability -net	481,158,125	481,158,125
Lease liability - net of current portion	147,451,415	147,451,415
Retirement liability	175,782,470	169,901,006
Other noncurrent liability	10,901,237	10,901,237
Total Noncurrent Liabilities	815,293,247	809,411,783
Total Liabilities	2,272,534,872	1,505,217,512
<b>Stockholders' Equity</b>		
Capital stock	372,414,400	372,414,400
Additional paid-in capital	664,056	664,056
Revaluation increment in property	3,439,312,398	3,439,312,398
Financial assets at FVOCI	-275,059	(275,059)
Remeasurement loss on retirement obligation	-51,794,744	(51,794,744)
Effect of transactions with non-controlling interest	2,042,246	2,042,246
Retained earnings		
Unappropriated	698,114,436	626,656,911
Appropriated	996,000,000	996,000,000
Noncontrolling interest	4,606,749	4,606,749
Total Stockholders' Equity	5,461,084,482	5,389,626,957
	7,733,619,354	6,894,844,469

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>STATEMENT OF INCOME</b>		
<b>FOR THE THREE MONTHS PERIOD ENDED AUGUST 31, 2022 AND 2021</b>		
	<b>First Quarter</b>	<b>First Quarter</b>
	<b>3 mos. Ended</b>	<b>3 mos. Ended</b>
	<b>August 2022</b>	<b>August 2021</b>
<b>REVENUES</b>		
Tuition and other school fees	360,274,169	217,880,831
Interest income	603,646	372,283
Auxiliary services	43,352,131	9,073,884
Miscellaneous	8,219,700	9,942,445
	<b>412,449,646</b>	<b>237,269,443</b>
<b>EXPENSES</b>		
General and administrative expenses	340,992,121	318,163,086
	<b>340,992,121</b>	<b>318,163,086</b>
<b>NET INCOME (LOSS)</b>	<b>71,457,525</b>	<b>(80,893,643)</b>
<b>Earnings (loss) Per Share</b>	<b>0.19</b>	<b>(0.22)</b>
<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
<b>FOR THE THREE MONTHS PERIOD ENDED AUGUST 31, 2022 AND 2021</b>		
	<b>First Quarter</b>	<b>First Quarter</b>
	<b>3 mos. Ended</b>	<b>3 mos. Ended</b>
	<b>August 2022</b>	<b>August 2021</b>
<b>NET INCOME (LOSS)</b>	<b>71,457,525</b>	<b>(80,893,643)</b>
OTHER COMPREHENSIVE INCOME (LOSS)		
Revaluation increment on land	0	0
Income tax effect	0	0
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>71,457,525</b>	<b>(80,893,643)</b>

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>STATEMENT OF CASH FLOWS</b>		
<b>FOR THE THREE MONTHS PERIOD ENDED AUGUST 31, 2022 AND 2021</b>		
	<b>3 mos. Ended</b>	<b>3 mos. Ended</b>
	<b>August 2022</b>	<b>August 2021</b>
<b>CASH FLOWS FROM OPERATING</b>		
<b>ACTIVITIES</b>		
Net income	71,457,525	(80,893,643)
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation	22,429,596	28,083,456
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Tuition and other receivables	(490,550,362)	(399,184,563)
Inventories	(4,882,637)	(891,905)
Other current assets	(7,623,065)	(151,384)
Increase (decrease) in:		
Accounts payable and		
accrued expenses	65,370,575	49,088,328
Dividends payable	(3,597,071)	145,388,260
Income tax payable	-	-
Retirement liability	5,881,464	4,721,477
Deferred income tax liability	-	-
Deferred tuition and other school fees	699,662,392	646,139,155
<b>Net cash provided by operating activities</b>	<b>358,148,417</b>	<b>392,299,181</b>
<b>CASH FLOWS FROM INVESTING</b>		
<b>ACTIVITIES</b>		
Additions to property and equipment	(5,155,970)	(4,783,739)
Other assets	(3,209,810)	(6,297,832)
<b>Net cash used in investing activities</b>	<b>(8,365,780)</b>	<b>(11,081,571)</b>
<b>CASH FLOWS FROM FINANCING</b>		
<b>ACTIVITIES</b>		
Payment of cash dividends	-	(148,965,760)
<b>Cash used in financing activities</b>	<b>-</b>	<b>(148,965,760)</b>
<b>NET INCREASE IN CASH AND CASH</b>		
<b>EQUIVALENTS</b>	<b>349,782,637</b>	<b>232,251,850</b>
<b>CASH AND CASH EQUIVALENTS AT</b>		
<b>BEGINNING</b>	<b>561,585,710</b>	<b>480,047,725</b>
<b>CASH AND CASH EQUIVALENTS AT END</b>		
<b>OF FIRST QUARTER</b>	<b>911,368,347</b>	<b>712,299,575</b>

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</b>		
<b>As of August 31, 2022</b>		
<b>(With Comparative Figures for August 2021)</b>		
	<b>August 2022</b>	<b>August 2021</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>	3,439,312,398	2,655,373,698
<b>UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENT</b>	-	-
<b>FINANCIAL ASSETS AT FVOCI</b>	(275,059)	(317,179)
<b>REMEASUREMENT LOSS ON RETIREMENT PLAN - NET</b>	(51,794,744)	(99,780,240)
EFFECT OF TRANSACTIONS WITH NON-CONTROLLING INTEREST	2,042,246	2,042,246
<b>NONCONTROLLING INTEREST</b>	4,606,749	5,758,832
<b>RETAINED EARNINGS</b>		
<b>Unappropriated</b>		
Balance at beginning of year	<b>626,656,911</b>	<b>721,203,044</b>
Additional appropriated retained earning for the University expansion project	-	-
Balance	<b>626,656,911</b>	<b>721,203,044</b>
Comprehensive Income (Loss)	71,457,525	(80,893,643)
Other Comprehensive Income(Loss)	-	-
Total Comprehensive Income(Loss)	<b>71,457,525</b>	<b>(80,893,643)</b>
Cash dividends	-	-
<b>Balance at end of quarter</b>	<b>698,114,436</b>	<b>640,309,401</b>
<b>Appropriated</b>		
Balance at beginning of year	996,000,000	740,000,000
Additional appropriated retained earning for the University expansion project	-	-
<b>Balance</b>	<b>996,000,000</b>	<b>740,000,000</b>
<b>Balance at end of quarter</b>	<b>1,694,114,436</b>	<b>1,380,309,401</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>5,461,084,482</b>	<b>4,316,465,214</b>

<b>CENTRO ESCOLAR UNIVERSITY</b>		
<b>AGING OF ACCOUNTS RECEIVABLE</b>		
<b>As of August 31, 2022</b>		
School Year	Amount	Percent
2022-2023	615,425,277	73.29%
2021-2022	194,304,694	23.14%
2019-2020	29,979,722	3.57%
<b>Total</b>	<b>839,709,692</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”).

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) which were granted with 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 (2) campuses until May 31, 2019. On October 24, 2019, under CHED Memorandum Order No. 12, series of 2019, CHED extended the autonomous status of these two campuses for an additional period of two (2) years until May 31, 2023 by virtue of CHED Memorandum Order No. 07 series of 2021 issued on April 30, 2021.

The University’s Malolos campus was granted autonomous status for a period of five years effective from 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. The CHED extended the autonomous status of the University’s Malolos campus for two times until May 31, 2021. The autonomous status of the University’s Malolos campus is also further extended until May 31, 2023 by virtue of CHED Memorandum Order No.07 series of 2021 issued on April 30, 2021.

Under this autonomous status, the University is free from monitoring and evaluation of activities by 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 autonomous 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 incorporated the Hospital on June 10, 2008. 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. The registered principal office of the Hospital is at 103 Esteban corner Legaspi Streets, Legaspi Village, Makati City. In January 2016, the Hospital entered into an agreement with Hemotek Renal Center (Hemotek), a dialysis clinic, for the former to provide laboratory examinations to Hemotek patients. As at August 31, 2022, the Hospital is providing laboratory examinations to seven Hemotek Renal Centers.

CE-IS was incorporated on July 24, 2013 and is a learning institution which offers pre-school, primary and secondary education. The principal place of business of CE-IS is located at Km 44 MacArthur Highway, Longos, Malolos City. On December 31, 2019, the University purchased additional 2,000 shares of CE-IS increasing its ownership to 94%.

CELPI was incorporated on June 1, 1975 and is primarily engaged as an educational institution offering a full range of programs from Kindergarten to Graduate school. The principal place of business of CELPI is located at Dr. Faustino Uy Avenue, Pillar Village, Las Piñas City.

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 that the Group has adopted the following new accounting pronouncements starting April 1, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise discussed.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases; operating and finance leases.

The Group adopted PFRS 16 using the modified retrospective approach with an initial application date of April 1, 2019 and did not restate comparative amounts for the year prior to first adoption. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at April 1, 2019. Instead, the Group applied the standard only to IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemption to the lease contracts for which the underlying asset is of low value (low-value asset) and for leases with a lease term of 12 months or less (short-term leases).

The impact of adoption of PFRS 16 as at April 1, 2019 is as follows:

	March 31, 2019, as previously reported	Impact from adoption of PFRS 16	April 1, 2019 as restated
Right-of-use asset	₱-	₱205,121,481	₱205,121,481
Lease liability - current	-	(12,619,721)	(12,619,721)
Lease liability - noncurrent	-	(192,501,760)	(192,501,760)

Before the adoption of PFRS 16, the Group classified each of its leases (lessee) at the inception date as operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for the leases of low-value assets and short-term leases. For the detailed disclosures, refer to Note 19.

The Group has a lease contract for the land and building of Philtrust Bank for its Makati-Buendia Campus which qualifies as a lease contract under PFRS 16. The Group also has lease contracts for its water services and billboard placement which qualify as leases of low-value assets and short-term leases.

*Leases previously accounted for as operating leases*

The Group recognized right-of-use asset and lease liability for the lease previously classified as operating leases, except for the leases of low-value assets and short-term leases. The right-of-use asset was recognized based on the amount equal to the lease liability. Lease liability was recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The lessee's incremental borrowing rate applied to the lease liability on March 31, 2019 and April 1, 2019 was 5.71%. The lease commitments as of March 31, 2019 reconciled to the lease liability as of April 1, 2019 is as follows.

Operating lease commitment as at April 1, 2019	₱282,000,000
Weighted average incremental borrowing rate as at April 1, 2019	5.71%
<hr/>	
Lease liability as at April 1, 2019	₱205,121,48
<hr/>	

Due to the adoption of PFRS 16, the Group's net income decreased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have an impact on beginning retained earnings in 2020 since the Group elected to measure the right-of-use asset an amount equal to the lease liability.

- Philippine Interpretation IFRIC 23, *Uncertainty over income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group shall assume

that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined based on its assessment that it is probable that its uncertain tax treatment will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the financial statements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PFRS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendment to PFRS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle.*
- Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation.*
- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity.*
- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

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 June 30, 2019 and March 31, 2019, 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 collectability 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 August 31, 2022 and May 31, 2022 amounted to ₱777.13 million and ₱286.58 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 August 31, 2022 and May 31, 2022 amounted to ₱5,704.00 million and ₱5,721.28 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 ₱175.78 million and ₱169.90 million as of August 31, 2022 and May 31, 2022.

#### *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 ₱4.35 billion and ₱4.35 billion as of August 31, 2022 and May 31, 2022, respectively .

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

This account consists of:

	August 2022	May 31, 2022
Cash on hand and in banks	403,310,242	244,872,932
Short-term deposits	508,058,105	316,712,778
	911,368,347	561,585,710

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

This account consists of:	August 2022	May 31, 2022
Students	839,709,693	365,287,676
Accrued interest receivable	156,004	156,808
Nontrade receivables	10,128,470	10,140,716
Others:		
Advances to employees	49,780,660	39,730,100
Accrued rent receivable	6,412,674	6,602,099
Other receivable	7,852,910	1,572,649
	914,040,410	423,490,048
Less allowance for ECL	136,905,626	136,905,626
	777,134,784	286,584,422

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:

	August 2022	May 31, 2022
Uniforms and outfits	17,188,950	15,470,350
Materials production	2,156,532	2,110,182
Supplies	4,110,960	993,273
	23,456,442	18,573,805

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## 7. Other Current Assets

This account consists of:

	August 2022	May 31, 2022
Advances to suppliers	55,383,876	46,345,420
Prepaid expense	37,326,798	40,355,049
Prepaid Taxes	3,299,060	1,686,200
Cost to fulfil a contract	2,668,954	2,668,954
	98,678,688	91,055,623

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## 8. Other Assets

This account consists of:

	August 2022	May 2022
Advances to contractors	7,732,432	9,090,683
Prepaid taxes	12,300,493	7,732,432
Software costs	854,167	854,167
Refundable security deposits	501,821	501,821
Financial assets at FVOCI	136,800	136,800
	21,525,713	18,315,903

## 9. Property and Equipment

This account consists of:			
	May 2022	Addition (deductions)	August 2022
<b>Cost:</b>			
Land	537,177,782	0	537,177,782
Land improvements	31,909,023	0	31,909,023
Buildings and improvements	1,901,710,664	0	1,901,710,664
Furniture ,Transportation and Auxilia	586,252,287	4,890,576	591,142,863
Laboratory equipment	414,105,422	0	414,105,422
Library books	147,356,913	265,394	147,622,307
	3,618,512,091	5,155,970	3,623,668,061
Less accumulated depreciation	1,785,673,140	22,429,596	1,808,102,736
	1,832,838,951	(17,273,626)	1,815,565,325
<b>Appraisal increase:</b>			
Land	3,821,458,220	0	3,821,458,220
Land improvements	93,609	0	93,609
Buildings and improvements	2,761,229	0	2,761,229
	3,824,313,058	0	3,824,313,058
Less accumulated depreciation	2,761,229	0	2,761,229
	3,821,551,829	0	3,821,551,829
Construction in progress	66,892,016	0	66,892,016
	5,721,282,796	-17,273,626	5,704,009,170

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## 10. Accounts Payable and Accrued Expenses

This account consists of:		
	August 2021	May 2022
Accounts payable	251,895,978	266,723,330
Accrued expenses	131,730,089	100,785,962
Deposits	66,680,974	8,525,116
Contract liability	105,292,257	105,792,038
Payable to students	38,403,613	44,616,962
Alumni fees payable	1,978,773	4,167,701
	595,981,684	530,611,109

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 April 29, 2022, the University's BOD approved the expansion projects of the University amounting to ₱450,000,000.

These projects include the items enumerated below:

- Continuous upgrading of laboratory equipment of all campuses in preparation for full setup of face to face modality of learning.
- Construction of 8 storey building in the Manila campus
- Construction of road, drainages, and primary metering in the Malolos campus
- Construction of multipurpose activity center on the Malugay property for the Makati campus.

On August 28, 2020, the University's BOD approved the detailed expansion program and projects of the University amounting to ₱336,000,000.

These projects include the budget for capital expenditures and the following in the Malolos Campus:

- Planned construction of a 5-storey dormitory for the students, faculty and employees of the University;
- Planned construction of a 2-storey building for the School of Dentistry;
- Planned construction of a 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;
- Planned construction of a multi-purpose activity center and swimming pool for use of students; and
- Renovation and extension of buildings and various laboratories.

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:

	August 2022	August 2021
Tuition fees	204,448,311	160,035,871
Other fees	45,403,942	44,083,939
<b>Income from other school services</b>	<b>110,421,916</b>	<b>13,761,021</b>
	<b>360,274,169</b>	<b>217,880,831</b>

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:

	August 2022	August 2021 <sup>1</sup>
Salaries, SSS contributions and other	173,788,429	153,208,163
Light and water	13,293,563	9,636,023
Depreciation and amortization	22,429,596	28,083,456
Development	3,762,668	6,298,545
Library	5,815,923	4,026,415
Rental	6,000,000	6,000,000
Janitorial and security services	7,094,122	9,264,314
Transportation and communications	11,300,378	5,394,093
Retirement expense	5,881,462	6,682,706
Recruitment and placement	3,298,703	1,795,434
Stationery and office supplies	3,471,979	1,695,019
Publications	646,460	38,474
Management information	7,437,958	2,257,480
Repairs and maintenance	6,448,629	3,665,738
Guidance and counseling	2,652,789	2,693,263
Laboratory	7,236,740	3,867,217
Instructional and academic expenses	7,201,218	3,320,221
Entertainment, amusement and recreation	6,075,973	760,286
Insurance	214,361	198,058
Directors' and administrative committee	1,465,800	1,797,899
Professional fees	1,027,007	2,468,514
Membership fees and dues	229,669	1,160,728
Comprehensive and oral examinations	31,720	387,223
Affiliation	2,472,914	827,162
Miscellaneous	41,714,061	62,636,655
	<b>340,992,121</b>	<b>318,163,086</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:

	August 2022	May 2022
Deferred income tax assets on:		
Retirement liability	13,933,396	13,933,396
Accrued expenses	933,643	933,643
Allowance for ECL/doubtful accounts	13,690,562	13,690,562
Unamortized excess of contribution over the normal cost	4,952,636	4,952,636
Excess of acquisition cost over fair value of net assets acquired from business combination	4,073,966	4,073,966
Contract liability	1,997,796	1,997,796
NOLCO	14,538	14,538
Difference between the actual lease payments and PFRS 16 related accounts	1,497,410	1,497,410
Unrealized foreign currency exchange loss	-	-
Others	-	-
	41,093,947	41,093,947
Deferred income tax liabilities on:		
Revaluation increment on land	382,145,822	382,145,822
Undepreciated cost of property and equipment	140,025,628	140,025,628
Unrealized foreign currency exchange gain	6,794	6,794
Cost to fulfill a contract	26,690	26,690
Other	47,138	47,138
	522,252,072	522,252,072
Net deferred tax liabilities	481,158,125	481,158,125

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:

August 2022								
	Mendiola	Malolos	Makati- Gil Puyat	Makati-Legaspi	Malolos Intergrated School	Makati-Legaspi Hospital (Pre-operating)	Las Piñas College	Total
Segment assets	4,916,380,450	1,497,623,003	306,131,184	630,037,773	246,789,104	44,015,660	92,642,179	7,733,619,354
Segment property and equipment - net	3,613,142,342	1,447,001,932	43,458,546	569,265,264	12,083,655	0	19,057,430	5,704,009,170
Segment liabilities	1,812,446,294	40,707,270	245,502,673	2,811,642	127,127,064	13,699,431	30,240,499	2,272,534,872
Segment revenues	216,705,260	41,763,212	37,434,411	44,177,912	62,358,887	661,434	9,348,529	412,449,646
Operating expenses	189,916,206	38,598,334	35,431,088	40,073,141	28,122,537	659,368	8,191,447	340,992,121
Depreciation expense	12,102,159	2,804,022	2,183,066	3,423,829	851,417		1,065,102	22,429,596
Net income (loss)	26,789,054	3,164,878	2,003,323	4,104,771	34,236,350	2,067	1,157,082	71,457,525
August 2021								
	Mendiola	Malolos	Makati- Gil Puyat	Makati-Legaspi	Malolos Intergrated School	Makati-Legaspi Hospital (Pre-operating)	Las Piñas College	Total
Segment assets	3,883,730,189	1,480,775,661	118,216,092	623,422,019	322,903,433	43,230,693	86,449,180	6,558,727,267
Segment property and equipment - net	2,782,834,337	1,450,324,567	49,338,184	581,163,518	8,157,818		21,233,368	4,893,051,792
Segment liabilities	1,734,499,719	57,647,082	131,860,906	38,056,540	193,984,004	12,689,590	28,536,219	2,197,274,060
Segment revenues	108,831,396	9,056,981	17,902,795	9,383,351	52,165,410	1,113,209	38,816,301	237,269,443
Operating expenses	188,021,897	13,371,994	18,669,344	21,862,326	30,361,800	1,029,704	44,846,020	318,163,085
Depreciation expense	14,502,173	2,804,022	2,183,066	3,423,829	671,315		4,499,049	28,083,455
Net income (loss)	(79,190,501)	(4,315,012)	(766,550)	(12,478,975)	21,803,610	83,504	(6,029,719)	(80,893,643)

## 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:

	August 2022	August 2021
Net income(loss)(a)	71,457,525	(80,893,643)
Weighted average number of outstanding common shares(b)	372,414,400	372,414,400
Basic/diluted earnings (loss) per sha	0.19	(0.22)

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 May 31, 2022 and quarter ended August 31, 2022.

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 August 31, 2022 and May 31, 2022:

	August 2022	May 31, 2022
Accounts payable and accrued expenses	595,981,684	530,611,109
Lease Liability	162,564,563	162,564,563
Total debt	758,546,247	693,175,672
Total Stockholders' Equity (d)	5,461,084,482	53,899,626,957
Debt-to-Equity ratio (c/d)	0.14:1	0.13:1

CENTRO ESCOLAR UNIVERSITY			
LIST OF FINANCIAL RATIOS			
August 31, 2022			
		First Quarter August 2022	First Quarter August 2021
Current ratio	$\frac{\text{Current assets}}{\text{Current Liabilities}}$	1.24:1	1.02:1
Debt to equity ratio	$\frac{\text{Accounts Payable+Accrued Expenses+Interest bearing loans}}{\text{Total Equity (capital)}}$	0.11:1	0.11:1
Interest rate coverage	$\frac{\text{Net income before income tax}}{\text{Interest expense}}$	-	-
Revenue growth	$\frac{(\text{Current period tuition+other school fees})-(\text{Present period tuition+other school fees})}{\text{Present period tuition + other school fees}}$	65.35%	-16.57%
Return on Revenue	$\frac{\text{Net income}}{\text{Tuition + other school fees}}$	19.83%	-37.13%
Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	1.32%	-1.81%
Return on assets	$\frac{\text{Net Income}}{\text{Average total assets}}$	0.98%	-1.29%