

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, 2008**

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, 2008
2. Commission identification number 1093
3. BIR Tax identification No. 240-000-531-126
4. Exact name of registrant  
as specified in its charter **CENTRO ESCOLAR  
UNIVERSITY**
5. Province, country or other jurisdiction  
of incorporation or organization Manila, Philippines
6. Industry Classification Code \_\_\_\_\_ (SEC Use only)
7. Address of registrant's principal office 9 Mendiola St.  
San Miguel, Manila
8. Registrant's telephone number, including area code: (02) 735-68-61 to 71
9. Former name, former address and former fiscal year,  
if change since last report N/A

10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

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

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

Yes [  ]                      No [  ]

12. Indicate by check mark whether the registrant:

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

Yes [  ]                      No [  ]

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

Yes [  ]                      No [  ]

## **Part I. FINANCIAL INFORMATION**

### **Item I. FINANCIAL STATEMENTS**

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

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

The following discussion should be read in conjunction with the unaudited financial statements of the University for the six months ended December 31, 2008 (third quarter of the University).

### **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 six months ended December 31, 2008 (third quarter of the University).

### **RESULTS OF OPERATIONS**

#### Three months ended December 31, 2008 versus Three months ended December 31, 2007.

For the three months period ended December 2008, gross revenues were ₱382,499,803, general and administrative expenses were ₱271,067,675 and net income was at ₱111,432,128.

In the same period ended December 2007, gross revenues were ₱380,850,952, general and administrative expenses were ₱258,970,721 and net income was at ₱121,880,231.

#### Nine months ended December 31, 2008 versus Nine months ended December 31, 2007.

For the nine months ended December 2008, gross revenues were at ₱990,914,281, general and administrative expenses were ₱776,831,859 and net income was at ₱214,082,422.

In the same period ended December 2007, gross revenues were at ₱972,446,382, general and administrative expenses were ₱736,407,759 and net income was at ₱236,038,623.

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

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

Performance	December 2008 (Nine Months)	December 2007 (Nine Months)	Manner of computation	Significance
Revenue Growth	2.74%	11.23%	Difference between current and last year's tuition and other fees divided by last year's revenues	Measures revenue growth
Return on Revenue	22.10%	25.04%	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	104.38%	63.11%	Dividends per share divided earning per share	Indicates how earnings support dividend payment
Return on Equity	9.46%	10.77%	Net profit divided by average stockholder's equity	Measures extent of profit earned
Return on Assets	7.06%	7.52%	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 and the principal uses of liquidity are for payment of cash dividends, long term liability and capital expenditures.

The University's cash balance on December 31, 2008 increased to ₱319,394,920 from ₱284,218,831 as of March 31, 2008.

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 1.37:1 as of December 31, 2008. The University does not anticipate any liquidity problems in the next 12 months as it consistently maintains a strong cash position.

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

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

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

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the University with unconsolidated entities for the year ended December 31, 2008.

## **MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES**

There is no material commitments for capital expenditures for school year 2008-2009.

## **SEGMENT REPORTING**

The University operates in three geographical segments – Mendiola, 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, 2008 were ₱676,754,134 as compared with ₱324,534,934 on March 31, 2008. The increase in current assets of ₱352,219,200 over March 31, 2008 balance was mainly due to increase in tuition and other receivables.

Receivables from tuition and other fees increased by ₱302,899,627 because majority of enrollees in the second semester of school year 2008 to 2009 were on installment basis. There were collectibles during the periodical examinations of the students.

	December 2008	March 2008
Tuition and other fees	₱ 315,443,478	₱ 12,543,851
Accrued interest receivable	1,198,657	672,145
Others	31,488,163	6,592,942
	<u>348,130,298</u>	<u>19,808,938</u>
Less allowance for doubtful accounts	6,100,659	6,100,659
	<u>₱ 342,029,639</u>	<u>₱ 13,708,279</u>

The total current liabilities of the University as of December 31, 2008 were ₱492,728,873, higher by ₱329,723,792 from the balance as of March 31, 2008 which was ₱163,005,081.

Deferred tuition fee and other school fees as of end of third quarter ending December 31, 2008 were ₱371,989,905. This amount was due to enrollment for second semester of school year 2008-2009. These items were recognized as income upon realization and accrued until the end of second semester.

Unappropriated Retained Earnings decreased due to declaration of dividends during the first quarter and third quarter from ₱412,491,531 in March 2008 to ₱403,125,313 in December 2008.

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

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

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

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

CEU operations are generally affected by seasonality. There is usually a 10% to 12% drop in the number of students in the third 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.

#### **DIVIDEND DECLARATION**

During the meeting on April 22, 2008, the Board of Directors approved a resolution declaring cash dividend of ₱0.20 per share in favor of stockholders of record as of May 7, 2008, payable on May 19, 2008.

On July 25, 2008, the Board of Directors approved a resolution declaring cash dividend of ₱0.20 per share in favor of stockholders of record as of August 8, 2008, payable on September 3, 2008.

On October 27, 2008, the Board of Directors approved a resolution declaring cash dividend of ₱0.20 per share in favor of stockholders of record as of November 11, 2008, payable on December 8, 2008.

#### **EARNINGS PER SHARE**

Earnings per share are based on the outstanding common shares of 372,414,400.

## ADDITIONAL DISCLOSURES

The following discussion addresses the matter of the University's exposure to the current global financial condition and the attendant risks.

To date, Centro Escolar University has no material exposure to the financial risks related to the volatile market for financial instruments. A detailed discussion follows:

### 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 2008, ₱233 million worth of money market placements were maintained in peso government securities and time deposits.
- ii. As of the end of December 2008, US\$766,759 were maintained in dollar time deposits. The University maintains these deposits in order to service its academic purchases from the United States. Examples of these purchases are library books, subscriptions as well as purchases of equipment used in education.

#### b. Interest risk

- i. In 2006, the company purchased the Seaboard Center building from Philtrust Bank. The purchase price was fixed at ₱600 million. There was a down payment of ₱200 million and the balance was payable in 10 years at ₱40 million per year. There was a fixed advanced interest of ₱100 million, which was imputed in the purchase price. Except for the advanced interest, there were no more further cash outlays for interest for this transaction.

#### c. Credit risk

- i. The University's clientele is composed of students who are admitted to the University only upon full or installment payment of tuition fees. When the student ceases to pay for his/her tuition fee, the University withholds examination permits as a consequence.
- ii. The University maintains policies on providing for doubtful accounts. As of the end of December 2008, the provision for doubtful accounts was at ₱6 million.

#### d. Market risk

- i. As of the end of December 2008, the University foresees no market risk until the end of its fiscal year (March 31, 2009).

#### e. Liquidity risk

- i. The University maintains a sufficient cash balance to sustain its operations as well as provide dividends for shareholders. The University foresees no liquidity risk.

### 2. Disclosure regarding financial instruments

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

**PART II. OTHER INFORMATION**

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

**SIGNATURES**

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

**CENTRO ESCOLAR UNIVERSITY**



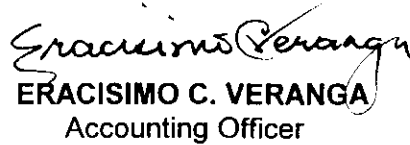
**MA. CRISTINA D. PADOLINA**  
President

Date FEB 13 2009



**RICARDO F. DE LEON**  
Executive Vice-President

Date FEB 13 2009



**ERACISIMO C. VERANGA**  
Accounting Officer

Date FEB 13 2009

# **CENTRO ESCOLAR UNIVERSITY**

## **Financial Statements**

**As of December 31, 2008  
(Third Quarter)**

**CENTRO ESCOLAR UNIVERSITY**  
**BALANCE SHEET**  
**As of December 31, 2008**  
**(With Comparative Figures for March 31, 2008)**

	<b>Unaudited December 2008</b>	<b>Audited March 2008</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	319,394,920	284,218,831
Tuition and other receivables - net	342,029,639	13,708,279
Inventories	10,219,211	9,639,406
Other current assets	5,110,364	16,968,418
Total Current Assets	676,754,134	324,534,934
<b>Non current Assets</b>		
Available-for-sale financial assets	614,530	614,530
Investment in a subsidiary	62,500,000	62,500,000
Property and Equipment	2,466,027,834	2,468,604,618
	3,205,896,498	2,856,254,082
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	78,900,834	67,612,625
Dividends payable	41,838,134	43,212,166
Current portion of long-term liability	-	40,000,000
Income tax payable	-	12,180,290
Deferred tuition fees	371,989,905	-
Total Current Liabilities	492,728,873	163,005,081
<b>Non current Liabilities</b>		
Long-term liability	225,996,173	209,783,156
Deferred income tax liability -net	175,726,844	175,726,844
Retirement liability	52,381,895	39,310,070
Total Non current Liabilities	454,104,912	424,820,070
Total Liabilities	946,833,785	587,825,151
<b>Stockholders' Equity</b>		
Capital stock	372,414,400	372,414,400
Additional paid-in capital	664,056	664,056
Revaluation increment in property	873,858,273	873,858,273
Unrealized gain on available-for-sale investment	202,671	202,671
Retained earnings		
Unappropriated	403,125,313	412,491,531
Appropriated	608,798,000	608,798,000
Total Stockholders' Equity	2,259,062,713	2,268,428,931
	3,205,896,498	2,856,254,082

**CENTRO ESCOLAR UNIVERSITY**  
**STATEMENT OF INCOME**  
**FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2008 AND 2007**

	<b>3 mos. Ended</b>	<b>3 mos. Ended</b>	<b>9 mos. Ended</b>	<b>9 mos. Ended</b>
	<b>DEC. 2008</b>	<b>DEC. 2007</b>	<b>DEC. 2008</b>	<b>DEC. 2007</b>
<b>REVENUES</b>				
Tuition and other school fees	374,806,305	371,232,556	968,653,028	942,833,553
Interest - net	(1,805,412)	2,235,170	(7,544,889)	6,863,904
Auxiliary services	2,042,909	877,540	11,690,179	6,483,155
Miscellaneous	7,456,001	6,505,686	18,115,963	16,265,770
	<u>382,499,803</u>	<u>380,850,952</u>	<u>990,914,281</u>	<u>972,446,382</u>
<b>EXPENSES</b>				
General and administrative expenses	271,067,675	258,970,721	776,831,859	736,407,759
	<u>111,432,128</u>	<u>121,880,231</u>	<u>214,082,422</u>	<u>236,038,623</u>
<b>NET INCOME</b>	<b>111,432,128</b>	<b>121,880,231</b>	<b>214,082,422</b>	<b>236,038,623</b>
<b>Earnings Per Share</b>	<b>0.30</b>	<b>0.33</b>	<b>0.57</b>	<b>0.63</b>

**CENTRO ESCOLAR UNIVERSITY****STATEMENT OF CASH FLOWS****FOR THE THREE MONTH PERIOD AND NINE MONTH PERIOD ENDED DECEMBER 31, 2008**

(With Comparative Figures for the three month period and nine months period ended December 30, 2007)

	Three Months Period		Nine Months Period	
	December 2008	December 2007	December 2,008	December 2,007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	111,432,128	121,880,231	214,082,422	236,038,623
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	18,537,649	18,023,950	56,790,423	48,167,346
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Tuition and other receivable	(186,680,192)	(145,176,662)	(328,321,360)	(293,600,472)
Inventories	1,293,326	1,313,544	(579,805)	(3,482,390)
Other current assets	(5,079,951)	305,887	11,858,054	(4,304,497)
Increase (decrease) in:				
Accounts payable and accrued expenses	3,388,713	(3,087,761)	11,288,209	(59,263,672)
Dividends payable	(1,534,082)	39,762,764	(1,374,032)	1,718,967
Income tax payable	-	-	(12,180,290)	(10,124,400)
Current portion of current liabilities	-	-	(40,000,000)	-
Deferred tuition and other school fees	246,440,400	210,999,692	371,989,905	330,571,229
<b>Net cash provided by operating activities</b>	<b>187,797,991</b>	<b>244,021,645</b>	<b>283,553,526</b>	<b>245,720,734</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in government securities and bonds	-	305,650	0	11,986,118
Investment in a subsidiary	-	(62,500,000)	0	(62,500,000)
Additions to property and equipment	(12,863,317)	(18,710,088)	(54,213,639)	(85,844,937)
<b>Net cash used in investing activities</b>	<b>(12,863,317)</b>	<b>(80,904,438)</b>	<b>(54,213,639)</b>	<b>(136,358,819)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Long term liability	5,275,595	-	16,213,017	-
Retirement liability	4,357,275	-	13,071,825	-
Payment of cash dividends	(74,482,880)	(37,241,440)	(223,448,640)	(148,965,760)
<b>Net cash used in financing activities</b>	<b>(64,850,010)</b>	<b>(37,241,440)</b>	<b>(194,163,798)</b>	<b>(148,965,760)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>				
	110,084,664	125,875,767	35,176,089	(39,603,845)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>	<b>209,310,256</b>	<b>147,251,435</b>	<b>284,218,831</b>	<b>312,731,047</b>
<b>CASH AND CASH EQUIVALENTS AT OF THIRD QUARTER</b>	<b>319,394,920</b>	<b>273,127,202</b>	<b>319,394,920</b>	<b>273,127,202</b>

**CENTRO ESCOLAR UNIVERSITY**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**As of December 31, 2008**  
**(With Comparative Figures for December 2007)**

	<u>December 2008</u>	<u>December 2007</u>
<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>	873,858,273	873,858,273
<b>UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENT</b>	202,671	3,008,824
<b>RETAINED EARNINGS</b>		
Unappropriated		
Balance at beginning of year	412,491,531	292,194,571
Net income	214,082,422	236,038,623
Transfer from unappropriated portion to appropriated		
Cash dividends	(223,448,640)	(148,965,760)
Balance at end of quarter	403,125,313	379,267,434
Appropriated		
Balance at beginning of year	608,798,000	608,798,000
Transfer from unappropriated portion to appropriated		
Balance at end of quarter	608,798,000	608,798,000
<b>TOTAL STOCKHOLDERS' EQUITY</b>	2,259,062,713	2,238,010,987

**CENTRO ESCOLAR UNIVERSITY**  
**AGING OF ACCOUNTS RECEIVABLE**  
**As of December 31, 2008**

School Year	Amount	Percent
2008-2009	309,000,286	97.96%
2007-2008	6,443,192	2.04%
Total	315,443,478	100.00%

# **CENTRO ESCOLAR UNIVERSITY**

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## **NOTES TO FINANCIAL STATEMENTS**

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### **1. Corporate Information**

Centro Escolar University (the University) was organized on June 3, 1907 for the primary purpose of establishing, maintaining, and operating 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, thirdary, and tertiary levels.

In accordance with Commission on Higher Education (CHED) Memorandum Order No. 32, the University was granted autonomous status to be in force and in effect for five school years beginning the third semester of school year 2001 to 2002. Under this existing autonomous status, the University is free from monitoring and evaluation activities of the CHED and has the privilege to determine and prescribe curricular programs, among other benefits as listed in the memorandum order. The three general criteria used by the CHED for the selection and identification of institutions which shall receive autonomous status are institutions: (a) established as centers of excellence or centers of development and/or with Federation of Accrediting Agencies of the Philippines Level III Accredited programs; (b) with outstanding overall performance of graduates in the government licensure examinations; and (c) with a long tradition of integrity and untarnished reputation.

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

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### **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

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

The financial statements are presented in Philippine Peso, which is also the University's functional currency.

#### Statement of Compliance

These financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new PFRS, amended Philippine Accounting Standard (PAS) and Philippine Interpretations on International Financial Reporting Interpretations Committee (IFRIC) during the year. Adoption of these new and amended standards and interpretations did not have any effect on the financial statements of the University, except for additional disclosures.

- PFRS 7, Financial Instruments: Disclosures, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces the disclosure requirements in PAS 32,

“Financial Instruments: Disclosures and Presentation”. The new disclosures are shown in Note 23 of the University’s financial statements.

The University adopted the amendment to the transitional provision of PFRS 7 as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the University did not present comparative information for the disclosures required by paragraphs 31 - 42 of PFRS 7, unless the disclosure was previously required under PAS 32.

- Amendment to PAS 1, Presentation of Financial Statement: Capital Disclosures, introduces disclosures about the level of an entity’s capital and how it manages capital. The new disclosures are shown in Note 23 of the University’s financial statements.

The following new Philippine Interpretations effective in 2007 did not have any effect on the financial statements of the University.

- Philippine Interpretation IFRIC 7, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies;
- Philippine Interpretation IFRIC 8, Scope of PFRS 2;
- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivative; and
- Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment.

The University did not early adopt the following interpretations, new and amended standards that have been approved but are not yet effective:

- IFRIC 11, PFRS 2 -Group and Treasury Share Transactions, will become effective for financial years beginning on or after March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. The University does not expect this interpretation to have an impact on the financial statements.

- IFRIC 12, Service Concession Arrangement, will become effective January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concessions arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the financial statements of the University as this is not relevant to its operations.

- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes, will become effective on July 1, 2008. This interpretation which requires customer loyalty credits to be accounted for as separate component of the sales transaction in which they are granted is not relevant to the University’s current operations.

- Philippine Interpretation IFRIC 14, PAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, will become effective for financial years beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, Employee Benefits. This interpretation will not have a significant impact on the University’s financial statements.

- PFRS 8, Operating Segments, will become effective for financial years beginning on or after January 1, 2009. PFRS 8 will replace PAS 14, Segment Reporting, and adopts a management approach to reporting segment information. The University does not expect this standard to have a significant impact on the financial statements.

- Amendment to PAS 1, Presentation of Financial Statements, Revised, will become effective for financial years beginning on or after January 1, 2009. In accordance with the amendment to PAS 1, the statements of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The University does not expect this amendment to have a significant impact on the financial statements.

- Amendment to PAS 23, Borrowing Costs, will become effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The University expects that the adoption of this revised standard will have no impact on the financial statements.

#### Cash and Cash Equivalents

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

#### Inventories

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

#### Financial Assets and Liabilities

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 measured at fair value through profit or loss (FVPL). The University recognizes a financial asset or a financial liability in the balance sheet 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.

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. In the absence of a reliable basis of determining fair value, investments in unquoted equity securities are carried at cost net of impairment.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) and AFS financial assets. Financial liabilities are classified financial liability through FVPL and other financial liabilities. The University determines the classification at initial recognition and re-evaluates this designation at every reporting date.

#### *Financial Assets or Liabilities at FVPL*

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by management at FVPL. Financial assets may be designated at initial recognition as at FVPL if the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on the different basis;
- The assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or
- The financial assets or liabilities contain an embedded derivative that would need to be separately recorded.

Derivatives are also categorized as held at FVPL, except those derivatives designated and considered as effective hedging instruments.

Assets or liabilities classified under this category are carried at fair value in the balance sheet. Changes in the fair value of such assets and liabilities are accounted for in the statement of income.

As of March 31, 2008 and 2007, the University has no financial asset or liability at FVPL.

#### *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 balance sheet. Amortization is determined using the effective interest rate method and is included in the interest income in the statement of income. The losses arising from impairment of such financial assets are recognized in the statement of income. Gains and losses are recognized in the

statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

#### *HTM Financial Assets*

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the University has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are integral part of the effective interest rate, transactions costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of March 31, 2008 and 2007, the University has no HTM financial assets.

#### *AFS Financial Assets*

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. AFS financial assets are carried at fair value in the balance sheet.

Changes in the fair value of such assets are accounted for as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income.

Classified under this category are the University's investments in equity shares and government securities

#### *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 or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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 University assesses at each balance sheet date whether a financial asset 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 shall be recognized in the statement of income.

The University 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 a 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 statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *Assets Carried at Cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

#### *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 statement of income, is transferred from stockholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the statement of income. Reversals of impairment loss on debt instruments are reversed through statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

### Derecognition of Financial Assets and Liabilities

#### *Financial Assets*

A financial asset is derecognized when (a) the rights to receive cash flows from the asset have expired, (b) the University retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or (c) the University has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the University has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of an asset nor transferred control of the asset, the asset is recognized to the extent of the University's continuing involvement in the

asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the University could be required to repay.

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability expires, is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statement of income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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, and the related assets and liabilities are presented gross in the balance sheet.

#### Investment in a Subsidiary

Investment in a subsidiary is accounted for under the cost method, less accumulated impairment in value, if any. A subsidiary is an entity controlled by the University. Under this method, investment in subsidiary is carried at cost.

#### 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 its working condition and location for its intended use. Land is carried at revalued amounts.

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 property and equipment or the lease term, whichever is shorter.

The useful life and depreciation and amortization method are reviewed periodically 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 Non-financial Assets

The carrying values of assets (e.g., 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 statement of income.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

#### Income Taxes

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 balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet 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 losses carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unexpired NOLCO can be utilized.

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Deferred income tax assets and deferred tax 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 University 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 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 earned.

### *Retirement Costs*

Retirement costs on the University'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, respectively.

The liability recognized in the balance sheet with respect to the defined benefit retirement plan is the present value of the defined benefit obligation at the balance sheet date and actuarial gains and losses not recognized less past service cost not yet recognized and the fair value of the plan assets, if any. 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 risk-free interest 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 already 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 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.

### *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;  
or
- b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term; or
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset;  
or
- d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

### *The University as Lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term or based on the payment terms of the lease contracts when the total contract price is undeterminable or rental fee is subject to variable factor such as percentage of revenue.

### *The University as Lessor*

Leases where the University does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

### *Foreign Currency Transactions and Translations*

The functional and presentation currency of the University is the Philippine Peso. 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 balance sheet date. Foreign exchange differentials between rate at transaction date and rate at settlement date or balance sheet date of foreign currency denominated monetary assets or liabilities are credited to or charged against current operations.

### *Earnings per Share*

Basic earnings per share amounts are calculated by dividing net income for the year attributable to ordinary equity holders of the University by the weighted average number of ordinary shares outstanding during the year. There are no dilutive potential common shares that would require disclosure of diluted earnings per common share in the financial statements.

### *Segment Reporting*

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

### *Provisions*

A provision is recognized only when the University 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

### *Contingencies*

Contingent liabilities are not recognized in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

### *Events after the Balance Sheet Date*

Any post year-end event up to the date of the auditors' report that provides additional information about the University's position at balance sheet date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in the notes to the financial statements.

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## **3. Significant Accounting Judgments and Estimates**

### Judgments

In the process of applying the University's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

#### *The University as Lessee*

The University has entered into lease commitment on one of its occupied building. The University has determined that all significant risks and rewards of ownership are retained by the lessor.

#### *The University as Lessor*

The University has entered into various leases for its portions of its buildings. The University has determined that it retains all significant risk and rewards of ownership of the assets which are leased out under operating leases.

### Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation of uncertainty at the balance sheet 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 University 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 2008 and March 2008 amounted to ₱342.02 million and ₱13.71 million, respectively

#### *Estimating Useful Lives of Property and Equipment*

The University 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 the property and equipment as of December 30, 2008 and March 2008 amounted to ₱2.47 billion and ₱2.47 billion respectively.

#### *Evaluation of Impairment of Non-financial Assets*

The University reviews property and equipment for impairment of value. This includes considering certain indications of impairment such as significant change in asset usage, significant decline in asset's market value, obsolescence or physical damage of an asset, significant negative industry or economic trends. If such indications are present, and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to recoverable amount. The recoverable amount is the asset's net selling price, except for investments, which is the value in use. The net selling price is the amount obtainable from the sale of an asset in an arms-length transaction while value in use is the present value of estimated future cash flows expected to arise from the investments. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs (see Notes 9 and 10).

#### *Deferred Income Tax Assets*

The University reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduced to the extent that is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The University believes that it will operate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

The University recognized deferred income tax assets on all temporary differences amounting to ₱10.02 million and ₱9.45 million as of March 31, 2008 and 2007, respectively (see Note 17).

#### *Estimating Retirement Obligation and Other Retirement Benefits*

The determination of the University'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 University 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 ₱39.31 million and ₱38.48 million as of March 31, 2008 and 2007, respectively. Retirement costs included under operating expenses amounted to ₱17.43 million, ₱7.23 million and ₱11.48 million in 2008, 2007 and 2006, respectively (see Note 16).

#### *Fair Value of Financial Assets and Liabilities*

PFRS requires certain financial assets and liabilities to be carried at fair value, which requires use of extensive accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates,

interest rate and volatility rates), the amount of changes in fair value would differ due to usage of different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the statement of income and changes in stockholders' equity (see Note 22).

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

This account consists of:

	December 2008	March 2008
Cash on hand and in banks	₱ 54,357,314	₱ 34,282,931
Short-term deposits	265,037,605	249,935,900
	₱ 319,394,920	₱ 284,218,831

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 University and earn interest at the respective short-term deposit rates.

Short-term deposits with original maturities of more than three months are classified as short-term investments.

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#### 5. Tuition and Other Receivables

This account consists of:

	December 2008	March 2008
Students	₱ 315,443,478	₱ 12,543,851
Accrued interest receivable	1,198,657	672,145
Others	31,488,163	6,592,942
	348,130,298	19,808,938
Less allowance for doubtful accounts	6,100,659	6,100,659
	₱ 342,029,639	₱ 13,708,279

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#### 6. Inventories

This account consists of:

	December 2008	March 2008
Uniforms and outfits	4,333,696	6,013,080
Materials production	4,524,044	2,489,113
Supplies	1,361,471	1,137,213
	10,219,211	9,639,406

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## 7. Available-for-Sale Financial Assets

The investment in equity shares consists mostly of shares that are quoted in the stock market.

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## 8. Property and Equipment

This account consists of:

	March 2008	Addition (deductions)	December 2008
<b>Cost:</b>			
Land	188,743,363	-	188,743,363
Land improvements	27,026,893	(689,003)	26,337,890
Buildings and improvements	1,397,576,659	11,641,196	1,409,217,855
Furniture and equipment	357,048,041	13,427,247	370,475,288
Laboratory equipment	141,547,086	15,855,739	157,402,825
Library books	47,580,577	3,360,186	50,940,763
Transportation equipment	5,252,169	2,022,800	7,274,969
Auxiliary power equipment	9,048,136	-	9,048,136
	<u>2,173,822,924</u>	<u>45,618,165</u>	<u>2,219,441,089</u>
Less accumulated depreciation	<u>676,171,943</u>	<u>56,790,423</u>	<u>732,962,366</u>
	1,497,650,981	(11,172,258)	1,486,478,723
Appraisal increase:			
Land	970,953,637	-	970,953,637
Land improvements	93,609	-	93,609
Buildings and improvements	2,761,229	-	2,761,229
	<u>973,808,475</u>	<u>-</u>	<u>973,808,475</u>
Less accumulated depreciation	<u>2,854,838</u>	<u>-</u>	<u>2,854,838</u>
	970,953,637	-	970,953,637
Construction in progress	-	-	8,595,474
	<u>2,468,604,618</u>	<u>(11,172,258)</u>	<u>2,466,027,834</u>

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## 9. Accounts Payable and Accrued Expenses

This account consists of:

	December 2008	March 2008
Accounts payable	41,251,850	30,097,295
Accrued expenses	9,074,297	21,103,958
Deposits	1,361,678	1,361,678
Others	27,213,009	15,049,694
	<u>78,900,834</u>	<u>67,612,625</u>

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## 10. Long-term Liability

As of December 31, 2008, this account consists of:

Long-term liability	209,783,156
Add: accrued interest	16,213,017
	<hr/> 225,996,173

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## 11. Stockholders' Equity

### Capital Stock

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

	<u>2007</u>
Common shares - 1 par value	
Authorized	800,000,000
Issued	372,414,400
Outstanding	372,414,400

### Appropriated Retained Earnings

The University's appropriated retained earnings consist of the following:

Appropriations for:	
Expansion of school facilities and laboratory equipment	388,000,000
Payment of long-term liability	200,000,000
Retirement fund	20,798,000
	<hr/> 608,798,000

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## 12. Tuition and Other School Fees

This account consists of tuition fees, miscellaneous school fees and income from other school services.

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## 13. Retirement Plan

The University 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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## 14. Operating Lease

On July 29, 2004, the University entered into a 25-year operating lease which commenced on January 1, 2005 with Philtrust Bank for the lease of its building in Makati.

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## 15. Segment Reporting

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

December 2008	Mendiola	Malolos	Makati-Gil Puyat	Makati-Legaspi	Total
Segment assets	2,370,790,096	196,136,739	63,195,409	575,774,254	3,205,896,498
Segment property and equipment - net	1,739,887,794	141,894,415	26,135,055	558,110,570	2,466,027,834
Segment liabilities	566,983,782	48,092,665	42,423,899	289,333,439	946,833,785
Segment revenues	739,338,579	114,462,924	96,543,096	40,569,682	990,914,281
Operating expenses	607,054,551	73,407,539	79,408,436	16,961,333	776,831,859
Depreciation expense	45,877,988	8,302,985	748,430	1,861,020	56,790,423
Net income (loss)	132,284,028	41,055,385	17,134,661	23,608,348	214,082,422

December 2007	Mendiola	Malolos	Makati-Gil Puyat	Makati-Legaspi	Total
Segment assets	2,331,264,685	202,349,084	52,784,235	556,828,514	3,143,226,518
Segment property and equipment - net	1,756,802,884	150,865,825	16,572,620	551,085,291	2,475,326,620
Segment liabilities	588,337,790	48,164,288	26,513,098	242,200,354	905,215,530
Segment revenues	735,663,037	120,199,889	90,271,986	26,311,470	972,446,382
Operating expenses	605,468,850	71,725,422	48,072,572	11,140,915	736,407,759
Depreciation expense	40,286,220	7,165,684	623,529	91,913	48,167,346
Net income (loss)	130,194,186	48,474,468	42,199,414	15,170,555	236,038,623

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## 16. Related Party Transaction

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 of common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the University has transactions with Philtrust Bank, an affiliate under common control. Major transactions with the bank follow:

- a. Lease of building
- b. Savings account and short-term investments.

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## 17. Earnings Per Share

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

	December 2008	December 2007
Net income(a)	214,082,422	236,038,623
Weighted average number of outstanding common shares(b)	372,414,400	372,414,400
Basic/diluted earnings per share (a/b)	0.57	0.63

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## 18. 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* - due to short-term nature of transaction, the fair value of cash approximates the carrying amounts at initial recognition.

*Short-term investments* - due to short-term nature of transaction, the fair value of cash approximates the carrying amounts at initial recognition.

*Tuition and other receivables* - due to short-term nature of transaction, carrying amounts approximates fair values.

*Available-for-sale financial assets* - fair values were determined using quoted market prices at balance sheet date.

*Accounts payable and accrued expenses* - due to short-term nature of transaction, carrying amounts approximates carrying values.

*Long-term liability* - fair value is estimated using the discounted cash flow methodology using the prevailing risk free rates.

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## 19. Financial Risk Management Objectives and Policies

The University's principal financial instruments comprise of cash and cash equivalents, short-term investments, AFS investments and long-term liability. The main purpose of these financial instruments is to raise finance for the University's operations and capital expenditures. The University 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 University's financial instruments are credit risk and foreign currency risk.

### *Credit Risk*

The University's risk management policy to mitigate credit risk on its accounts receivable from students include the refusal of the University to release pertinent records like examination permit, transcript of records and transfer credentials, if applicable, until the student's account is cleared/paid.

### *Foreign Currency Risk*

The University'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 University are denominated in PHP. However, the University maintains certain deposits with banks and investments in bonds which are denominated in USD.

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

*Interest Rate Risk*

The University's exposure to market risk for changes in interest rates relates primarily to the University's long term liability. The interest was already paid in advance by the University at the inception of the liability.