

**INSTITUTO TECNOLÓGICO DE SANTO DOMINGO
(INTEC)**

Financial Statements

December 31, 2016

(With Independent Auditors' Report Thereon)

*(Free Translation from the Original
Spanish-Language Version)*



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Independent Auditors' Report

The Board of Regents
Instituto Tecnológico de Santo Domingo (INTEC):

Opinion

We have audited the accompanying financial statements of Instituto Tecnológico de Santo Domingo (INTEC) (the Institution) which comprise the statement of financial position as of December 31, 2016, and the statements of activities, changes in net assets and other comprehensive income and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and others explanatory information.

In our opinion, the financial statements present fairly, in all material respects the financial position of Instituto Tecnológico de Santo Domingo (INTEC) as of December 31, 2016, its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Institution in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) in conjunction with the ethical requirements issued by the Institute of Authorized Public Accountants of Dominican Republic that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Use and Distribution

We draw attention to note 2.3 to the financial statements, which describes that the Institution's functional currency is the Dominican peso. The accompanying financial statements have been prepared in dollars of the United States of America for reporting purposes to the Government of the United States of America. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Board of Regents, management, the Institution and the Government of the United States of America, and should not be used by or distributed to parties other than the Institution or the Government of the United States of America. Our opinion is not modified in respect of this matter.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institution financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

May 20, 2017

Santo Domingo,
Dominican Republic

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Statements of Financial Position

December 31, 2016 and 2015

Amounts expressed in U.S. dollars (US\$)

<u>Assets</u>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Current assets:			
Cash and cash equivalents	3, 21	278,393	1,321,594
Notes and accounts receivable:	4, 5, 20, 21		
Students, third-party programs and others		5,924,795	5,952,135
Other receivables net		<u>131,558</u>	<u>417,039</u>
		6,056,353	6,369,174
Current portion of long-term notes receivable		109,934	389,614
Allowance for impairment		<u>(1,174,493)</u>	<u>(1,246,994)</u>
Accounts receivable, net		4,991,794	5,511,794
Inventories of books and supplies		43,671	16,234
Investments in securities	6, 21	155,221	-
Prepaid expenses	7	<u>480,736</u>	<u>427,984</u>
Total current assets		5,949,815	7,277,606
Non current assets:			
Long-term notes receivable, excluding current portion	5	461,165	402,751
Allowance for impairment	5	<u>(461,165)</u>	<u>(402,751)</u>
Long-term notes receivable, net		-	-
Property, furniture and equipment, net	8	28,718,610	27,956,294
Other assets, net	9	<u>294,354</u>	<u>296,331</u>
		<u>34,962,779</u>	<u>35,530,231</u>

The notes on pages 1 to 32 are an integral part of these financial statements.

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Statements of Financial Position

December 31, 2016 and 2015

Amounts expressed in U.S. dollars (US\$)

<u>Liabilities and total net assets</u>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Current liabilities:			
Current portion of long-term debt	14, 21	397,279	249,506
Note payable	13	2,382,990	1,539,476
Accounts payable:	4, 20, 21		
Suppliers		2,943,209	1,796,305
Advances received for other educational services		565,146	3,272,217
Other payables		<u>1,277,719</u>	<u>1,111,102</u>
Total accounts payable		4,786,074	6,179,624
Deferred income	10	1,284,705	1,802,767
Accruals and other liabilities	11	625,991	729,184
Accounts payable to employees	12	<u>110,088</u>	<u>204,664</u>
Total current liabilities		9,587,127	10,705,221
Non current liabilities:			
Long-term debt, excluding current portion	14, 21	2,044,678	1,791,498
Provision for severance indemnities	15	<u>3,653,897</u>	<u>3,903,753</u>
Total liabilities		15,285,702	16,400,472
Total net assets		<u>19,677,077</u>	<u>19,129,759</u>
		<u>34,962,779</u>	<u>35,530,231</u>

The notes on pages 1 to 32 are an integral part of these financial statements.

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Statements of Activities, Changes in Net Assets and Other Comprehensive Income

Years ended December 31, 2016 and 2015

Amounts expressed in U.S. dollars (US\$)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Operating revenue:	17, 20		
Educational services:			
Enrollment and students services, net		18,862,371	18,824,777
Other educational services		620,502	562,953
Educational departments		479,049	488,565
		19,961,922	19,876,295
Government grants		2,195,624	2,252,723
Other income		3,917,669	3,020,865
Total operating revenue		26,075,215	25,149,883
Operating costs and expenses:	4, 5, 8, 9, 18, 19, 20		
Salaries and personnel compensations		13,952,959	14,084,751
Depreciation and amortization		1,638,984	1,589,638
Other costs and general and administrative expenses		9,200,138	9,329,761
Total operating costs and expenses		24,792,081	25,004,150
Operating result		1,283,134	145,733
Financial income (costs):	3, 6, 12, 13, 14, 21		
Interests income		44,671	35,815
Interest expense		(281,810)	(120,033)
Foreign exchange difference, net		(16,637)	(26,694)
Financial costs, net		(253,776)	(110,912)
Increase of the year in net assets		1,029,358	34,821
Other comprehensive income - items that are or may be reclassified to changes in net assets - foreign currency translation adjustment	16	(482,040)	(478,181)
Total comprehensive income for the year		547,318	(443,360)

The notes on pages 1 to 32 are an integral part of these financial statements.

INSTITUTO TECNOLOGICO DE SANTO DOMINGO (INTEC)

Statements of Changes in Net Assets and Other Comprehensive Income

December 31, 2016 and 2015

Amounts expressed in U.S. dollars (US\$)

	<u>Note</u>	<u>Net assets</u>	<u>Translation reserve</u>	<u>Total changes in net assets and other comprehensive income</u>
Beginning balances as at January 1, 2015		24,666,003	(5,092,884)	19,573,119
<i>Comprehensive income for the year</i>				
Increase of the year in net assets		34,821	-	34,821
Other comprehensive income - exchange differences on translation	16	<u>-</u>	<u>(478,181)</u>	<u>(478,181)</u>
Total comprehensive income for the year		<u>34,821</u>	<u>(478,181)</u>	<u>(443,360)</u>
Balances as at December 31, 2015		24,700,824	(5,571,065)	19,129,759
<i>Comprehensive income for the year</i>				
Increase of the year in net assets		1,029,358	-	1,029,358
Other comprehensive income - exchange differences on translation	16	<u>-</u>	<u>(482,040)</u>	<u>(482,040)</u>
Total comprehensive income for the year		<u>1,029,358</u>	<u>(482,040)</u>	<u>547,318</u>
Balances as at December 31, 2016		<u>25,730,182</u>	<u>(6,053,105)</u>	<u>19,677,077</u>

The notes on pages 1 to 32 are an integral part of these financial statements.

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Statements of Cash Flows

Years ended December 31, 2016 and 2015

Amounts expressed in U.S. dollars (US\$)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Increase of the year in net assets		1,029,358	34,821
Adjustments to:			
Depreciation and amortization	8, 9	1,638,984	1,589,638
Provision for severance indemnities	15	81,660	586,360
Allowance for impairment of receivables	4, 5	169,600	467,477
Accounts receivable loss	4, 19	93,881	-
Effect of exchange rate fluctuation		461,826	366,890
Disposal of property, furniture and equipment		56,456	42,557
Deferred scholarship expenses	7	110,357	145,293
Deferred income		(1,802,767)	(1,278,870)
Financial income (costs), net		(237,139)	(84,218)
Net changes in assets and liabilities:			
Decrease (increase) in:			
Accounts receivable		(88,442)	553,969
Inventories of books and supplies		(27,437)	957
Prepaid expenses		163,109	(189,900)
Other assets		(64,133)	(30,188)
Long-term notes receivable		(198,421)	174,474
Increase (decrease) in:			
Accounts payable		(1,393,550)	35,043
Deferred income		1,284,705	1,802,767
Accruals and other liabilities		(103,193)	285,609
Accounts payable to employees		(94,576)	(157,100)
Provision for severance indemnities		(331,516)	(730,130)
Cash generated by operations		748,762	3,615,449
Interest received		(44,671)	(35,815)
Interest paid		281,810	120,033
Net cash provided by operating activities		985,901	3,699,667
Cash flows from investing activities:			
Disposal of investment in securities		(155,221)	218,987
Acquisition of property, furniture and equipment	8	(3,065,183)	(5,235,611)
Net cash used in investing activities		(3,220,404)	(5,016,624)

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Statements of Cash Flows (Continued)

Years ended December 31, 2016 and 2015

Amounts expressed in U.S. dollars (US\$)

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Loans obtained	4,895,756	2,382,986
Loans paid	<u>(3,671,853)</u>	<u>(176,538)</u>
Net cash provided by financing activities	<u>1,223,903</u>	<u>2,206,448</u>
Net increase (decrease) in cash and cash equivalents	(1,010,600)	889,491
Cash and cash equivalents at beginning of year	1,321,594	442,915
Effect of exchange rate on cash and cash equivalents	<u>(32,601)</u>	<u>(10,812)</u>
Cash and equivalents at end of year	<u>278,393</u>	<u>1,321,594</u>

The notes on pages 1 to 32 are an integral part of these financial statements.

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

December 31, 2016 and 2015

(Free Translation from the Original Spanish-Language Version)

Amounts expressed in U.S. dollars (US\$)

1 General information

The Instituto Tecnológico de Santo Domingo (INTEC) (the Institution), is a non-for-profit autonomous private university. It was incorporated under the Law No. 520 and the Decree No. 2389 dated June 15, 1972, subsequently repealed and replaced by the Law No. 122-05. The Institution commenced academic activities on October 1972. INTEC's purpose is to educate capable, honorable and internationally competitive citizens that will contribute to the sustainable development of the society through science and technology.

INTEC's main objectives are:

- a. Educate high quality, innovative and internationally competitive professionals with critical thinking.
- b. Promoting and strengthening the links of the Institution with sectors contributing to innovation and sustainable technological development.
- c. Enhancing competitiveness and strengthening INTEC's international position.
- d. Strengthening INTEC's partnership and strategic agreements with educational institutions and research organizations worldwide.
- e. Raising organizational performance levels through the improvement of processes and the physical infrastructure to ensure the Institution's service quality and financial sustainability.

In accordance with the provisions of Article 299, paragraph (d) of the Tax Code (Law No. 11-92) of the Dominican Republic on non-for profit organizations, the Institution is exempt from income tax payment.

The Institution has its main domicile at Los Proceres Avenue, No. 809, Ensanche Gala, Santo Domingo, Dominican Republic, being able to develop all its activities throughout the country and overseas.

INTEC has three general governing bodies:

- ♦ The General Assembly: Is INTEC's supreme governing body, which consist of founding members and members of the Board of Regents. The Board has 15 members, among which are included the Rector, prominent people of the national community and college graduates from INTEC.
- ♦ The Rectory: Is INTEC's highest executive authority, under the responsibility of the Rector.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

1 General information (continued)

- ♦ The Academic Council: In accordance with the guidelines of the Board of Regents, is responsible for planning the academic policy. Its members are: the Rector, who serves as the chair, the Vice-Rectors and Deans of academic areas and divisions.

2 Basis of presentation and significant accounting policies**2.1 Basis of presentation**

The financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SME) issued by the International Accounting Standards Board (IASB). This standard do not provide a presentation for financial statements issued by a non-for-profit entity; therefore, based on the hierarchy of the IFRS, the Institution's management has considered the pronouncements of other standard-setting bodies for the presentation of financial statements of non-for-profit entities.

As a result, the Institution's net assets and changes therein are classified as follows:

Unrestricted net assets - represent net assets that are not subject to the regulations established by an external donor. At December 31, 2016 and 2015, the Institution presents as unrestricted net assets the net result of revenue, costs and expenses resulting from its operation.

Temporarily restricted net assets - net assets subject to regulations established by donors that may or will be met either by actions of the Institution or by the passage of time. During the years ended December 31 2016 and 2015, the Institution received extraordinary donations from the Dominican Government amounting to approximately US\$2,222,000 for both years, to be used in the installation improvements of the Institution.

Permanently restricted net assets - represent those net assets subject to regulations established by donor that require the net assets to be maintained permanently by the Institution. Generally, the donors of these assets enable the Institution to use all or part of the income generated by the assets in specific activities. At December 31, 2016 and 2015, the Institution has not permanently restricted net assets.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied during the years presented in these financial statements.

The final issue of the financial statements was authorized by the Institution's Board of Regents on May 20, 2017.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.2 Basis of measurement**

The financial statements have been prepared on the historical cost basis, except for the provisions for employee benefits, which are recognized at the net present value of the obligation, as described in note 2.15.

2.3 Functional and presentation currency

The functional currency of the Institution is the Dominican peso. The accompanying financial statements are expressed in U.S. dollars, as a presentation currency.

The figures of the financial statements were translated to American dollars (US\$) for reporting purposes to the Government of the United States of America (USA). The translation were made in conformity with the guidelines of the IFRS for SMSs, Section 30 *Foreign Currency Translation*, which sets forth the use of the closing rates at the date of the statements of financial position to translate assets and liabilities and the exchange rates at the dates of the transactions to translate income and expenses. All resulting exchange differences are recognized in other comprehensive income (OCI).

At December 31, 2016 and 2015, the exchange rates used by the Institution for translating the statements of financial position were RD\$46.62 and RD\$45.47 per each US\$1, respectively. The average exchange rates used by the Institution for translating the statements of activities changes in net assets and other comprehensive income for the years ended December 31, 2016 and 2015 were RD\$46.16 and RD\$44.93 per each US\$1, respectively. These exchange rates approximate the exchange rates at the date of the transactions.

2.4 Use of estimates and judgments

The preparation of the financial statements in conformity with the IFRS for SME requires management to make estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.

Information about assumptions and estimations uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2017, note 15 Provision for severance indemnities: estimation of the present value of the obligation at the reporting date, is included in the following notes:

Notes 4 and 5 - Accounts receivable and long-term notes receivable: key assumptions to determine the recoverable amount of these assets.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.4 Use of estimates and judgments (continued)**

Note 15 - Provision for severance indemnities: Estimation of the present value of the obligations at the reporting date.

2.5 Recognition of revenue, costs and expenses

Revenue is measured at the fair value of the consideration received or receivable, net of returns.

The Institution recognizes revenue when the amount thereof can be measured reliably and it is probable that future economic benefits will flow to the Institution.

A summary of the specific criteria used by the Institution for the revenue recognition is summarized as follows:

a) Revenue from educational services

Revenue from educational services are recognized to the extent that the services are provided according to the school curricula, net of any discount awarded. Discounts awarded arise from timely payment and academic achievements from the students.

The Institution recognizes revenue from own operations as an increase of the unrestricted in proportion to the stage of completion of the transaction at the reporting date. At the end of each accounting period, revenue corresponding to billings for educational services not yet provided, are presented as deferred income and are recognized as operating income when the educational services are provided to the students.

b) Revenues from government grants

Correspond to contributions received from the Dominican State, as a governmental support to non-for-profit organizations. The subsidy does not impose the Institution a specific condition of future returns.

The Institutions recognized revenue from government grants received as an increase of net assets, when they are received or have the enforceable right thereof.

c) Other operating income (includes operating leases)

Commission income from third party programs (advances received for courses and certificate courses)

Correspond to commissions received as a result of the intermediation in courses and certificate courses provided through the Institution's training centers.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.5 Recognition of revenue, costs and expenses (continued)**

Commission income from third party programs is recognized to the extent the service is provided. Initially, advances received from third parties are recognized as a liability and are disbursed to the different centers to the extent the services are provided to the students.

Operating leases income

Revenue from operating leases are recognized using the straight-line method over the lease term. Lease incentives granted are recognized as an integral part of the total rental income over the lease term.

Any other income is recognized using the accrual basis of accounting, when the services are provided to the students.

d) Costs and expenses

Costs and expenses are recognized in operating result of each period as incurred.

The Institution awards scholarships to its employees and their close relatives, as well as to people of limited resources that meet INTEC's academic requirements, through the Ministerio de Educación Superior, Ciencia y Tecnología (MESCYT for its Spanish acronym). The cost of these scholarships are recognized in the accompanying statements of activities, changes in net assets and other comprehensive income in the period when the service is provided.

2.6 Finance income (costs),*Finance income*

Finance income comprise interest earned on funds invested in securities and cash equivalents. Interest income are recognized in profit or loss, using the effective interest method.

Finance costs

Finance costs comprise interest paid on borrowings and gains or losses in foreign exchange rate. All borrowing costs are recognized in profit or loss of the period as incurred, using the effective interest method.

Foreign currency exchange losses are reported by offsetting the amounts of finance income or finance cost, depending on whether the balances are in a net gain or net loss position.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.7 Foreign currency transactions**

Monetary assets and liabilities in foreign currencies are translated into Dominican pesos (RD\$) at the current exchange rate at the date of the financial statements. Income and expenses are translated into Dominican pesos (RD\$) using the current exchange rate at the date of the transaction. Differences arising from the translation of assets and liabilities are recognized as gain or losses in foreign currency in the line item of finance income (costs) in the accompanying statements of activities, changes in net assets and other comprehensive income.

2.8 Financial instruments**2.8.1 Non-derivative assets and liabilities**

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Institution applies the provisions of IFRS for SME, Section 11 *Basic Financial Instruments*, to account for all its non-derivative financial instruments.

The Institution initially recognizes other basic financial instruments at the date of the transaction in which the Institution becomes a party of the contractual provisions of the instrument.

The Institution derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Institution is recognized as a separate asset or liability.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Institution currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities held by the Institution are classified as financial instruments measured at amortized cost and are held until maturity. Financial instruments measured at amortized cost are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.8 Financial instruments (continued)****2.8.1 Non-derivative assets and liabilities (continued)**

The Institution has the following non derivative financial instruments:

Cash and cash equivalent

Cash and cash equivalents consists of cash in hand and demand deposits with original maturities of three months or less. Bank overdrafts, if any, which are payable on demand and are an integral part of the Institution's cash management, are considered as a component of cash for the purpose of the statement of cash flows.

Notes and accounts receivable

The proceeds from rendering services are made under normal credit conditions and the amounts of receivable generate interest. When credit is extended beyond normal credit conditions, accounts receivables are measured at amortized cost using the effective interest method. At the end of each reporting period, the carrying amounts of notes assessed receivable, trade accounts receivable and other receivables are to determine if there is any objective evidence that is not recoverable. If so, an impairment loss is immediately recognized in operating results.

The Institution determines an estimate for doubtful accounts, which is established through a charge to the expense account for losses on notes and accounts receivable. The amount of the estimate for possible losses is determined by management based on an analysis of the collectability of the accounts taking into consideration the history of the customers, the economy and other factors that affect the industry. The main components of this estimate consist of a specific loss element that relates to the significant individual exposures of each client

Investments in securities

Investments in securities consist of financial certificates issued by local financial institutions, with original maturity greater than three months. Investments in securities are accounted for at cost plus interest earned capitalizable, less any impairment loss.

Accounts payable

Accounts payable are obligations based on normal credit terms and have no interest. After initial recognition, accounts payable are recorded at amortized cost using the effective interest method. The amounts of commercial creditors denominated in a foreign currency are translated to the functional currency using the exchange rate at the reporting date.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.8 Financial instruments (continued)****2.8.1 Non-derivative assets and liabilities (continued)***Long-term debt (note payable and loans)*

Notes payable and loans are initially measured at fair value less a directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest rate method.

Notes payable and loans are classified as current liabilities unless the entity has the unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Accounts payable to employees

Correspond to the obligation the Institution has with its employees for contributions made at the time of abolishing the pension plan. The Institution agreed to pay the amount owed to the employees during the years 2017 and 2016.

2.9 Property, furniture and equipment**2.9.1 Recognition and measurement**

Items of property, furniture and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures directly attributable to the acquisition of the asset.

The cost of self-constructed assets by the Institution includes:

- ◆ Cost of materials and direct labor.
- ◆ Any other costs directly attributable to bringing the assets to a working condition for their intended use.

When the Institution has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located is required.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)

2.9 Property, furniture and equipment (continued)

2.9.1 Recognition and measurement (continued)

When parts of an item of property, furniture and equipment have different useful lives, they are accounted for as separate items (major components) of property, furniture and equipment. Any gain or loss on disposal of an item of property, furniture and equipment (calculated as the difference between the price obtained from the disposal and the carrying amount of the item) is recognized in operating results as a change in net assets.

2.9.2 Subsequent expenditures

Subsequent expenditures are capitalized only when it is probable that future economic benefits associated to the expenditure will flow to the Institution. Ongoing repairs and maintenance are recognized in profit or loss as a change in net assets.

2.9.3 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in operating results as a change in net assets, based on the straight-line method over the estimated useful life of each part of an item of property, furniture and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Items of property, furniture and equipment are depreciated from the date they are available for use, or in respect of self-constructed assets, from the date the asset is completed and ready to be used.

A summary of useful lives in years of property, furniture and equipment, is as follows:

<u>Type of asset</u>	<u>Useful life in years</u>
Buildings improvements	5
Buildings	35
Furniture and office equipment	4
Literature	6.67
Transportation equipment	<u>5</u>

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.9.3 Depreciation (continued)**

If there is an indication that there has been significant changes in the conditions of an asset, depreciation method, useful life or residual value; the accumulated depreciation of the asset is revised prospectively to reflect the new expectations.

2.10 Impairment**2.10.1 Financial assets measured at cost or at amortized cost**

At the end of each reporting date, the Institution will assess whether there is objective evidence of impairment of financial assets measured at cost or amortized cost (loans and accounts receivables) both at specific and collective level. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment by grouping assets with similar risk characteristics.

In assessing collective impairment, the Institution uses historical information on the timing of recoveries and the amount of the loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss, related to a financial asset measured at amortized cost, is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. Impairment losses are recognized in the operating results and are reflected in a valuation account of notes and accounts receivable. Interest on the impaired asset continues to be recognized through the reverse of the discount. When a subsequent event causes the amount of the impairment loss to decrease, this decrease is reversed in the operating results.

2.10.2 Non-financial assets

The carrying amount of non-financial assets of the Institution, other than inventories, is reviewed at each reporting date to determine if there is any indication that the assets have suffered an impairment loss. If such evidence exists, the recoverable amount of any affected asset (or group of related assets) is estimated. If carrying amount exceeds the estimated recoverable, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognized in the operating results as a change in net assets.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.10.2 Non-financial assets (continued)**

If an impairment loss is subsequently reversed, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable value less costs to sell, without exceeding the amount that would have been determined had there not been recognized any impairment loss on the asset (or group of related assets) in prior years. The reversal of an impairment loss is recognized immediately as a change in net assets.

2.11 Inventories of books and supplies

Inventories of books and supplies are measured at the lower of cost and net realizable value using the average weighted method.

Estimation for inventories obsolescence is recognized based on a technical analysis of the inventory items that the Institution understands will not be used in the operation

At each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price or replacement costs less costs of completion and sell. If the inventories are impaired, the carrying amount is reduced to the selling price or replacement costs less costs to complete and sell; and an impairment loss is recognized immediately in operating results as a change in net assets.

2.12 Other assets***Recognition***

Other assets comprise software licenses that have a limited useful life, measured at cost less accumulated amortization.

Subsequent expenditures

Subsequent expenditure is capitalized only when it increase the future economic benefits embodied in the specific asset to which it relates.

Amortization

Amortization is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)**2.12 Other assets (continued)*****Amortization (continued)***

Amortization is recognized in operating results as a change in net assets using the straight-line method, the uniform distribution of the cost of the assets over the estimated years of useful life from the date they are available for use, since this better reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the licenses is five years.

If there is an indication that there has been a significant change in amortization method, useful life or residual value of an asset, the amortization of the asset is revised prospectively to reflect the new expectations.

2.13 Short-term employee benefits

Obligations for short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. The Institution recognizes a liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans, if the Institution has a present legal or constructive obligation to pay this amount, as a result of a past service provided by the employee, and the obligation can be estimated reliably.

2.14 Severance indemnities

The Labor Code of the Dominican Republic requires that employers pay a relief of notice to employees whose contracts have been terminated without justified cause.

The Institution has the policy to pay severance indemnities independently whether the employee is dismissed or resigns, provided such meets certain requirements. At December 31, 2016 and 2015, the Institution has 638 and 609 active eligible employees, respectively. The Institution recognizes a provision for labor liabilities and other benefits for employees, based on the actuarial calculation performed by a qualified actuary, by assuming an annual average of a 2 % salary increase, discounted at its present value using the prevailing interest rate for bonds of the the Dominican Government.

The Institution's labor liability is calculated by estimating the amount of the future benefit employees have earned in the actual period and in previous periods.

2.15 Contributions to the Social Security

The Institution recognizes the monthly contributions to the Dominican Social Security System, as well as the employees' contributions as an accumulation up to the moment they are deposited in the Social Security Treasury of the Dominican Republic.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

2 Basis of presentation and significant accounting policies (continued)

2.16 Lease payments

Payments made under operating leases are recognized in operating results as a change in net assets on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

2.17 Income tax

The Institution is exempt from the payment of income tax for being a non-for-profit entity, as indicated in note 1 to these financial statements.

2.18 Provisions

A provision is recognized if, as a result of a past event, the Institution has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows necessary to settle the liability.

3 Cash and cash equivalents

A summary of cash and cash equivalents at December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Cash on hand	15,742	13,624
Deposits in checking and savings accounts (a)	28,270	1,076,495
Time deposits (b)	<u>234,381</u>	<u>231,475</u>
	<u>278,393</u>	<u>1,321,594</u>

(a) Correspond to cash deposited in domestic and foreign banks. At December 31, 2016, some of these checking and savings accounts generate annual interest between 0.75 % and 1.5 % (0.2 % and 2 % in 2015). The interest generated during 2016 and 2015 amounted to US\$2,935 and US\$2,539, respectively, and are included within the line item of financial income (costs), in the accompanying statements of activities, changes in net assets and other comprehensive income.

(b) Correspond to certificates of deposit maturing between 30 and 90 days. These certificates generate annual interests between 7.15 % and 9.25 %. The interest received during 2016 and 2015 amounted to US\$28,776 y US\$33,276, respectively, and are included within the line item of finance income (costs), in the accompanying statements of activities, changes in net assets and other comprehensive income.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

4 Accounts receivable

Accounts receivable arise primarily from registration and presentation of certificate courses, seminars, among others. The credit risk to which the Institution is exposed is defined mainly by the individual characteristics of each student.

At December 31, 2016 and 2015, approximately 98 % of the Institution's revenues and accounts receivable by geographic area are concentrated in students, end-users of the local market.

The exposure risk of accounts receivable at December 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Students	2,036,948	1,996,485
Courses and certificate courses	288,592	186,099
Third party programs (a)	1,969,407	2,122,790
Sponsors	1,365,757	1,287,391
Central Bank of the Dominican Republic (note 20)	264,091	359,370
Other accounts receivable	<u>131,558</u>	<u>417,039</u>
	<u>6,056,353</u>	<u>6,369,174</u>

(a) At December 31, 2016 and 2015, the Institution has received advances for US\$565,146 and US\$3,272,217, respectively, represented by cash received from third parties for the service of courses and certificate courses. Such amounts are presented as advances received for courses and diplomas within the line item of accounts payable in the accompanying statements of financial position.

Impairment losses

The aging of accounts receivable at December 31, 2016 and 2015, is as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Accounts receivable</u>	<u>Impairment loss</u>	<u>Accounts receivable</u>	<u>Impairment loss</u>
Between 0-90 days (a)	3,080,616	-	4,539,969	-
Past due:				
91-180 days	426,594	-	155,036	35,340
181-360 days	444,818	-	90,951	45,475
More than 360 days	<u>1,972,767</u>	<u>1,174,493</u>	<u>1,166,179</u>	<u>1,166,179</u>
	5,924,795	1,174,493	5,952,135	1,246,994
Other receivables	<u>131,558</u>	<u>-</u>	<u>417,039</u>	<u>-</u>
	<u>6,056,353</u>	<u>1,174,493</u>	<u>6,369,174</u>	<u>1,246,994</u>

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

4 Accounts receivable (continued)

- (a) At December 31, 2016, includes US\$391,043 due from the United States of America government for registration and living allowance of federal students subsidized by such country.

Based on past experience, the Institution believes no impairment allowance is necessary in respect to accounts receivable from the Central Bank of the Dominican Republic, because they will be offset with the exchange difference on the loan with the Inter-American Development Bank (IDB), which establishes a fixed exchange rate of RD\$3.15, regardless of the prevailing exchange rate at the time of paying the installments of principal and interest (see notes 14 and 20).

At December 31, 2016 and 2015, most of the outstanding receivables consist of accounts with favorable historical trend of payment with the Institution. The Institution establishes an allowance for impairment representing its best estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures of each credit.

A summary of the movement of the allowance for impairment of accounts receivable during the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Balances at beginning of the year	1,246,994	1,604,039
Expense for the period	88,341	467,477
Write off of accounts receivable	(130,498)	(788,756)
Effect of exchange rate fluctuation	<u>(30,344)</u>	<u>(35,766)</u>
Balances at end of the year	<u>1,174,493</u>	<u>1,246,994</u>

As of December 31, 2016, the Institution derecognized accounts receivable of customers for US\$93,881, directly charged to other costs and general and administrative expenses in the accompanying statement of activities, changes in net assets and other comprehensive income of 2016 (see note 18).

5 Long-term notes receivable

Corresponds to long-term notes receivable to students who have educational loans relating to undergraduate and graduate enrollment. These notes matures between three and five years (the length of career), and are secured by the sole signature of the student. They are initially recognized at cost.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

5 Long-term notes receivable (continued)

Impairment losses

A summary of long-term notes receivable including current portion according to their ageing and impairment estimate at December 31, 2016 and 2015, is as follows:

	<u>Long-term notes receivable</u>	<u>Current portion</u>	<u>Long-term note receivable including current portion</u>	<u>Impairment loss</u>
2016				
Between 0-90 days	-	83,355	83,355	-
Due between:				
181-360 days	-	26,579	26,579	13,290
More than 360 days	<u>461,165</u>	<u>-</u>	<u>461,165</u>	<u>461,165</u>
	<u>461,165</u>	<u>109,934</u>	<u>571,099</u>	<u>474,455</u>
2015				
Between 0-90 days	-	377,659	377,659	-
Due between:				
181-360 days	-	11,955	11,955	1,211
More than 360 days	<u>402,751</u>	<u>-</u>	<u>402,751</u>	<u>402,751</u>
	<u>402,751</u>	<u>389,614</u>	<u>792,365</u>	<u>403,962</u>

A summary of the movement of the allowance for impairment in respect of long-term notes receivable during the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Balances at beginning of the year	403,962	414,071
Charge of the year	81,259	-
Effect of exchange rate fluctuation	<u>(10,766)</u>	<u>(10,109)</u>
Balances at end of the year (a)	<u>474,455</u>	<u>403,962</u>

(a) As of December 31, 2016 and 2015, the current portion of long-term receivables is presented net of impairment of US\$13,290 and US\$1,211, respectively.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

5 Long-term notes receivable (continued)

The maturity of long-term notes receivable including current portion, is as follows:

2017	109,934
2018	<u>461,165</u>
	<u>571,099</u>

The Institution maintains a service agreement with the Apec Foundation for Educational Credit, INC. (FUNDAPEC) for the collection and administration of a portion of the educational loan portfolio for US\$302,563 and US\$392,804, as of December 31, 2016 and 2015, respectively. During the years 2016 and 2015, as part of collection management, accounts receivable were recovered in the approximate amount of US\$144,771 and US\$182,538, respectively. The Institution paid about 15% and 2% of commission for each collection process achieved, as of December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, commissions paid amounted to US\$22,133 and US\$38,654, respectively, and is included as part of other general and administrative costs and expenses in the accompanying statements of activities, changes in net assets and other comprehensive income.

6 Investments in securities

At December 31, 2016, consist of certificates of deposit held to maturity with domestic financial institutions. Certificates in american dollars generated interest of 1.5 % and those in Dominican pesos between 6 % and 7 % per annum, with maturities between 180 and 360 days. Interest received in 2016, amounted to US\$15,895 and is included within the line item of financial income (costs), net in the accompanying statements of activities, changes in net assets and other comprehensive income.

7 Prepaid expenses

A summary of prepaid expenses at December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Amortizable expenses - students' scholarships (note 19) (a)	125,886	112,032
Insurance	118,047	77,173
Sale tax recoverable	63,728	79,961
Software maintenance	172,629	158,457
Others	<u>446</u>	<u>361</u>
	<u>480,736</u>	<u>427,984</u>

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

7 Prepaid expenses (continued)

- (a) Correspond to expenses for scholarships relating to undergraduate, graduate and master's degrees students, which are recognized as operating expenses to the extent that the educational services are provided to the students. During the years ended December 31, 2016 and 2015, expenses amounted to US\$1,258,224 and US\$1,408,139, respectively, which are presented forming part of other costs and general and administrative costs and expenses in the accompanying statements of activities, changes in net assets and other comprehensive income.

8 Property, furniture and equipment, net

A movement of property, furniture and equipment and accumulated depreciation during the year ended December 31, 2016, is as follow:

Costs:	Land	Buildings and improvements(b)	Furniture and equipment	Literature	Vehicles and transportation equipment	Construction in progress (a)	Total
Balances at beginning	10,835,441	13,090,590	5,529,046	867,163	198,479	8,484,157	39,004,876
Additions	-	71,900	1,050,307	2,779	-	1,940,197	3,065,183
Transfers	-	5,826,465	403,011	-	-	(6,229,475)	1
Reclassifications (b)	-	-	-	-	-	(1)	(1)
Disposals	-	-	(137,113)	-	-	(41,288)	(178,401)
Effect of exchange rate fluctuation	(267,283)	(322,913)	(136,388)	(21,391)	(4,896)	(209,283)	(962,154)
Balances at end of year	<u>10,568,158</u>	<u>18,666,042</u>	<u>6,708,863</u>	<u>848,551</u>	<u>193,583</u>	<u>3,944,307</u>	<u>40,929,504</u>
Depreciation:							
Balances at Beginning	-	(6,490,833)	(3,668,118)	(718,705)	(170,926)	-	(11,048,582)
Charges of the period	-	(678,334)	(836,499)	(46,496)	(11,545)	-	(1,572,874)
Disposals	-	-	123,723	-	-	-	123,723
Effect of exchange rate fluctuation	-	166,806	97,517	18,188	4,328	-	286,839
Balances at end of year	<u>-</u>	<u>(7,002,361)</u>	<u>(4,283,377)</u>	<u>(747,013)</u>	<u>(178,143)</u>	<u>-</u>	<u>(12,210,894)</u>
Property, furniture and equipment, net	<u>10,568,158</u>	<u>11,663,681</u>	<u>2,425,486</u>	<u>101,538</u>	<u>15,440</u>	<u>3,944,307</u>	<u>28,718,610</u>

- (a) At December 31, 2016, construction in progress consists principally of disbursements for the construction of the building that will house the Faculty of Engineering and the building for postgraduate programs.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

8 Property, furniture and equipment, net (continued)

(b) At December 31, 2015 it included a commercial premises for lease purposes, located at the Caribálico building. The cancelable operating lease related to this property was renewed annually automatically for an additional period of one year, after agreement between the parties and no contingent quotas were established. During the year 2015, revenues accrued under this concept amounted to US\$112,305 which are part of the line of other operating income in the accompanying statement of operations and changes in net assets for that year.

The Institution has in use fully depreciated assets with an original cost amounting approximately US\$4,000,000 and US\$3,200,000, respectively.

9 Other assets

A summary of other assets at December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Surety and deposits	22,359	15,545
Educational software under development	<u>145,724</u>	<u>149,409</u>
	168,083	164,954
Licenses and software (a)	776,908	731,357
Accumulated amortization (b)	<u>(650,637)</u>	<u>(599,980)</u>
	<u>126,271</u>	<u>131,377</u>
	<u>294,354</u>	<u>296,331</u>

(a) Correspond to agreements with terms between one and five years.

(b) A movement of amortizations during the year ended December 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Balances at beginning of year	599,980	534,626
Charges for the year	66,110	79,241
Effect of exchange rate fluctuation	<u>(15,453)</u>	<u>(13,887)</u>
Balances at end of year	<u>650,637</u>	<u>599,980</u>

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

10 Deferred income

At December 31, 2016 and 2015, correspond to advances received for enrollment of students in undergraduate, graduate and master's programs, which are recognized as income to the extent that the educational services are provided to the students.

11 Accruals and other liabilities

Accruals and other liabilities at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Taxes withheld to employees	162,516	149,866
Social security (Law No. 87-01)	113,344	166,138
Vacations	322,701	339,395
Other accruals	<u>27,430</u>	<u>73,785</u>
	<u>625,991</u>	<u>729,184</u>

12 Accounts payable to employees

At December 31, 2016 and 2015, consist of accounts payable to employees, for the contributions made by the Institution to the pension plan that existed with AFP Caribálico, S. A. The plan was liquidated and the Institution returned the individual contributions employees had made to the plan, remaining pending the contributions made by the Institution. By Resolution of the Board of Regents, the Institution agreed to pay the amount owed to the employees. This account accrues interest at 6 % (4 % in 2015). The interest incurred on this account during the years ended December 31, 2016 and 2015, amounted to US\$26,621 and US\$18,034, respectively, and is presented in the line item of other costs and general and administrative expenses in the accompanying statements of activities, changes in net assets and other comprehensive income.

13 Note payable

As of December 31, 2016 and 2015 consist of borrowing granted by local banks, under a line of credit modality, amounting to US\$2,382,990 and US\$1,539,477, respectively, with interest ranging in 11.5 % and 13 % (10.5 %, in 2015) and maturing in July 2017.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

13 Note payable (continued)

During the years ended December 31, 2016 and 2015, interest accrued for short-term notes payable amounted to US\$86,549 and US\$22,306, and is presented within the line item of financial income (costs), in the accompanying statements of activities, changes in net assets and other comprehensive income.

14 Long-term debt

A summary of long-term debt at December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
<p>Unsecured loan 681/SF-DR signed with the Inter-American Development Bank (IDB), dated June 3, 1982, for an original amount of US\$5,400,000 and 181,710,372 pesetas, payable at an average exchange rate of RD\$3.15 per each american dollar; the exchange differences will be assumed by the Central Bank of the Dominican Republic; to be used in scholarships granted to employees. The loan generates interest at 2 % per annum and a 0.5 % credit commission; was received for financing the “Consolidation and Academic Expansion of INTEC,” project with a guarantee of the Dominican Government and maturity on May 24, 2022. The loan is payable in 60 semi-annual consecutive installments of principal plus interest of approximately US\$79,600 and €23,700.</p>	958,001	1,160,817
<p>Unsecured loans with Banco BHD León, S. A. for amounting to RD\$35,000,000 and RD\$40,000,000, with 11.50 % and 12 %, interest respectively, payable in 60 and 84 equal and consecutive installments, of principal plus interest of RD\$769,741 and RD\$706,109, respectively, and maturing in July 2023 and February 2023, respectively, the latter with a grace period for payment of principal until March 2016</p>	1,483,956	879,701

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

14 Long-term debt (continued)

	<u>2016</u>	<u>2015</u>
Loan granted by the Dominican Government through Bienes Nacionales on August 15, 1996, to purchase an apartment at the José Contreras Project; without interest, payable in monthly installments of RD\$2,604 during 20 year maturing in 2016, and secured by the property, which is owned by the Institution	-	486
Long-term debt	2,441,957	2,041,004
Current portion of long-term debt	<u>(397,279)</u>	<u>(249,506)</u>
Long-term debt excluding current portion	<u>2,044,678</u>	<u>1,791,498</u>

At December 31, 2016, long-term debt maturities are as follows:

2017	397,279
2018	374,462
2019	362,796
2020	349,650
2021 hereinafter	<u>957,770</u>
	<u>2,441,957</u>

During the years ended at December 31, 2016 and 2015, interest incurred for long-term debt amounts to US\$168,640 and US\$79,302, respectively, and is presented within the line item of financial income (costs), in the accompanying statements of activities, changes in net assets and other comprehensive income.

15 Provision for severance indemnities

At December 31, 2016 and 2015, the Institution has established a provision for the payment of severance indemnities upon termination of the employees' contract, provided they have served for five or more consecutive years, have comply with the termination notice and have maintained a satisfactory performance. The calculation of the provision is performed annually by a qualified actuary, assuming an annual average of 2 % salary increase and discounted at its present value using the current interest rate for the Dominican Government bonds.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

15 Provision for severance indemnities (continued)

The movement in the provision for employee benefits during the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Balances at beginning of year.	3,903,753	3,759,983
Included in the statements of activities, changes in net assets and other comprehensive income:		
Expenses for the period	81,660	586,360
Benefits paid	(236,751)	(348,289)
Effect of exchange rate fluctuation	(94,765)	(94,301)
	<u>(249,856)</u>	<u>143,770</u>
Balances at end of year	<u><u>3,653,897</u></u>	<u><u>3,903,753</u></u>

Actuarial assumptions

A summary of the principal actuarial assumptions used by the Institution at December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	11.50 %	11.49 %
Mortality table	GAM-94	GAM-94
Future salary increases	2 %	2 %
Termination benefits	<u>Media</u>	<u>Media</u>

Assumptions regarding future mortality are based on published statistics and mortality tables.

A summary of the number of beneficiaries and the amount of current pensions as of December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Number of employees	638	609
Average monthly salary	1,310	1,339
Monthly payroll	<u>835,841</u>	<u>815,267</u>

Age distribution for the years 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Under 35 years old	256	253
Between 36 and 45 years old	104	105
Between 46 and 65 years old	200	217
Over 66 years old	<u>78</u>	<u>43</u>

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

15 Provision for severance indemnities (continued)

Sensitivity analysis

On the basis of actual severance indemnities obligation at December 31, 2016 and assuming that all other actuarial assumptions remain constant, a possible change of 4 % in the discount rate, would generate a change in the obligation as detailed below:

<u>Actuarial assumption</u>	<u>Provision for employee benefits increase/(decrease)</u>
Discount rate (change of 4 %)	<u><u>146,156</u></u>

16 Other comprehensive income

Corresponds to the effect of conversion of the Institution's financial statements from its functional currency to its reporting currency.

17 Operating income

A summary of operating income during the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Student's enrolment and services:		
Undergraduate registration	12,052,377	12,129,090
Postgraduate registration	2,638,117	2,636,837
Laboratory registration	626,057	410,794
Right to register for undergraduate	3,335,737	3,346,795
Right to register for postgraduate	<u>910,013</u>	<u>882,401</u>
	19,562,301	19,405,917
Discounts and bonuses (a)	<u>(699,930)</u>	<u>(581,140)</u>
	18,862,371	18,824,777
Other educational services	620,502	562,953
Educational services	<u>479,049</u>	<u>488,565</u>
	19,961,922	19,876,295
Government grants (b)	<u>2,195,624</u>	<u>2,252,723</u>

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

17 Operating income (continued)

	<u>2016</u>	<u>2015</u>
Other:		
Fines and surcharges	476,712	687,415
Overhead of third party programs (note 20(g))	1,640,122	803,162
Technical assistance and advisory	864,462	523,574
Sponsorship income	43,767	37,905
Sale of publications	278	23,594
Revenue from academic and related activities	100,456	31,433
Donations and foreign contributions	146,182	253,457
Rental of Caribalico premises	-	112,155
Other income	<u>645,690</u>	<u>548,170</u>
	<u>3,917,669</u>	<u>3,020,865</u>
	<u>26,075,215</u>	<u>25,149,883</u>

- (a) At December 31, 2016 and 2015, correspond to cash discounts for early payment and good academic performance index, awarded to students of the Institution.
- (b) Correspond to subsidy allocated by the Dominican Republic Government for non-for-profit organizations. The amounts allocated during the years ended December 31, 2016 and 2015, amounted to US\$2,437 and US\$2,504 per month, respectively. In 2016 and 2015 the Dominican Republic Government allocated an extraordinary grant for the amount of US\$2,166,378 and US\$2,225,684, respectively. The allocation was intended for building the Institution's Science Health area.

18 Salaries and personnel compensation

A summary of salaries and personnel compensation during the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Wages and salaries	10,312,426	9,798,327
Christmas bonus	785,088	835,622
Vacation	313,361	447,885
Other bonuses	32,456	54,917
Severance indemnities	316,384	674,194
Insurance	540,274	575,517
Pension plan Law No. 87-01	729,210	686,906

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

18 Salaries and personnel compensation (continued)

	<u>2016</u>	<u>2015</u>
Professional development	53,093	81,902
Study benefits	51,167	128,944
Per diem	280,417	334,287
Transportation	216,759	278,856
Other benefits	<u>322,324</u>	<u>187,394</u>
	<u>13,952,959</u>	<u>14,084,751</u>

At December 31, 2016 and 2015, approximately US\$836,222 and US\$817,960, respectively, correspond to top management, which are defined as those occupying vice-presidents positions and above.

At December 31, 2016 and 2015, the Institution has 1,131 and 1,099 employees, respectively.

19 Other costs and general and administrative expenses

A summary of other costs and general and administrative expenses during the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Electric power	788,641	768,106
Surveillance	565,310	444,860
Various supplies	550,159	429,949
Fees	579,324	668,041
Promotion and advertising	352,522	207,818
Fuels and lubricants	219,663	168,265
Workshops and conferences expenses	305,538	231,376
Operating lease	262,426	288,217
Student parking	53,518	47,675
Communications	284,355	243,988
Institutional attentions	78,433	57,697
Shipping	36,217	50,879
Other taxes	33,407	24,281
Professional fees	88,326	62,924

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

19 Other costs and general and administrative expenses (continued)

	<u>2016</u>	<u>2015</u>
Miscellaneous expenses	103,155	271,792
Printing and bindings	67,454	89,468
Photocopies and reproduction	58,395	67,633
General insurance	145,507	98,167
Researches	146,571	187,999
National and international relations	89,951	98,943
Doubtful accounts	169,600	467,477
Maintenance expense and renewal licenses and software	253,524	211,130
Coffee break	183,592	192,037
Water, coffee and garbage	7,001	13,124
Cleaning and gardening	427,481	322,329
Maintenance and repair	719,948	667,046
Scholarships (a)	1,258,224	1,406,261
Sale tax nor recoverable (b)	-	508,962
Scientific and institutional publications	51,206	67,589
Special events	350,430	203,053
Organizations and development of projects	156,573	126,115
Hospitals services	24,480	23,783
Incidentals	20,984	42,019
Portfolio management fees	22,133	60,796
Loss for account receivable discharge (note 4)	93,881	-
Others	<u>652,209</u>	<u>509,962</u>
	<u>9,200,138</u>	<u>9,329,761</u>

(a) Correspond to scholarships granted to employees of the Institution and their close relatives; as well as people of low income referred by the Ministerio de Educación Superior, Ciencia y Tecnología (MESCYT), who meet the academic requirements of the Institution.

(b) Correspond to the tax paid by the Institution, not recoverable, because the Institution does not invoices sales tax.

(Continues)

INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

20 Commitments and contingencies*Commitments*

- a) On August 1st, 1995, the Instituto Tecnológico de Santo Domingo (INTEC), entered into a service agreement with the Central Bank of the Dominican Republic (Central Bank), for an original three-year term, subject to review from the parties at the termination thereof and renewable upon mutual agreement. Through this agreement the Central Bank assumes the exchange differences that arise between the original foreign exchange rate of Loan No. 681/SF-DR subscribed by INTEC with the Inter-American Development Bank (IDB) (RD\$3.15 per each US\$1.00) and the exchange rate at the time of the payment of principal installments plus interest. The Institution is committed to provide scholarships program for undergraduate and postgraduate, technical training programs and organizational support projects, equivalent to the amount of the debt in Dominican pesos resulting from the exchange differences assumed by the Central Bank. At December 31, 2016 and 2015, the Institution maintains balances receivable amounting to US\$264,091 and US\$359,370, respectively, derived from granting scholarship services to the Central Bank staff, more than those covered under this agreement, and recognized as accounts receivable in the accompanying statements of financial position.
- b) On May 2013 the Institution subscribed with Enorden, C. por A., and a services agreement for maintenance of the green areas. The agreement is for a one year term, establishes a monthly payment of US\$9,606, automatically renewable each year. At December 31, 2016 and 2015, the Institution incurred in maintenance expenditures of the green areas amounting to US\$132,689 and US\$87,281, respectively, which are included as part of the line item of other costs and general and administrative expenses in the accompanying statements of activities, changes in net assets and other comprehensive income. The estimated fee commitment for 2017 approximates US\$146,000.
- c) On June 1st, 2006, the Institution subscribed with Enorden, C. por A., an agreement for cleaning and maintenance services of the facilities. The agreement is for a one year term, establishes a monthly payment of US\$19,048, automatically renewable each year. At December 31, 2016 and 2015, the Institution incurred in cleaning expenditures amounting to US\$228,574 and US\$222,308, respectively, which are included as part of other costs and general and administrative expenses in the accompanying statements of activities, changes in net assets and other comprehensive income. As of May 2016, the Institution began to use the cleaning and maintenance services for the parking lot and the medical building, which are not stipulated in the contract, so it is paid based on monthly invoicing according to the services received during each month. During the year 2016, the Institution incurred expenses for this concept amounting to US\$23,102. The estimated payment commitment for this concept for 2017, considering the contractual inclusion of the new medical building is approximately US\$286,000.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

20 Commitments and contingencies (continued)*Commitments (continued)*

- d) In February 2013, the Institution subscribed a lease agreement for providing teaching and administrative areas, for a monthly payment of US\$3,850. This agreement provides a five year term and is automatically renewable upon previous agreement among the parties. At December 31, 2016 and 2015, expense recognized for this agreement amounted to US\$46,117 and US\$45,789, respectively, and is recognized as other general and administrative expenses in the accompanying statements of activities, changes in net assets and other costs and comprehensive income. The estimated payment commitment for 2017 approximates US\$48,000.
- e) At December 31, 2016 and 2015, the Institution holds commitment for the rental of a parking lot for the amount of US\$6,199 per month. The agreement was subscribed in April 2004, with a one year term and automatically renewable prior agreement upon the parties. Payments during the years ended December 31, 2016 and 2015, amount to US\$70,339 and US\$70,344, respectively, which are included as part of other costs and general and administrative costs and expenses in the accompanying statements of activities, changes in net assets and other comprehensive income. The estimated commitment fee for 2017 approximates US\$77,000.
- f) The Institution has contracted the services of the company Thormann Peralta Security, S. A., for transportation services and protection of all the Institutions' facilities and surroundings. These agreements were executed in May 2006 and February 2007, respectively, and establishes monthly payments of US\$3,418 and US\$46,057, respectively, for a one year term and is automatically renewable upon previous agreement among the parties. During the years ended December 31, 2016 and 2015, payments for these concepts amounted to US\$41,018 and US\$26,836 and US\$499,081 and US\$353,669, respectively, which are included as part of other costs and general and administrative expenses in the accompanying statements of activities, changes in net assets and other comprehensive income. The estimated payment commitments for 2017 approximates US\$42,000 and US\$549,000, respectively.
- g) As of December 31, 2016 and 2015, the Institution maintains several contracts with third parties to provide educational services for the amount of US\$11,254,090 and US\$17,073,674, respectively, of which US\$1,135,050 and US\$10,487,757 respectively, were pending of execution. These contracts establish a date of termination of the service that oscillates between two and three years from the suscriptions of the contracts and they mature in several dates.

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

20 Commitments and contingencies (continued)

Commitments (continued)

Commission income for educational services is recognized as the service is provided. At December 31, 2016 and 2015, total income recognized under these contracts amounted to US\$1,640,122 and US\$803,162, respectively, and are included as other income within the line of operating income in the accompanying statements of activities and changes in net assets and other comprehensive income.

At December 31, 2016 and 2015, the Institution received deposits amounting to US\$565,146 and US\$3,272,217, respectively, as part of the obligations established in the service contracts, which are determined on the basis of 10 % and 20 % of the amount budgeted in the contracts of each project. These deposits are offset against future billings to customers and are included as advances received for other educational services in the accompanying statements of financial positions.

Contingencies

At December 31, 2016 and 2015, there are lawsuits that have been filed against the Institution, for the approximate amount of US\$17,000 and US\$109,000, respectively, arising in the normal course of operations. According to the Institution's external legal advisers, it is very unlikely that these lawsuits result in an adverse decision against the Institution. Therefore, management does not anticipate any material loss as a result of the claims, and has not considered it necessary to recognize a provision for such purposes.

21 Balances in foreign currency

The Institution performs sales and purchase transactions that are denominated in a currency other than the functional currency of the Institution, mainly the American dollar (US\$).

At December 31, 2016 and 2015, the statements of financial position include the following balances in Dominican pesos and Euros, translated to American dollars:

	<u>RD\$</u>	<u>US\$</u>	<u>€</u>	<u>Total</u>
2016				
Cash and cash equivalents	258,685	11,683	8,025	278,393
Accounts receivable and other receivables	5,113,647	940,706	2,000	6,056,353
Investments in securities	45,221	110,000	-	155,221
Accounts payable	(4,734,927)	(51,147)	-	(4,786,074)
Note payable	(2,273,890)	(109,100)	-	(2,382,990)
Long-term debt,	<u>(1,477,667)</u>	<u>(761,809)</u>	<u>(202,481)</u>	<u>(2,441,957)</u>
Net monetary position	<u>(3,068,931)</u>	<u>(140,333)</u>	<u>(192,456)</u>	<u>(3,121,054)</u>

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

21 Balances in foreign currency (continued)

	<u>RD\$</u>	<u>US\$</u>	<u>€</u>	<u>Total</u>
2015				
Cash and cash equivalents	1,296,651	22,890	2,053	1,321,594
Accounts receivable	5,487,161	882,013	-	6,369,174
Accounts payable	(5,730,160)	(449,464)	-	(6,179,624)
Long-term debt	(901,388)	(900,320)	(239,296)	(2,041,004)
Net monetary position	<u>152,264</u>	<u>(444,881)</u>	<u>(237,243)</u>	<u>(529,860)</u>

In 2016 and 2015, the foreign exchange rates per US\$1 and €1 used by the Institution were as follows:

	<u>Average rate</u>		<u>Spot rate</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Equivalent in RD\$	46.16	44.93	46.62	45.47
Equivalent in €	<u>50.87</u>	<u>49.86</u>	<u>49.14</u>	<u>49.50</u>

22 Application of new standards

Following is a summary of significant changes to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued on May 2015:

<u>Effective date</u>	<u>New regulations or amendments</u>	<u>Major changes</u>
January 1 st , 2017	<i>Property, Plant and Equipment</i> (amendments to Section 17)	The amendment allows SMEs an option to use the revaluation model for measurement of its property, plant and equipment.
January 1 st , 2017	<i>Income Tax</i> (amendments to Section 29)	The International Accounting Standard Board (IASB), has decided to align the requirements of Section 29 for the recognition and measurement of deferred tax with IAS 12 <i>Income Taxes</i> .

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INSTITUTO TECNOLÓGICO DE SANTO DOMINGO (INTEC)

Notes to the Financial Statements

Amounts expressed in U.S. dollars (US\$)

22 Application of new standards (continued)

<u>Effective date</u>	<u>New regulations or amendments</u>	<u>Major changes</u>
January 1 st , 2017	<i>Specialized Activities</i> (amendments to Section 34)	The International Accounting Standard Board (IASB), has decided to align the principal requirements of recognition and measurement of certain specialized activities of the IFRS for SMEs, Section 34, with IFRS 6. <i>Exploration for an evaluation of mineral resources</i>

The aforementioned standards and amendment to standards, are not expected to have significant effects on the financial statements of the Institution.