# Dasmariñas Village Association, Inc.
*(A Nonstock, Not-for-profit Organization)*

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITORS' REPORT

The Board of Governors
Dasmariñas Village Association, Inc.

## Report on the Financial Statements

We have audited the accompanying financial statements of Dasmariñas Village Association, Inc. (A Nonstock, Not-for-profit Organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2014 and 2013, and the statements of revenue, members' support and expenses, statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dasmariñas Village Association, Inc. as of December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with PFRS for SMEs.

**Report on the Supplementary Information Required Under Revenue Regulations (RR) 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Dasmariñas Village Association, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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April 11, 2012, valid until April 10, 2015
PTR No. 4751320, January 5, 2015, Makati City

February 10, 2015

**DASMARIÑAS VILLAGE ASSOCIATION, INC.**
**(A Nonstock, Not-for-profit Organization)**

# STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

| | December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | **₱184,730,709** | ₱145,357,601 |
| Accounts receivable (Note 6) | **595,263** | 517,885 |
| Prepayments | **181,240** | 218,746 |
| Total Current Assets | **185,507,212** | 146,094,232 |
| **Noncurrent Assets** | | |
| Available-for-sale financial asset (Note 7) | **9,993,895** | 9,745,379 |
| Property and equipment (Note 8) | **48,030,256** | 54,730,452 |
| Refundable deposits | **398,935** | 382,999 |
| Total Noncurrent Assets | **58,423,086** | 64,858,830 |
| **TOTAL ASSETS** | **₱243,930,298** | ₱210,953,062 |
| **LIABILITIES AND FUND BALANCE** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 9) | **₱11,163,475** | ₱11,278,837 |
| Membership dues received in advance (Note 11) | **4,871,035** | 4,612,757 |
| Construction bond (Note 12) | **127,749,439** | 103,378,689 |
| Total Current Liabilities | **143,783,949** | 119,270,283 |
| **Noncurrent Liability** | | |
| Pension liability (Note 10) | **825,047** | 687,560 |
| Total Liabilities | **144,608,996** | 119,957,843 |
| **Fund Balance** | **99,321,302** | 90,995,219 |
| **TOTAL LIABILITIES AND FUND BALANCE** | **₱243,930,298** | ₱210,953,062 |

*See accompanying Notes to Financial Statements.*

**DASMARIÑAS VILLAGE ASSOCIATION, INC.**
**(A Nonstock, Not-for-profit Organization)**

# STATEMENTS OF REVENUE, MEMBERS' SUPPORT AND EXPENSES

| | Years Ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **REVENUE** | | |
| Stickers, permits and other fees (Note 13) | **₱39,478,691** | ₱41,004,625 |
| Interest income (Notes 5 and 7) | **1,628,477** | 2,379,133 |
| | **41,107,168** | 43,383,758 |
| **COSTS AND EXPENSES** | | |
| **Direct Costs** | | |
| Security services | **24,851,703** | 24,751,535 |
| Garbage services | **10,308,024** | 9,903,736 |
| Street repairs | **8,459,449** | 11,711,929 |
| Street lights | **1,080,652** | 3,652,259 |
| Depreciation and amortization (Note 8) | **838,085** | 806,913 |
| | **45,537,913** | 50,826,372 |
| **General and Administrative Expenses** | | |
| Personnel costs (Notes 10 and 14) | **13,875,487** | 12,821,141 |
| Depreciation and amortization (Note 8) | **10,304,557** | 9,021,092 |
| Repairs, sanitation and maintenance | **5,296,319** | 5,199,257 |
| Communication and utilities | **3,275,448** | 3,341,974 |
| Stationery and supplies | **3,168,128** | 3,213,729 |
| Professional fees and legal expenses | **1,960,689** | 1,036,986 |
| Taxes and licenses | **851,442** | 888,350 |
| Community affairs | **535,187** | 816,406 |
| Insurance | **364,589** | 343,414 |
| Loss on disposal of property and equipment (Note 8) | **236,760** | 127,933 |
| Miscellaneous | **902,191** | 1,134,600 |
| | **40,770,797** | 37,944,882 |
| **DEFICIENCY OF REVENUE OVER COSTS AND EXPENSES BEFORE MEMBERS' SUPPORT** | **(45,201,542)** | (45,387,496) |
| **MEMBERS' SUPPORT** | | |
| Membership dues (Note 16) | **53,279,109** | 52,555,070 |
| **EXCESS OF REVENUE AND MEMBERS' SUPPORT OVER COSTS AND EXPENSES** | **₱8,077,567** | ₱7,167,574 |

*See accompanying Notes to Financial Statements.*

## DASMARIÑAS VILLAGE ASSOCIATION, INC.
**(A Nonstock, Not-for-profit Organization)**

# STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **Excess of revenue and members' support over expenses** | **₱8,077,567** | ₱7,167,574 |
| Unrealized gain (loss) on available-for-sale financial asset (Note 7) | **248,516** | (253,984) |
| **TOTAL COMPREHENSIVE INCOME** | **₱8,326,083** | ₱6,913,590 |

*See accompanying Notes to Financial Statements.*

**DASMARIÑAS VILLAGE ASSOCIATION, INC.**
**(A Nonstock, Not-for-profit Organization)**

# STATEMENTS OF CHANGES IN FUND BALANCE

| | Years Ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **BALANCE AT BEGINNING OF YEAR** | **₱90,995,219** | ₱84,081,629 |
| Excess of revenue and members' support over costs and expenses | **8,077,567** | 7,167,574 |
| Other comprehensive income (loss) | **248,516** | (253,984) |
| **BALANCE AT END OF YEAR** | **₱99,321,302** | ₱90,995,219 |

*See accompanying Notes to Financial Statements.*

## DASMARIÑAS VILLAGE ASSOCIATION, INC.
**(A Nonstock, Not-for-profit Organization)**

# STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Excess of revenue and members' support over costs and expenses | **₱8,077,567** | ₱7,167,574 |
| Adjustments for: | | |
| Depreciation and amortization (Note 8) | **11,142,642** | 9,828,005 |
| Pension expense (Note 10) | **2,137,487** | 687,560 |
| Loss on disposal of property and equipment (Note 8) | **236,760** | 127,933 |
| Interest income (Notes 5, 6 and 7) | **(1,628,477)** | (2,379,133) |
| Reversal of accounts payable-inspection fee | **–** | (781,475) |
| Reversal of construction bond (Note 12) | **–** | (4,370,500) |
| Operating income before working capital changes | **19,965,979** | 10,279,964 |
| Decrease (increase) in: | | |
| Prepayments | **37,506** | (69,878) |
| Accounts receivable | **(110,062)** | (410,946) |
| Increase (decrease) in: | | |
| Membership dues received in advance | **258,278** | (746,853) |
| Accounts payable and accrued expenses | **(115,362)** | 1,120,604 |
| Net cash generated from operations | **20,036,339** | 10,172,891 |
| Contributions paid (Note 10) | **(2,000,000)** | (1,787,892) |
| Interest received | **1,661,160** | 2,360,174 |
| Net cash flows provided by operating activities | **19,697,499** | 10,745,173 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Deposits received as construction bond (Note 12) | **61,170,850** | 57,989,750 |
| Decrease in refundable deposits | **(15,936)** | (123,760) |
| Proceeds from sale of property and equipment (Note 8) | **540,000** | – |
| Acquisitions of property and equipment (Note 8) | **(5,219,205)** | (21,607,328) |
| Refund of construction bond (Note 12) | **(36,800,100)** | (32,701,425) |
| Proceeds from maturities (acquisitions) of investments: | | |
| Investment in available-for-sale financial asset (Note 7) | **–** | (9,999,363) |
| Net cash flows provided by (used in) investing activities | **19,675,609** | (6,442,126) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **39,373,108** | 4,303,047 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **145,357,601** | 141,054,554 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **₱184,730,709** | ₱145,357,601 |

*See accompanying Notes to Financial Statements.*

# DASMARIÑAS VILLAGE ASSOCIATION, INC.
**(A Nonstock, Not-for-profit Organization)**
# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

Dasmariñas Village Association, Inc, (the Association) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 1, 1965 as a non-stock, not-for-profit organization organized to promote, advance and safeguard the interest, general welfare and well-being of the owners, lessees and occupants of the properties in Dasmariñas Village, Makati City.

All real estate owners and holders of long-term leases of lots in Dasmariñas Village Subdivision (the Subdivision), as defined in the Association's by laws, shall become members of the Association.

No part of the income of the Association inures to the benefit of any officer, member or private individual. As such, the Association is exempt from the payment of income tax on income related to its operations and activities as provided for under Section 30 (C) of the National Internal Revenue Code of 1997. However, on January 29, 2013, the Bureau of Internal Revenue issued Revenue Memorandum Circular (RMC) No. 9-2013 which clarifies the taxability and vatability of association dues, membership fees and other assessments/charges collected by homeowners' associations from its members and tenants.

RMC No. 9-2013 states that Section 18 of Republic Act No. 9904 which exempts from taxation the association dues and income derived from rental are subject to certain conditions is an implied recognition by the Congress that such receipts are subject to tax under existing laws. For tax purposes, the association dues, membership fees and other assessments/charges collected by a homeowners' association constitute income payments or compensation for beneficial services it provides to its members and tenants are subject to income tax and value-added tax (VAT), subject to certain exceptions.

The Association's registered address and principal place of business is 1417 Campanilla Street, Dasmariñas Village, Makati City.

## 2. Basis of Preparation

The accompanying financial statements of the Association have been prepared using the historical cost basis, except for available-for-sale financial asset carried at fair value. Amounts are presented in Philippine Peso (₱), which is also the Association's functional currency. All amounts are rounded to the nearest peso unless otherwise indicated.

<u>Statement of Compliance</u>
The accompanying financial statements of the Association have been prepared in compliance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

## 3. Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be reliably measured. The Association assesses its revenue arrangements against specific criteria in order to determine that it is acting as a principal in all its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized.

*Stickers, permits and other fees*

Stickers and permits are recognized upon issuance while other fees are recognized when the earning process is complete.

*Interest income*

Interest income on cash and cash equivalents is recognized as it accrues.

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 (3) months or less and are subject to an insignificant risk of change in value.

Financial Instruments

As appropriate, the Association classifies its financial instruments in the following categories: (1) Basic financial instruments and (2) Other financial instruments. The following are basic financial instruments:

- Cash;
- A debt instrument that satisfies specific criteria;

Basic financial instruments are measured at their transaction price including transaction costs. If the contract constitutes a financing agreement, it is measured at the present value of future payments discounted at a market rate of interest for a similar instrument (this is not applicable to assets and liabilities classified as current, unless they incorporate a finance agreement).

If interest is not at a market rate, the fair value would be future payments discounted at a market rate of interest. Other financial instruments are initially measured at fair value, which is usually their transaction price. This will exclude transaction costs.

The basic financial instruments of the Association consist of cash and cash equivalents, accounts receivable and investment in debt securities. The Association's debt instruments are measured at fair value.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

*AFS Financial Assets*

AFS financial assets are non-derivative financial assets that are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported in other comprehensive income (OCI).

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as miscellaneous income in the statement of revenue, members' support and expenses. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate (EIR). Dividends earned on holding AFS financial assets are recognized in the statement of revenue, members' support and expenses as part of miscellaneous income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as provisions for impairment losses in the statement of revenue, members' support and expenses.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any impairment losses.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are obligations on the basis of normal credit terms and are non-interest bearing and are expected to be settled in the next 12 months.

Accounts payable and accrued expenses are recognized only when the following conditions are met: (a) there exists a present obligation (legal or constructive) as a result of past event; (b) it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

Accounts payable and accrued expenses include payable to suppliers and security services, withholding taxes payable and accrual of professional fees.

Impairment of Financial Assets

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is a process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Association's long-term investment strategy.

Derecognition of Financial Assets and Liabilities

*Financial asset*

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial asset) is derecognized when:

(a) the rights to receive cash flows from the asset have expired;

(b) the Association 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 Association 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.

*Financial liability*
A financial liability is derecognized when the obligation under the liability are discharged or cancelled or expired. 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 the statement of revenue, members' support and expenses.

Receivables
Receivables are recognized and carried at billed amount less allowance for any uncollectible amounts. Specific valuation allowances are provided when collections become doubtful and amounts expected to be received in settlement of the receivable are less than the amounts due. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

Property and Equipment
The Association measures all items of property and equipment after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses.

Factors such as change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the residual value of useful life of an asset has changed since the most recent annual reporting date. If such indicators are present and if current expectations differ, the residual value should be reviewed.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period 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 is computed using the straight-line basis over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Building and land improvements | 3-20 |
| Furniture, fixtures and equipment | 3-10 |
| Transportation equipment | 3-5 |
| Security and park equipment | 2-10 |
| Software and licenses | 5 |

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both useful life of an asset and its residual value, if any, are reviewed annually.

The asset's residual value, estimated useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation, if any, are removed from the accounts and any resulting gain or loss is credited or charged against current operations.

<u>Refundable Deposit</u>
Refundable deposit pertains to security deposits made by the Association to public utility company like Meralco, PLDT and Manila Water Company.

<u>Impairment of Nonfinancial Assets</u>
This accounting policy applies to the Association's property and equipment. An assessment is made at each reporting date to determine whether there is any indication of impairment of any long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less costs to sell.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

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

<u>Retirement Benefits</u>
The Association has a funded, noncontributory defined benefit retirement plan, administered by a trustee, covering their regular and permanent employees. Pension expense is actuarially determined using the projected unit credit method.

This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension expense includes current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Actuarial gains and losses are recognized in full in the statement of revenue, members' support and expenses.

<u>Pension Liability</u>
The net pension liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

Construction Bond

Construction bond pertains to cash deposits from members or their contractors, as required by the Association before any house construction or major renovation work is undertaken within the village. The construction bond ensures that village properties are not destroyed or damaged through the course of the construction. It is non-interest bearing and refundable upon completion of the construction or renovation work and upon presentation of receipts and determination of the depositor's liability for any violation of the Association's regulations relating to said construction or renovation.

Fund Balance

Fund balance is the difference between the Association's assets and liabilities. Fund balance is increased when revenues exceed expenses for the reporting period. Correspondingly, fund balance is decreased when expenses exceed revenues. A positive fund balance represents a financial resource available to finance expenses of the following period. A deficit fund balance can only be recovered by having revenues exceed expenses in the following period.

A portion of the balance in a fund may be committed to provide the funding for encumbrances or may be maintained at a certain level for working cash needs. Fund balance may be considered as a surplus or an excess only to the extent that it has not been committed, identified for a purpose, or is available for re-appropriation to a different purpose.

Income Tax

*Current tax*

Current 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 substantively enacted at the reporting dates.

*Deferred Tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences with certain exception. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

Deferred tax assets are measured at the highest amount that, on the basis of current or estimate future taxable profit, is more likely than not to be recovered. The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustment is recognized in statement of income. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that future taxable profits will be available against which the future income tax deductions can be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the financial reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

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

Expenses
The Association's expenses are those that arise in the course of ordinary operations of the Association. Expenses are recognized in the statement of revenue, members' support and expenses as incurred.

Members' Support
Membership dues computed on the basis of a fixed rate per square meter of lot occupied by the homeowner/member are recognized when due. Membership dues received in advance are shown as part of liabilities in the statement of assets, liabilities and fund balance. Donations are recognized upon receipt or accrued when there is reasonable assurance of receipt.

Fund Accounting
The accounts of the Association are maintained in accordance with the principle of fund accounting to ensure observance of limitations and restrictions placed on the use of resources available to the Association. This is the procedure by which resources for various purposes are classified for accounting and financial reporting purposes into funds that are in accordance with specified activities and objectives. Separate accounts are maintained for each fund, if any. Funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group, if applicable.

Provisions
Provisions are recognized when the Association has: (a) a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation. Where the Association expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting financial year-end and adjusted to reflect current best estimates.

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 Reporting Date
Post year-end events that provide additional information about the Association's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

## 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS for SMEs requires the Association to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements, as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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.

*Allowance for Impairment Losses*
Allowances for doubtful accounts are estimated at a level considered adequate to provide for potential uncollectible receivables. The level of the allowance is evaluated by management based on factors that affect the collectability of the accounts. The Association reviews the age and status of receivables, and identifies accounts that are to be provided with allowances. The amount and timing of recorded expenses for any period would therefore differ depending on the judgments and estimates made for each period.

As of December 31, 2014 and 2013, the carrying amounts of accounts receivable amounted to ₱595,263 and ₱517,885, respectively, while allowance for impairment losses amounted to ₱278,354 in 2014 and 2013 (Note 6).

*Impairment of Nonfinancial Assets*
The Association assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indicators of impairment include significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset and significant negative economic trends. If such indicators are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. Determining the value in use of an asset involves the determination of the present value of future cash flows expected to be generated from the continued use and ultimate disposition of the asset and requires the Association to make estimates and assumptions that can materially affect the financial statements.

No impairment loss was recognized in 2014 and 2013 for the Association's property and equipment. As of December 31, 2014 and 2013, the carrying value of the Association's property and equipment amounted to ₱48,030,256 and ₱54,730,452, respectively (Note 8).

*Estimating useful lives of property and equipment*
The Association estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Association reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

As of December 31, 2014 and 2013, the carrying value of the Association's property and equipment amounted to ₱48,030,256 and ₱54,730,452, respectively (Note 8). The related balances follow:

| | **2014** | 2013 |
|---|---|---|
| Property and equipment – cost | **₱131,705,933** | ₱127,696,761 |
| Accumulated depreciation | **83,675,677** | 72,966,309 |
| Depreciation and amortization | **11,142,642** | 9,828,005 |

*Pension cost*
The determination of the Association's pension liability and cost for retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount and salary increase rates. While the Association believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension expense and obligation.

The related balances follow (Note 10):

| | **2014** | 2013 |
|---|---|---|
| Defined benefit obligation | **₱10,857,095** | ₱8,589,363 |
| Plan assets | **10,032,048** | 7,901,803 |
| Pension liability | **825,047** | 687,560 |

*Deferred tax assets*
The Association reviews its deferred tax assets at the end of each reporting period and provides a valuation allowance to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The deferred tax effects of the deductible temporary differences amounting to ₱41,234,278 and ₱41,517,990 as of December 31, 2014 and 2013, respectively were fully provided with valuation allowance.

## 5. Cash and Cash Equivalents

This account consists of:

| | 2014 | 2013 |
|---|---|---|
| Petty cash and postage funds | **₱95,000** | ₱90,000 |
| Current and savings accounts with banks | **16,695,331** | 14,224,566 |
| Short-term deposits | **167,940,378** | 131,043,035 |
| | **₱184,730,709** | ₱145,357,601 |

Current and savings accounts with banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three (3) months and earn annual interest ranging from 0.80% to 1.20% in 2014 and 0.80% to 1.30% in 2013. Interest income earned on cash in banks amounted to ₱28,552 and ₱109,041 in 2014 and 2013, respectively. Interest income earned on short-term deposits amounted to ₱1,449,479 and ₱2,139,599 in 2014 and 2013, respectively.

## 6. Accounts Receivable

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Advances to former employee | **₱132,083** | ₱214,250 |
| Accrued interest | **115,145** | 147,829 |
| Unpaid membership dues | **74,508** | 98,558 |
| Others | **551,881** | 335,602 |
| | **873,617** | 796,239 |
| Less: allowance for impairment losses | **278,354** | 278,354 |
| | **₱595,263** | ₱517,885 |

Advances to former employee are noninterest-bearing loans which is due and demandable. Allowance for impairment was provided for the full amount.

Accrued interest pertains to interest on cash equivalents and available-for-sale treasury notes.

Unpaid membership dues constitute a lien on the property of the members.

Details of unpaid membership dues follow:

| | 2014 | 2013 |
|---|---|---|
| Unpaid membership dues: | | |
| 2014 | **₱58,044** | ₱– |
| 2013 | **16,464** | 73,722 |
| 2012 | **–** | 24,836 |
| | **₱74,508** | ₱98,558 |

Others consist mainly of receivable from sponsorships and rental of the Association's facilities.

The Association has no additional provision for impairment losses for the years ended December 31, 2014 and 2013.

## 7. Available-for-Sale Financial Asset

In 2013, the Association purchased a fixed rate treasury notes amounting ₱9,999,363 which carries annual coupons at the rate of 1.63% with a maturity of 3 years and pays interest semiannually.

Interest income on investment in available-for-sale financial asset amounted to ₱150,446 and ₱130,493 in 2014 and 2013, respectively. The Association's investment in debt security is classified as available-for-sale financial asset measured at fair value. The mark to market movement in the fair value is recognized in OCI and this amounted to ₱248,516 gain and ₱253,984 loss, respectively, for the years ended December 31, 2014 and 2013.

## 8. Property and Equipment

The rollforward analysis of this account follows:

**2014**

| | Building and Land Improvements | Furniture, Fixtures and Equipment | Transportation Equipment | Security and Park Equipment | Software and Licenses | Construction In Progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At January 1 | ₱66,364,927 | ₱28,923,439 | ₱11,762,091 | ₱19,465,007 | ₱931,297 | ₱250,000 | ₱127,696,761 |
| Additions | 2,318,243 | 909,870 | 62,100 | 386,072 | 27,200 | 1,515,720 | 5,219,205 |
| Disposals | – | (36,815) | (1,173,218) | – | – | – | (1,210,033) |
| Transfers | 250,000 | – | – | – | – | (250,000) | – |
| At December 31 | 68,933,170 | 29,796,494 | 10,650,973 | 19,851,079 | 958,497 | 1,515,720 | 131,705,933 |
| **Accumulated Depreciation and Amortization** | | | | | | | |
| At January 1 | 40,320,693 | 16,151,353 | 8,889,700 | 7,118,786 | 485,776 | – | 72,966,308 |
| Depreciation and amortization | 4,323,342 | 4,186,690 | 838,085 | 1,606,532 | 187,993 | – | 11,142,642 |
| Disposals | – | (36,815) | (396,458) | – | – | – | (433,273) |
| At December 31 | 44,644,035 | 20,301,228 | 9,331,327 | 8,725,318 | 673,769 | – | 83,675,677 |
| **Net Book Value** | ₱24,289,135 | ₱9,495,266 | ₱1,319,646 | ₱11,125,761 | ₱284,728 | ₱1,515,720 | ₱48,030,256 |

2013

| | Building and Land Improvements | Furniture, Fixtures and Equipment | Transportation Equipment | Security and Park Equipment | Software and Licenses | Construction In Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At January 1 | ₱60,544,821 | ₱22,970,790 | ₱10,187,885 | ₱12,415,733 | ₱876,697 | ₱1,777,071 | ₱108,772,997 |
| Additions | 4,508,211 | 7,783,435 | 1,574,206 | 7,436,876 | 54,600 | 250,000 | 21,607,328 |
| Disposals | (465,176) | (1,830,786) | – | (387,602) | – | – | (2,683,564) |
| Transfers | 1,777,071 | – | – | – | – | (1,777,071) | – |
| At December 31 | 66,364,927 | 28,923,439 | 11,762,091 | 19,465,007 | 931,297 | 250,000 | 127,696,761 |
| Accumulated Depreciation and Amortization | | | | | | | |
| At January 1 | 36,836,674 | 14,383,559 | 8,082,787 | 6,087,338 | 303,577 | – | 65,693,935 |
| Depreciation and amortization | 3,949,196 | 3,470,647 | 806,913 | 1,419,050 | 182,199 | – | 9,828,005 |
| Disposals | (465,176) | (1,702,853) | – | (387,602) | – | – | (2,555,631) |
| At December 31 | 40,320,693 | 16,151,353 | 8,889,700 | 7,118,786 | 485,776 | – | 72,966,309 |
| Net Book Value | ₱26,044,234 | ₱12,772,086 | ₱2,872,391 | ₱12,346,221 | ₱445,521 | ₱250,000 | ₱54,730,452 |

On July 31, 1968, the developer of the subdivision has donated street lots, which have an assessed value of ₱1.00 per square meter at the time of donation. Under the terms of the donation, the donated property shall be used and maintained as private roads or streets for the use of the members of the Association, their families, personnel and domestic help and, under reasonable conditions and restrictions, by the general public. In the event that the properties are no longer used as such, the same shall automatically revert to the donor.

The Association leases in perpetuity (co-terminus with the corporate life of the Association) from Makati Development Corporation six parcels of land within the subdivision at a nominal rent of ₱1.00 a year. Under the terms of the lease, the property shall be used exclusively as park and playground for the recreation, athletic and social activities of the members of the Association and the residents of the area; provided, however, that the Association, subject to the prior consent of the lessor, may reserve and dedicate a portion of the leased premises for the construction of the Community Center Building.

On July 19, 2014, the Association sold its transportation equipment with a carrying value of ₱776,760 for ₱540,000 resulting to a loss on disposal of ₱236,760.

All tax assessments arising out of or imposed because of the ownership or possession of the leased premises shall be borne by the Association.

Depreciation and amortization charged to costs and expenses follows:

| | **2014** | 2013 |
|---|---|---|
| General and administrative expenses | **₱10,304,557** | ₱9,021,092 |
| Direct costs | **838,085** | 806,913 |
| | **₱11,142,642** | ₱9,828,005 |

Fully depreciated assets, amounting ₱51,258,448 and ₱51,295,262 as of December 31, 2014 and 2013, respectively, are still in active use.

No property and equipment were pledged as security to the Association's obligation in 2014 and 2013.

## 9. Accounts Payable and Accrued Expenses

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Accounts payable | **₱6,118,368** | ₱6,659,983 |
| Accrued expenses | **3,721,145** | 3,510,276 |
| Christmas fund | **373,971** | 350,749 |
| Employees' educational and loan fund | **131,784** | 145,979 |
| Other payables | **818,207** | 611,850 |
| | **₱11,163,475** | ₱11,278,837 |

Accounts payable represent amounts owed to suppliers and vendors which are noninterest-bearing.

Accrued expenses consist mainly of accruals for payments for security services.

Other payables consist mainly of withholding taxes payable, deposits from players for the Association's tournaments and from canteen concessionaires.

## 10. Retirement Plan

The Association has a funded, noncontributory defined benefit retirement plan administered by a trustee covering substantially all of its employees. The benefits are based on years of service and compensation on the last year of employment. The latest actuarial valuation study of the retirement plan as of December 31, 2014 was issued last August 29, 2014.

The following tables summarize the components of net pension expense, the net pension liability, the changes in the present value of pension obligation, the changes in fair value of plan assets, the composition of plan assets and the principal assumptions used in the actuarial valuation at December 31, 2014 and 2013.

Net pension expense included in personnel costs under general and administrative expenses account in the statements of revenue, members' support and expenses follows:

| | **2013** | 2013 |
|---|---|---|
| Current service cost | **₱499,382** | ₱298,862 |
| Interest cost | **498,183** | 454,489 |
| Actuarial loss recognized | **1,535,012** | 236,615 |
| Expected return on plan assets | **(395,090)** | (302,406) |
| Pension expense | **₱2,137,487** | ₱687,560 |

The funded status and amounts recognized in the statements of assets, liabilities and fund balance for the retirement plan as of December 31, 2014 and 2013 follow:

| | **2014** | 2013 |
|---|---|---|
| Benefit obligation | **₱10,857,095** | ₱8,589,363 |
| Plan assets | **(10,032,048)** | (7,901,803) |
| Pension liability | **₱825,047** | ₱687,560 |

Changes in the present value of the defined benefit obligation follow:

| | **2014** | 2013 |
|---|---|---|
| Present value of the benefit obligation, beginning | **₱8,589,363** | ₱7,836,012 |
| Interest cost | **498,183** | 454,489 |
| Current service cost | **499,382** | 298,862 |
| Actuarial loss on obligation | **1,270,167** | – |
| Benefits paid | **–** | – |
| Present value of the benefit obligation, ending | **₱10,857,095** | ₱8,589,363 |

Changes in fair value of plan assets follow:

| | 2014 | 2013 |
|---|---|---|
| Fair value of plan assets, beginning | **₱7,901,803** | **₱6,048,120** |
| Contributions paid | **2,000,000** | **1,787,892** |
| Expected return on plan assets | **395,090** | **302,406** |
| Actuarial gain (loss) on plan assets | **(264,845)** | **(236,615)** |
| Benefits paid | – | – |
| Fair value of plan assets, ending | **₱10,032,048** | ₱7,901,803 |

The plan assets are maintained with a trustee bank.

The distribution of plan assets as of December 31, 2014 and 2013 follows:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | **₱9,144,212** | ₱6,855,117 |
| Investment in debt securities | **278,890** | 635,069 |
| Investment in equity securities | **593,897** | 426,250 |
| Receivables | **15,049** | 18,971 |
| | **10,032,048** | 7,935,407 |
| Less accrued trust fees and other payables | – | (33,604) |
| | **₱10,032,048** | ₱7,901,803 |

The actual return on plan assets amounted to ₱130,245 and ₱100,042 in 2014 and 2013, respectively.

Movement in the net pension liabilities during the year follows:

| | 2014 | 2013 |
|---|---|---|
| At beginning of year | **₱687,560** | ₱1,787,892 |
| Pension expense | **2,137,487** | 687,560 |
| Contributions | **(2,000,000)** | (1,787,892) |
| At end of year | **₱825,047** | ₱687,560 |

The principal assumptions used in determining pension benefits are as follows:

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Discount rate | **5.10%** | 5.80% | 5.80% | 5.36% | 4.50% |
| Salary increase rate | **5.00%** | 5.00% | 5.00% | 5.00% | 5.00% |
| Expected rate of return on plan assets | **7.50%** | 7.50% | 7.50% | 6.00% | 6.00% |

Amounts for the current and previous periods follow:

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Defined benefit obligation | **₱10,857,095** | ₱8,589,363 | ₱7,836,012 | ₱7,121,852 | ₱8,340,953 |
| Plan assets | **10,032,048** | 7,901,803 | 6,048,120 | 3,330,576 | 2,788,397 |
| Deficit | (825,047) | (687,560) | (1,787,892) | (3,791,276) | (5,552,556) |

## 11. Membership Dues Received in Advance

This account pertains to advance collection of membership dues from property owners or lessees which are recognized as support in the proper period.

## 12. Construction Bond

This account pertains to cash deposits from members or their contractors, as required by the Association before any house construction or major renovation work is undertaken within the village. The deposit is non-interest bearing and refundable upon completion of the construction or renovation work and upon presentation of receipts and determination of the depositor's liability for any violation of the Association's regulations relating to said construction or renovation. The movement in this account follows:

| | **2014** | 2013 |
|---|---|---|
| Balance at January 1 | **₱103,378,689** | ₱82,460,864 |
| Deposits | **61,170,850** | 57,989,750 |
| Refunds and reversal | **(36,800,100)** | (37,071,925) |
| Balance at December 31 | **₱127,749,439** | ₱103,378,689 |

The amount ₱36,800,100 and ₱37,071,925 of refunds and reversal includes reversal of construction bond amounting to nil and ₱4,370,500 for the years ended December 31, 2014 and 2013, respectively.

## 13. Stickers, Permits and Other Fees

Car stickers and entry permits are issued to homeowners, residents and others on a yearly basis.

## 14. Personnel Costs

| | **2014** | 2013 |
|---|---|---|
| Salaries and wages | **₱8,841,588** | ₱8,932,320 |
| Pension expense (Note 10) | **2,137,487** | 687,560 |
| Other employee benefits | **2,896,412** | 3,201,261 |
| Balance at December 31 | **₱13,875,487** | ₱12,821,141 |

## 15. Income Tax

There is no provision for income tax in 2014 and 2013 as the Association is in a tax loss position.

As of December 31, 2014, net operating loss carryover (NOLCO) that can be claimed as deduction from future taxable income and used/expired is shown below:

| Inception Year | Amount | Applications/ Expirations | Balance | Expiry Year |
|---|---|---|---|---|
| 2011 | ₱47,538,966 | ₱47,538,966 | ₱– | 2014 |
| 2012 | 42,579,268 | – | 42,579,268 | 2015 |
| 2013 | 48,275,067 | – | 48,275,067 | 2016 |
| 2014 | 46,593,259 | – | 46,593,259 | 2017 |
| | ₱184,986,560 | ₱47,538,966 | ₱137,447,594 | |

The recognized deferred tax assets on NOLCO as of December 31, 2014 and 2013 amounted to ₱41,234,278 and ₱41,517,990, respectively; however, the Association deemed that there is no enough taxable income in the future from which NOLCO may be applied. Accordingly, a full valuation allowance was recognized on the deferred tax asset.

## 16. Membership Dues

Membership dues are collected from members to cover the revenue deficiency and for special projects.

## 17. Related Party Transactions

Parties are considered to be 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. Parties are also considered to be related party if they are subject to common control. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Association where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Association or of any entity that is a related party of the Association.

Related parties may be individuals or corporate entities (referred to as affiliates). Affiliates are related entities of the companies by virtue of common ownership and representation to management where significant influence is apparent. In the regular course of business, the Association's significant transactions with related parties pertain to short-term compensation and benefits of key management personnel amounting to ₱629,479 and ₱908,918 in 2014 and 2013, respectively. There is no long-term, share-based or other compensation arrangement with key management personnel.

## 18. Approval of Financial Statements

The accompanying financial statements were authorized for issue by the Board of Governors on February 10, 2015.

## 19. Supplementary Tax Information under Revenue Regulations (RR) 15-2010

The Association reported and paid the following taxes for the year ended December 31, 2014:

Value Added Tax (VAT)
The Association has none to report.

Information on the Association's Importations
The Association does not undertake importation activities.

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees included as "Taxes and licenses" under "General and Administrative Expenses" account in the statement of revenue, members' support and expenses. Details of other taxes and licenses in 2014 follow:

| | |
|---|---|
| Real estate taxes | ₱805,605 |
| Licenses and permits fees | 45,337 |
| Penalties | – |
| Community taxes | 500 |
| | ₱851,442 |

The Company has no excise taxes paid on locally produced excisable items and imported excisable items and documentary stamp taxes.

Withholding Taxes
Details of taxes withheld in 2014 follow:

| | |
|---|---|
| Withholding taxes on compensation and benefits | ₱952,057 |
| Expanded withholding taxes | 731,304 |
| Final withholding taxes | – |
| | ₱1,683,361 |

Tax Assessments and Cases
The Association has no deficiency tax assessments or any tax cases under preliminary investigation, litigation, and/or prosecution in courts or bodies outside the Bureau of Internal Revenue as of December 31, 2014.