

# **TOWN AND COUNTRY EXECUTIVE VILLAGE HOMEOWNERS ASSOCIATION**

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## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

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### **1. Corporate Information**

Town and Country Executive Village Homeowners Association (the Association) was organized and registered with the Securities and Exchange Commission (SEC) on February 24, 1983.

The Association was also registered with the Home Insurance and Guaranty Corporation (HIGC) on February 24, 1983 with Registration No. 04-210 and transferred to the Housing and Land Use Regulatory Board (HLURB) by virtue of Republic Act No. 8763 on March 7, 2000.

In pursuant to Title II Section 30 of the National Internal Revenue Code; a beneficiary society, order or association, operating for the exclusive benefit of the members such as a fraternal organization operating under the lodge system, or mutual aid association or a non-stock corporation organized by employees providing for the payment of life, sickness, accident, or other benefits exclusively to the members of such society, order, or association, or non-stock corporation or their dependents shall not be taxed in respect to income received by them.

The registered office address of the Association is at Mahogany Ave., Town and Country Executive Village, Mayamot, Antipolo City.

The financial statements of the Association were authorized for issuance by the Board of Trustees.

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### **2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting and Financial Reporting Policies**

#### Statement of Compliance

The Association's financial statements are in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

#### Basis of Preparation and Presentation

The Association's financial statements have been prepared in the historical cost basis and are presented in Philippine peso the currency of economic environment in which the Association operates. The amount of which is rounded off to the nearest peso.

#### Summary of Significant Accounting and Financial Reporting Policies

The significant accounting policies adopted are set out below.

##### 2.1 Financial Assets

Financial assets are recognized in the financial statements when the Association becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value.

### Cash

Cash includes cash on hand and in banks which are recognized at face value.

### Restricted Funds

These are cash held by the Association that cannot be used for operating expenses. These are classified as current since these funds will be soon returned already to the homeowners within the succeeding year.

### Receivables and Advances

Receivable and advances are recognized initially at the transaction price. These are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and advances is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivables.

## 2.2 Prepayments and Other Current Assets

Prepayments other current assets of the Company are as follows:

- Prepayments  
Prepayments are stated at book value or cost less any amount recognized as expense during the period.
- Creditable Withholding Taxes (CWTs)  
CWTs are withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that they are properly supported by certificates of creditable withholding tax withheld at source subject to the rules in Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve (12) months are classified as current assets; otherwise, these are classified as noncurrent assets.

## 2.3 Property and Equipment

Property and equipment, except land, is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Land is stated at historical cost less any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Expenditures incurred after the fixed assets have been put into operation such as repairs and maintenance are normally charged to income in the year in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from use of an item of property and equipment beyond its originally assessed standard of performance the expenditures are capitalized or an additional cost of property and equipment.

The Association adds to the carrying amount of an item of property and equipment the cost of replacing parts of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Association. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is computed on a straight-line method over the following estimated useful lives of the assets:

Asset category	Number of years
Buildings & Improvements	15 - 25
Furniture, Fixtures & Equipment	2 - 5
Service Vehicle	6
Swimming Pool	8

The assets' useful lives and depreciation methods are reviewed, and adjusted prospectively, if appropriate, if there is an indication of a significant change.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains or losses – net.

#### 2.4 Impairment of Assets

Assets that are subject to depreciation or amortization are assessed at each reporting date to determine where there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is higher the higher between the asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.5 Financial Liabilities

Financial liabilities are recognized in the financial statements when the Association becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired.

##### Trade and Other Payables

Trade and other payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

##### Refundable Deposits

Refundable deposits are initially measured at fair value and subsequently recognized at amortized cost less settlement payments.

## 2.6 Income, Cost and Expenses Recognition

Income is recognized when it is probable that the economic benefits associated with the transaction will flow to the Association and the amount of the revenue can be measured reliably. Income of the Associations is recognized as follows:

- Association dues are recognized as income over the year.
- Lease income is recognized on a straight-line basis over the term of the lease agreement.
- Interest income is recognized as interest accrues taking into account the effective yield on the asset.
- Other income is recognized once earned.
- Donations are recognized once received.

Cost and other expenses are recognized in the statement of income upon utilization of the service or at the date these are incurred and applicable against revenue recognized.

## 2.7 Operating Leases – Association as a Lessor

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

## 2.8 Related Parties

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 if they are subject to common control and common significant influence. Related parties may be individual or corporate entities.

## 2.9 Events After the Statement of Financial Position Date

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

## 2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past investments.

Provisions are measured at the estimated expenditure required to settle the present obligation, based in the most reliable evidence available at the statement of financial position date, including the risks of uncertainties associated with present obligation. Any reimbursement expected to be received in the course of the settlement of the present obligation is recognized, if virtually certain as a separated asset, not exceeding the amount of the related provision.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Association.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statement.

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

The preparation of the financial statements in compliance with PFRS for SMEs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from these estimates and assumptions used.

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. The effect of any change in estimates will be reflected in the financial statements when they become reasonably determinable.

#### Judgments

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

#### *Determination of functional currency*

Based on the economic substance of the underlying circumstances relevant to the Association, the functional currency of the Association has been determined to be the Philippine Peso. It is the currency that mainly influences the receipts and disbursements of the Association.

#### *Determining whether operating or finance leases*

Critical judgment was exercised by the management to distinguish lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of the properties covered by the agreement.

The Association leases out various properties to third parties. The Association has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the risks and rewards of ownership of the properties and so accounts for the contracts as operating leases.

### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation at the financial reporting date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year as discussed below:

#### *Estimating allowance for impairments losses on receivables*

The Association maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Association relationship with the debtor, the debtor's payment behavior and known market forces.

As at December 31, 2015 and 2014, the receivables carrying values amounted to ₱6,227,238 and ₱5,583,555 respectively, net of allowance for doubtful accounts amounting to ₱272,988 and ₱126,681 as at December 31, 2015 and 2014 (see note 6).

Furthermore, no accounts have been written off in 2015 and 2014.

#### *Estimation of useful lives of property and equipment*

The Association estimates the residual values and useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence, and legal or other limits on the use of the assets. It is possible that future results of operation 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 depreciation expense and decrease noncurrent assets.

There was no change in the estimated useful lives of property and equipment in both years.

#### *Determination of impairment of nonfinancial assets*

Internal and external sources of information are reviewed when the management identify indications that the property, plant and equipment and other non-financial assets may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. 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. The factors that the Association considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results.

The Association has determined that there are no events or changes in circumstances in 2015 and 2014 which indicate that the carrying values of property and equipment and other non-financial assets may not be recoverable, thus, there were no impairment losses recognized on these assets as at December 31, 2015 and 2014.

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#### 4. Cash and Restricted Funds

##### 4.1 Cash

Cash is carried at face value which is composed of the following.

	2015	2014
Cash on hand	<b>₱23,524</b>	₱12,207
Petty cash fund	<b>5,000</b>	5,000
Calamity fund	<b>20,000</b>	35,000
Cash in bank	<b>2,568,953</b>	3,086,262
	<b>₱2,617,477</b>	₱3,138,469

Cash in bank earns interest at the prevailing bank deposit rates.

Petty cash is used for daily operations. Calamity fund will be used to cover for emergency situations that will greatly affect the life and property of homeowners and of the association, as per Board Resolution.

##### 4.2 Restricted Funds

The Association requires every homeowner to deposit certain amount before the construction, renovation and lot filling starts (see note 12). This is being deposited to a separate bank account. Income earned from this account is unrestricted and can be used for general administration of the Association.

Interest income from cash in banks and restricted funds, net of final withholding taxes, amounted to ₱5,359 and ₱15,354 for the years ended December 31, 2015 and 2014, respectively. This is included in the "Other income" of the Association (see note 14).

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#### 5. Advances

	2015	2014
Advances to Employees	<b>₱7,989</b>	₱10,108
Advances for Liquidation	<b>69,646</b>	82,038
	<b>₱77,635</b>	₱92,145

Both advances are subject for liquidation in the normal course of business. Advances of significant amounts are authorized through board resolutions.

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#### 6. Receivables

	2015	2014
Annual dues	<b>₱11,100</b>	₱7,950
Monthly dues	<b>893,447</b>	968,721
Water bill	<b>3,044,966</b>	2,822,423
Rent Receivable	<b>609,357</b>	-
Others	<b>1,911,142</b>	1,911,142
Total	<b>6,470,011</b>	5,710,236
Allowance for doubtful accounts	<b>272,988</b>	126,681
Net realizable value	<b>₱6,197,023</b>	₱5,583,555

Annual dues and monthly dues represent receivable billed at ₱150 and ₱350, respectively, per Homeowner account.

Water bill receivables consist of amounts collectible from Homeowners, whether billed or unbilled, paid or to be paid by the Association to Manila Water Company.

Rent receivable represents accrued lease income from different telecommunication networks as lessee (see note 16).

Provisions are made for accounts specifically identified to be doubtful of collection. The provision is based on management's evaluation of collection experience and other factors that may affect collectability. The amount of timing of recorded expenses for any period would therefore differ depending on the judgments and estimates of the year.

The movements in the allowance for doubtful accounts are as follows:

	<b>2015</b>	2014
Allowance for doubtful accounts, beginning	<b>₱126,681</b>	₱126,681
Provision for the year (note 14)	<b>146,307</b>	-
Allowance for doubtful accounts, ending	<b>₱272,988</b>	₱126,681

## **7. Prepayments and Other Current Assets**

	<b>2015</b>	2014
Office supplies	<b>₱72,377</b>	₱52,716
Maintenance supplies	<b>23,161</b>	-
Other current assets	<b>40,300</b>	40,300
	<b>₱135,838</b>	₱93,016

Other current assets represent deposit for additional Meralco connection in the Association's Clubhouse.

## **8. Property and Equipment - Net**

The changes in the carrying value of property and equipment in 2015 are hereunder presented.

<b>COST</b>	<b>Land</b>	<b>Buildings &amp; Improvements</b>	<b>Furniture, Fixtures &amp; Equipment</b>	<b>Service Vehicle</b>	<b>Heavy Equipment Giga Truck</b>	<b>Swimming Pool</b>	<b>Total</b>
Beginning balance	₱15,240,725	₱18,153,006	₱2,774,221	₱650,000	₱-	₱2,796,388	₱39,614,341
Additions	-	1,526,143	468,394	739,829	1,309,822	-	4,044,188
Disposals	-	-	-	-	-	-	-
Ending balance	15,240,725	19,679,149	3,242,616	1,389,829	1,309,822	2,796,388	43,658,528
<b>ACCUMULATED DEPRECIATION</b>							
Beginning balance	-	11,874,927	2,200,154	480,000	-	2,655,618	17,210,699
Depreciation (note 14)	-	568,372	356,166	151,818	39,295	140,770	1,256,420
Disposals	-	-	-	-	-	-	-
Ending balance	-	12,443,299	2,556,320	631,818	39,295	2,796,388	18,467,119
<b>NET BOOK VALUE</b>	<b>₱15,240,725</b>	<b>₱7,235,849</b>	<b>₱686,296</b>	<b>₱758,011</b>	<b>₱1,270,527</b>	<b>₱-</b>	<b>₱25,191,409</b>

Depreciation is allocated as follows:

	<b>2015</b>	2014
Charged to non cash expenses (note 14)	<b>₱623,088</b>	₱873,073
Charged to income generating activities (note 14)	<b>633,332</b>	950,732
	<b>₱1,256,420</b>	₱1,823,805

## **9. Intangible Asset**

In 2015, the association purchased an accounting software amounting to ₱113,800. As at year end, software is still in developmental stage. Such being the case, amortization of intangible asset will begin when the asset is available for use.

## **10. Trade and Other Payables**

	<b>2015</b>	2014
Accounts payable	<b>₱45,085</b>	₱-
Water bill payable	<b>2,036,179</b>	1,823,524
Accrued expenses	<b>1,242,428</b>	372,384
	<b>₱3,323,692</b>	₱2,195,908

Accrued expenses represent outstanding obligations which were incurred during the year but were paid after the reporting period while water bill payable are the amounts due to Manila Water Company as at year end while accounts payable consist of statutory obligations still unremitted as at year end.

## **11. Finance Lease Payable**

	<b>2015</b>
Finance lease payable-current	<b>₱140,414</b>
Finance lease payable non-current	<b>236,728</b>
	<b>₱377,142</b>

The Association entered into a promissory note with chattel mortgage amounting to ₱ 446,000 for the acquisition of service vehicle. Moreover, its monthly amortization amounted to ₱ 14,121 for a term 35 months with an automatic debit arrangement to his account. Currently maturing obligation as of December 31, 2015 is ₱ 140,414 and will be payable beyond one year amounts to ₱ 236,728.

## **12. Refundable Deposits**

	<b>2015</b>	2014
Construction deposits	<b>₱2,265,000</b>	₱1,700,000
Renovation deposits	<b>1,199,500</b>	869,500
Lot filling deposits	<b>135,000</b>	68,000
	<b>₱3,599,500</b>	₱2,637,500

These are refundable deposits held in trust by the Association. These will be returned to the homeowners upon the completion of construction, renovation and lot filling subject to the terms and regulations set forth in the policies of the Association (see note 4.2).

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### 13. Fund balance

Fund balance is regarded as the equity of the homeowners amounting to ₱30,366,163 and ₱29,114,918 in 2015 and 2014, respectively. This fund is unrestricted which can be used in the general administration of the Association. Restricted funds such as refundable deposits are presented as liability of the Association.

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### 14. Receipts and Disbursements

Receipts from the homeowners and disbursements incurred in the administration of the Association are presented below.

	2015	2014
Receipts of General Association Dues	<b>₱6,222,703</b>	₱6,222,247
Other receipts	<b>1,652,307</b>	1,919,809
	<b>7,875,010</b>	8,142,056
Less: General Administrative Costs (see note 15)	<b>10,596,813</b>	8,869,024
Non-cash items - Depreciation (see note 8)	<b>623,088</b>	873,073
Non-cash items - Bad debts expense (see note 6)	<b>146,307</b>	-
	<b>11,366,208</b>	9,742,097
Excess Disbursements	<b>₱(3,491,198)</b>	₱(1,600,041)

The general association dues represent annual and monthly dues billed to the Homeowners at a billing rate of ₱150 and ₱350 per homeowner, respectively.

Other income consists of interest income (see note 4.2) and other receipts such as grass cutting fee, film shooting fee, certification fee, construction fee, renovation fee, occupancy permits fee, excavation service fee and other various fees.

The receipts from annual and monthly association dues are insufficient to cover the cost of administering the Association. As such the Association has engaged in various income generating activities to cover these deficiencies. Results of these activities are as follows:

**In 2015**

	Receipts	Cost	Excess before Non-cash Items	Depreciation (note 8)	Excess after Non-cash items
Gate pass services	<b>₱1,318,824</b>	<b>₱-</b>	<b>₱1,318,824</b>	<b>₱-</b>	<b>₱1,318,824</b>
Lease (note 16)	<b>1,283,844</b>	-	<b>1,283,844</b>	-	<b>1,283,844</b>
Clubhouse and Parks	<b>1,158,025</b>	<b>2,000</b>	<b>1,156,025</b>	<b>149,255</b>	<b>1,006,770</b>
Swimming pool	<b>721,340</b>	<b>169,468</b>	<b>551,872</b>	<b>140,770</b>	<b>411,102</b>
Sports amenities	<b>182,140</b>	<b>1,000</b>	<b>181,140</b>	<b>152,195</b>	<b>28,945</b>
Water and related services	<b>1,469,207</b>	<b>706,998</b>	<b>762,209</b>	-	<b>762,209</b>
Pedicab and multicab services	<b>195,015</b>	<b>59,498</b>	<b>135,517</b>	<b>191,112</b>	<b>(55,595)</b>
Advertising	<b>67,662</b>	<b>81,299</b>	<b>(13,637)</b>	-	<b>(13,637)</b>
	<b>₱6,396,057</b>	<b>₱1,020,263</b>	<b>₱5,375,794</b>	<b>₱633,332</b>	<b>₱4,742,462</b>

**In 2014**

	Receipts	Cost	Excess before Non-cash Items	Depreciation (note 8)	Excess after Non-cash items
Gate pass services	₱1,070,560	₱-	₱1,070,560	₱-	₱1,070,560
Lease (note 16)	1,312,882	-	1,312,882	-	1,312,882
Clubhouse and Parks	809,629	-	809,629	360,973	448,656
Swimming pool	608,656	269,163	339,493	329,230	10,263
Sports amenities	137,070	35,349	101,721	152,195	(50,474)
Water and related services	1,303,511	745,513	557,998	-	557,998
Pedicab and multicab services	69,870	18,363	51,507	108,334	(56,827)
Advertising	63,660	-	63,660	-	63,660
	<b>₱5,375,838</b>	<b>₱1,068,388</b>	<b>₱4,307,450</b>	<b>₱950,732</b>	<b>₱3,356,718</b>

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**15. General and Administrative Costs**

	<b>2015</b>	2014
Salaries, wages and other benefits	<b>₱3,091,495</b>	₱2,134,546
Security services fee	<b>2,921,345</b>	2,462,218
Utilities	<b>2,288,967</b>	2,484,520
Repairs and maintenance	<b>370,215</b>	405,520
Socials/community activities	<b>362,128</b>	375,163
Meeting expenses	<b>293,983</b>	156,787
Office supplies	<b>269,473</b>	178,956
Professional fee	<b>240,384</b>	156,034
Gasoline and oil	<b>205,862</b>	233,055
Communication	<b>117,061</b>	137,006
Printing cost	<b>109,777</b>	102,826
Seminars & Training	<b>87,246</b>	-
Garbage hauling	<b>77,625</b>	44,472
Representation	<b>51,224</b>	23,778
Interest expense	<b>15,868</b>	-
Transportation	<b>12,174</b>	9,074
Solicitation and donation	<b>12,000</b>	30,000
Taxes and licenses	<b>5,863</b>	8,051
Other expenses	<b>64,123</b>	(72,982)
	<b>₱10,596,813</b>	₱8,869,024

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**16. Lease Commitments- Association as a Lessor**

The Association (lessor) entered into a contract of lease, renewable after expiration of lease term with different telecommunication networks (lessee) wherein the lessor is the absolute owner of the parcels of land with all the improvements. The lessee shall pay the lessor the monthly rental, net of VAT and withholding tax. The lease commences upon construction of telecommunications facilities and equipment.

In 2015 and 2014, the Association earned ₱1,283,844 and ₱1,312,882 from the said lease contracts (see note 14). Furthermore, advance rental payment of ₱266,185 was received in 2015 from its lessee.

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**17. Water System Turnover**

The Board of Directors of the Association has started the turnover of the water system to Manila Water Company Inc. (MWCI) since 2009. The turnover had not taken into effect because of the circumstances that causes difficulty or hesitation in turning over the roads to Antipolo and portion of the Narra Avenue to several Local Government Units (LGUs). The members of the Board are still positive that this process of turnover will be completed in the future successfully.