

## INDEPENDENT AUDITORS' REPORT

To the Members and Board of Trustees  
**THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**  
(A Non-Stock, Not-for-Profit Association)  
Anvaya Cove, Morong, Bataan

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of **THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.** (the "Association"), a non-stock, not-for-profit association, which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of income and member's equity, and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small Entities (the "Framework").

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). 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 Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Framework, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association'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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's 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 a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, 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 Association 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.

### **Report on Other Legal and Regulatory Requirement**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary information required by the Bureau of Internal Revenue in the Notes to 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 supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **RAMON F. GARCIA & COMPANY, CPAs**

TIN: 000-666-059-000

By:



**JOSEFINO F. GARCIA**

Partner

CPA Certificate No. 0049932

PTR No. 10109962, January 25, 2024, Makati City

TIN 105-540-561-000

BOA/PRC Accreditation No. 0207 (April 9, 2023 to October 5, 2025)

Partner's BIR Accreditation No. 08-001759-002-2023 (April 14, 2023 to April 13, 2026)

Firm's BIR Accreditation No. 08-001759-000-2023 (March 13, 2023 to March 12, 2026)

July 22, 2024

**THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-Stock, Not-for-Profit Association)

**Statements of Financial Position**

As of December 31, 2023 and 2022

(in Philippine Peso)

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>Current assets</b>		
Cash on hand and in bank (notes 3a and 4)	<b>68,513,001</b>	55,566,764
Receivables (notes 3a and 5)	<b>13,249,072</b>	6,317,334
Prepayments (notes 3b and 6)	<b>293,883</b>	485,388
<b>Total</b>	<b>82,055,956</b>	62,369,486
<b>Non-current assets</b>		
Property and equipment - net (notes 3c, 3d and 7)	<b>1,949,202</b>	1,440,531
<b>TOTAL ASSETS</b>	<b>84,005,158</b>	63,810,017
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables (notes 3a and 8)	<b>12,916,062</b>	5,842,714
Construction bonds (notes 3e and 9)	<b>38,375,204</b>	29,125,204
Fund held in trust (note 10)	<b>8,028,832</b>	7,610,432
<b>TOTAL LIABILITIES</b>	<b>59,320,098</b>	42,578,350
<b>EQUITY</b>		
Members' equity (note 3g)	<b>24,685,060</b>	21,231,667
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>84,005,158</b>	63,810,017

*(see notes to financial statements)*

**THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-Stock, Not-for-Profit Association)

**Statements of Income and Members' Equity**

For the years ended December 31, 2023 and 2022

(in Philippine Peso)

	2023	2022
<b>Revenues</b> (note h)		
Association dues, net (note 11)	59,097,180	51,298,095
Interest income (note 4)	1,069,931	120,419
Other income (note 12)	4,071,711	5,580,106
<b>Total</b>	<b>64,238,822</b>	<b>56,998,620</b>
<b>Cost of Services</b> (note h)		
Ground maintenance	17,505,467	15,395,043
Security services	15,350,492	12,496,908
Share in infrastructure services	10,716,882	10,123,398
Service fees	7,206,769	6,896,240
Taxes and licenses (note 15)	3,378,382	3,384,396
Utilities	2,009,822	1,991,403
Depreciation	998,079	497,788
Professional fees	641,288	488,570
Pest control	371,204	343,158
Postal and communication	117,906	220,058
Supplies	140,068	104,547
Repairs and maintenance	131,558	23,577
Insurance	123,164	82,791
Others	1,670,063	640,692
<b>Total</b>	<b>60,361,144</b>	<b>52,688,569</b>
<b>Excess of revenues over cost of services before tax</b>	<b>3,877,678</b>	<b>4,310,051</b>
Income tax expense (notes 3i and 13)	(424,285)	(262,826)
<b>Excess of revenues over expenses</b>	<b>3,453,393</b>	<b>4,047,225</b>
Members' equity	21,231,667	17,184,442
<b>Members' equity as at December 31</b>	<b>24,685,060</b>	<b>21,231,667</b>

*(see notes to financial statements)*

**THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-Stock, Not-for-Profit Association)

**Statements of Cash Flows**

For the years ended December 31, 2023 and 2022

(in Philippine Peso)

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over cost of services before tax	3,877,678	4,310,051
Adjustments to reconcile excess of revenues over cost of services before tax to net cash provided by operating activities :		
Depreciation expense (note 7)	998,079	497,788
Interest income (note 4)	(1,069,931)	(120,419)
<b>OPERATING INCOME BEFORE CHANGES IN ASSETS AND LIABILITIES</b>	<b>3,805,826</b>	<b>4,687,420</b>
<b>(Increase) Decrease in current assets</b>		
Receivables	(6,931,738)	4,992,612
Prepayments	191,505	(22,684)
<b>Increase (Decrease) in current liabilities</b>		
Trade and other liabilities	7,073,348	(1,355,252)
Construction bonds	9,250,000	2,410,296
Reserve funds	418,400	2,356,130
Cash generated from operating activities	13,807,341	13,068,522
Income tax paid	(424,285)	-
Interest received	1,069,931	120,419
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>14,452,987</b>	<b>13,188,941</b>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Acquisition of property and equipment (note 7)	(1,506,750)	(1,365,087)
<b>NET CASH USED IN INVESTING ACTIVITY</b>	<b>(1,506,750)</b>	<b>(1,365,087)</b>
<b>NET INCREASE IN CASH</b>	<b>12,946,237</b>	<b>11,823,854</b>
<b>CASH ON HAND AND IN BANK AT THE BEGINNING OF THE YEAR</b>	<b>55,566,764</b>	<b>43,742,910</b>
<b>CASH ON HAND AND IN BANK AT THE END OF THE YEAR (note 4)</b>	<b>68,513,001</b>	<b>55,566,764</b>

*(see notes to financial statements)*

## **THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-stock, Non-Profit Association)

As of and for the years ended December 31, 2023 and 2022

(in Philippine Peso)

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### **Note 1 – Corporate Information**

**THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.** (the "Association") was incorporated and domiciled in the Philippines as a non-stock, non-profit association organized to promote and advance the best interests, general welfare and prosperity, as well as the well-being of the lot-owners, homeowners or long-term lessees of The Neighborhood at Anvaya Cove. The Association was registered with the Housing and Land Use Regulatory Board (HLURB) on December 24, 2008, with Registration No. 18047 and has started operations on April 1, 2009. The Association's registered office is at Anvaya Cove, Morong, Bataan.

On January 20, 2020, the Bureau of Internal Revenue (BIR) has ruled in favor of the Association in its application for a confirmatory ruling that it is entitled to the exemption from all taxes under Republic Act No. 9904 otherwise known as the "*Magna Carta for Homeowners' Associations*".

Under BIR Ruling No. 105-14, the BIR holds that the income derived from association dues, membership fees, other assessments and charges collected on a purely reimbursement basis and rentals of facilities of the Association is exempt from income tax, value-added tax or percentage tax, whichever is applicable. Provided, that such income and dues shall be used for the cleanliness, safety, security and other basic services needed by the members, including the maintenance of the facilities of their respective subdivisions or villages.

The Association promulgates its policies and regulations through a governing body known as the Board of Trustees (BOT).

The accounting and administrative functions of the Association are being handled by Ayala Property Management Corporation (Note 14).

The accompanying financial statements of the Association were reviewed by and authorized for issuance by the BOT on July 22, 2024.

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### **Note 2 – Financial Reporting Framework and Basis of Preparation and Presentation**

#### **Statement of compliance and basis of adoption**

The accompanying financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards for Small Entities ("the Framework").

As allowed by Section 3.24 of the Framework, the Association presented only single statement of income and members' equity in place of income and statement of changes in equity since the only changes to equity during the periods for which the financial statements are presented arise from "Excess of revenues over expenses". The "Excess of revenues over expenses" is the Association's results of operations.

SEC Memorandum Circular No. 05 (2018) defines small entities as those:

- total assets of between ₱3 million to ₱100 million or total liabilities of between ₱3 million to ₱100 million. If the entity is a parent company, the said amounts shall be based on the consolidated figures;
- not required to file financial statements under Part II of SRC Rule 68;
- not in the process of filing their financial statements for the purpose of issuing any class of instruments in public market; and
- not holders of secondary licenses issued by regulatory agencies.

The Framework was approved by the Philippine Financial and Sustainability Reporting Standards Council (FSRSC) (Formerly Financial Reporting Standards Council or FRSC) on December 13, 2017, and by the Board of Accountancy (BOA) and the Professional Regulation Commission (PRC) on February 20, 2018. Adoption of the Framework was recommended by the Association of Certified Public Accountants in Public Practice (ACPAPP). The mandatory effective date for the adoption of the Framework is January 1, 2019.

#### **Basis of preparation**

The financial statements of the Association have been prepared under the historical cost basis and on a going concern basis which contemplate the realization of assets and settlement of liabilities in the normal course of business.

## **THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-stock, Non-Profit Association)

As of and for the years ended December 31, 2023 and 2022

(in Philippine Peso)

### **Functional and presentation currency**

These financial statements are presented in Philippine Peso, the Association's functional currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Association are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

### **Land and other common areas**

Under PIC Q&A No. 2016-03, land and other common areas should not be recognized as assets in the financial statements of a condominium corporation because it does not control these assets (i.e., it cannot direct how and for what purpose the land and other common areas will be used). The decision as to how and for what purpose these common areas will be used are made by the unit owners. The definition of an asset in the Conceptual Framework recognizes the fact that for an entity to recognize an asset, it must have control over the economic benefits expected to be derived from such asset.

However, there is no specific PIC or other similar rule for Homeowners' Association of a Subdivision. Thus, in the meantime and for the purpose of recognition only in these financial statements for the years ended December 31, 2023 and 2022, the land and other common areas are not recognized as assets, subject to appropriate and/or applicable laws or rules, if any.

### **Current versus noncurrent classification**

The Association presents assets and liabilities in the statements of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current asset and liability, respectively.

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### **Note 3 – Material Accounting Policies**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all years presented, unless otherwise stated.

#### **a. Financial instruments**

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. A financial instrument is recognized when the entity becomes a party to its contractual provisions. The Association classifies its financial instruments into the following categories: (a) basic financial instruments; and (b) complex financial instruments.

## **THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-stock, Non-Profit Association)

As of and for the years ended December 31, 2023 and 2022

(in Philippine Peso)

The Association's basic financial instruments consist of cash on hand and in bank, receivables, trade and other payables (except for statutory payables) and construction bonds. The Association does not have complex financial instruments.

### Basic financial instruments

The Association shall recognize a financial asset or a financial liability only when the Association becomes a party to the contractual provisions of the instruments.

The Association shall account for the following financial instruments as basic financial instruments:

- a) Cash;
- b) receivables and payables that meet the following conditions stated in the next paragraph;
- c) an investment in non-convertible preference shares and non-puttable ordinary shares.

As of December 31, 2023 and 2022, the Association has basic financial instruments under categories (a) and (b).

A debt instrument, receivable or payable must meet all of the following conditions in order to be accounted for as basic financial instrument:

- a) Returns to the holder are:
  - (i) a fixed amount;
  - (ii) a fixed rate of return over the life of the instrument;
  - (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or
  - (iv) some combination of such fixed rate and variable rates, provided that both the fixed and variable rates are positive
- b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.
- c) Contractual provisions that permit the debtor to prepay a debt instrument or permit the creditor to require the debtor to repay the debt before maturity are not contingent on future events.
- d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

### *Initial measurement*

On initial recognition, a debt financial instrument is measured at transaction price (including transaction costs), unless the arrangement is in effect a financing transaction. In this case, it is measured at present value of the future payment discounted using a market rate of interest for a similar debt instrument.

### *Subsequent measurement*

The Association's debt financial instruments are subsequently measured at amortized cost using the effective interest method. Cash and debt instruments that are classified as current assets and liabilities are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

### *Impairment of financial instruments measured at amortized cost*

At each reporting date, the Association assesses whether there is objective evidence of impairment on any financial assets that are measured at amortized cost. Where there is any objective evidence of impairment, an impairment loss is recognized immediately in profit or loss.

The impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

**THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-stock, Non-Profit Association)

As of and for the years ended December 31, 2023 and 2022

(in Philippine Peso)

*Derecognition of financial assets*

An entity only derecognizes a financial asset when the contractual rights to the cash flows from the assets have expired or are settled, or the entity has transferred to another party substantially all the risks and rewards of ownership relating to the financial asset.

*Derecognition of financial liabilities*

Financial liabilities are derecognized only when these are extinguished – that is, when the obligation is discharged, cancelled or has expired.

**b. Prepayments**

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statements of financial position as current assets when the cost of services related to these are expected to be incurred within one (1) year or the Association's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as noncurrent assets.

**c. Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to expenses in the period 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 original assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation on classes of property and equipment is charged so as to allocate cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives of the Association's depreciable assets are as follows:

	<u>Number of years</u>
Transportation equipment	5 years
Office equipment	3 to 5 years
Furniture and Fixtures	3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of significant change since the last reporting date.

Impairment loss is recognized when the carrying amount of an asset is greater than its estimated recoverable amount. Carrying amount of the asset is written down immediately to its recoverable amount and impairment loss is recognized in profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The cost and related accumulated depreciation of assets sold/disposed of or retired are removed from the property and equipment accounts and any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of income in the year the item is derecognized.

**d. Impairment of non-financial assets**

The Association assesses, at each reporting date, whether there is any indication that an asset may be impaired. If any such indication exists, the Association shall estimate the recoverable amount of the asset. If there is no indication, it is not necessary to estimate the recoverable amount. If it is not possible to estimate the recoverable amount of the individual asset, the Association estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## **THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-stock, Non-Profit Association)

As of and for the years ended December 31, 2023 and 2022

(in Philippine Peso)

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. It is not always necessary to determine both an asset's fair value less cost to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, estimate future cash flows to be derived from the particular asset and discount them using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statements of income and members' equity.

### **e. Construction bonds**

Construction bonds are based on predetermined rates as approved by the BOT. Construction bonds are noninterest bearing guarantee deposits recognized at cost and refundable upon the completion of the construction project, net of inspection fees, penalties and other expenses incurred by the Association, if any.

### **f. Provisions and contingencies**

#### Provisions

Provisions are recognized when (a) the Association has an obligation at the reporting date as a result of a past event; (b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; and (c) the amount of the obligation can be estimated reliably.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When the effect of time value is material, provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate(s) that reflect(s) current market assessments of the time value of money and the risks specific to the obligation. Changes in the provisions due to passage of time are recognized in statements of income.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed. During the year, no amount was reversed for provision of probable losses.

#### Contingent liabilities and assets

Contingent liabilities and assets 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 entity.

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

Contingent assets are disclosed only when an inflow of economic benefits is probable.

### **g. Members' equity**

Members' equity represents contribution from members and cumulative balance of the excess (deficiency) of revenues over cost of services. The Association derives its income from association dues and other income generated from the operations. These are not available for distribution and are available only for the support of the Association's purposes.

## **THE NEIGHBORHOODS AT ANVAYA COVE HOMEOWNERS' ASSOCIATION, INC.**

(A Non-stock, Non-Profit Association)

As of and for the years ended December 31, 2023 and 2022

(in Philippine Peso)

### **h. Revenue and expenses recognition**

#### *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 measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognized:

The association dues are computed based on the respective rate per square meter of area occupied by each member as approved by the BOT. These are recorded as revenue in the year for which it is intended, net of discounts, if any.

Other income is recognized when earned.

Interest and penalties on past due accounts, if any, are recognized as revenue upon collection.

#### *Cost and expense recognition*

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of income and members' equity are presented using the nature of expense method.

### **i. Income taxes**

The Association uses the deferred income taxes method.

Under the deferred income taxes method, an entity shall recognize the current and future tax consequences of transactions and other events that have been recognized in the financial statements. These recognized tax amounts comprise current tax and deferred tax.

a) Current tax is determined in accordance with the amount reported on an entity's income tax return for the period in conformity with tax laws or regulations.

b) Deferred tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for future reporting periods as a result of past transactions or events. The past transactions or events are those that:

- i) have not yet been included in the entity's income tax return although they have been included when measuring profit or loss in conformity with the Framework; or
- ii) have been included in the entity's income tax return although they have not yet been included when measuring profit or loss in conformity with the Framework.

These differences between amounts reflected in current tax and amounts reflected in deferred tax are known as temporary differences.

An entity shall recognize a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future (and therefore result in higher future tax payments). An entity shall recognize a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future (and will therefore benefit the entity by lowering future tax payments).

#### *Measurement of deferred tax*

An entity shall measure its deferred tax liabilities (assets) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled.

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The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognized deferred tax asset to be utilized.

Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

### *Carry-forward benefit of unused tax losses and tax credits*

Carry-forward benefit of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) arising in the current period which can be applied against the entity's future taxable income and future tax liability, respectively, should be recognized as an asset to the extent that it is no longer probable that sufficient taxable profit will allow all or part of its assets to be realized.

### *Offsetting*

An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, only when it has legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities will generally meet these criteria if they arise within a single taxable entity and in a single jurisdiction.

## **j. Related party transactions and relationships**

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities, which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its members. Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in economically comparable market.

Related party transactions exist when there is a transfer of resources, services or obligation between a reporting entity and a related party, regardless of whether a price is charged.

The Association has no employees considered as key management personnel.

## **k. Special assessments**

Special assessments, if any, are collected by the Association for a specific purpose (usually, improvements on or major repairs of common areas) and can only be spent for such particular purpose. The Association does not recognize these as revenues as there will be no gross inflow of economic benefits to it. Any cash received from the members are recorded as liability and will be reversed once spent.

Any excess from the cash received from the members against the amount spent for special assessments will be reversed to equity as it represents an increase in equity relating to contributions from the members as equity participants. However, in cases where the excess assessment will be applied against future association dues, then said amount will be amortized accordingly to revenue.

## **l. Events after the reporting date**

The Association identifies events after the end of each reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. The financial statements of the Association are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the financial statements when material.

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**Note 4 – Cash on hand and in bank**

The Association's cash on hand in bank includes:

	2023	2022
Petty cash fund	20,000	20,000
Cash in bank	68,493,001	55,546,764
	<b>68,513,001</b>	<b>55,566,764</b>

Cash in banks earn annual interest at the prevailing bank deposit rates. Interest income on bank deposit net of final withholding tax amounted to ₱1,069,931 in 2023 (2022 - ₱120,419).

**Note 5 – Receivables**

The Association's receivables pertain to receivables from members for the uncollected association dues. These are noninterest bearing and are collectible within the next 12 months.

Management believes that the recoverability of their receivables is certain, accordingly, no doubtful accounts expense was recognized in both years.

Receivables consists of:

	2023	2022
Receivables from members	9,915,750	6,317,334
Receivables from developer	3,333,322	-
	<b>13,249,072</b>	<b>6,317,334</b>

**Note 6 – Prepayments**

This account consists of the following:

	2023	2022
Prepaid income tax	179,423	389,722
Prepaid expenses	114,460	95,666
	<b>293,883</b>	<b>485,388</b>

Prepaid income tax can be used as tax credit against income tax payable in the succeeding year.

Prepaid expenses pertain to the portion of the taxes paid for the Association's insurance.

**Note 7 – Property and equipment - net**

Details and movements of this account as of December 31, 2023 is as follow:

	Office Equipment	Transportation Equipment	Furniture &Fixtures	Total
Cost				
At January 1, 2023	584,220	1,667,000	1,365,087	3,616,307
Additions	215,998	1,088,001	202,751	1,506,750
Disposals/Retirements	-	-	-	-
<b>At December 31, 2023</b>	<b>800,218</b>	<b>2,755,001</b>	<b>1,567,838</b>	<b>5,123,057</b>
At January 1, 2023	566,130	1,406,200	203,446	2,175,776
Depreciation for the year	69,534	442,134	486,411	998,079
Disposals/Retirements	-	-	-	-
<b>At December 31, 2023</b>	<b>635,664</b>	<b>1,848,334</b>	<b>689,857</b>	<b>3,173,855</b>
<b>Carrying amounts</b>	<b>164,554</b>	<b>906,667</b>	<b>877,981</b>	<b>1,949,202</b>

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Depreciation expense amounting to ₱998,079 during the year (2022 - ₱497,788) is presented as part of the "Cost of Services" in the statements of income and members' equity.

No item of the Association's property and equipment has restricted title or that is pledged as security for liabilities.

The Association has no transaction involving contractual commitments for the acquisition of property and equipment.

Further, no item of property and equipment has been assessed by the Association to be impaired as of December 31, 2023 and 2022.

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**Note 8 – Trade and other payables**

This account consists of:

	2023	2022
Trade		
Accounts payable	8,214,624	1,287,276
Accrued expenses	3,781,258	3,935,733
Others		
Advances from members	533,566	359,272
Advances from developers	157,132	157,132
Payable to government agencies	229,482	103,301
	<u>12,916,062</u>	<u>5,842,714</u>

Accounts payable mainly consist of unpaid transactions with service providers. These are noninterest bearing and are normally settled within 12 months after the reporting period.

Accrued expenses represent accruals for security services, maintenance and pest control services, and professional and administrative expenses which are already incurred but not yet paid. Accrued expenses are noninterest bearing and are normally settled within one year.

Advances from members pertain to advance payments of association dues which will be applied to subsequent billings.

Advances from developers pertain to infrastructure expenses covering security services, administrative fees and repairs and maintenance paid by ALI on behalf of the Association for the development of the whole community.

Payable to government agencies consist of withholding taxes, income tax payable which are noninterest bearing and are normally settled within the Association's normal operating cycle.

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**Note 9 – Construction bonds**

Construction bonds amounting to ₱38,375,204 and ₱29,125,204 as of December 31, 2023 and 2022, respectively, pertain to noninterest bearing liabilities collected by the Association from members as a requirement for the issuance of permit to construct, repair or remodel their houses and are refundable upon the completion of the construction or fitting work on the premises of the Village, net of inspection fees, penalties and other expenses charged by the Association, if any.

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**Note 10 – Funds held in trust**

Funds held in trust amounting to ₱8,028,832 and ₱7,610,432 as of December 31, 2023 and 2022, respectively, refer to annual contribution to Anvaya Environmental Foundation, Inc. amounting to ₱1,200 per homeowner. This funding is available for environmental purposes and property activities approved by the BOT.

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**Note 11 – Assessments for Expenses and Capital Expenditures**

As provided for in the Association's By-laws, each member is liable for the common expenses of the Association. Accordingly, each member is assessed for expenses related to the administration, insurance, maintenance, operation, repair, restoration or replacement of the common area and other portions of the property managed by the Association, as well as for taxes and other expenses on such areas and property. The assessments are in proportion to each member's proprietary interest or participation in the Association. Each member is also proportionately charged for the cost of office furniture, fixtures and equipment, and other capital expenditures.

Association dues amounted to ₱59,097,180 and ₱51,298,095 for the years ended December 31, 2023 and 2022, respectively.

**Note 12 – Other Income**

Other income pertains to charges made by the Association in selling out vehicle stickers and trash bins and income from work orders amounting to ₱4,071,711 and ₱5,580,016 in 2023 and 2022, respectively.

**Note 13 – Income Tax**

Components of income tax expense for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Current	210,299	262,826
Final	213,986	-
	<b>424,285</b>	<b>262,826</b>

A reconciliation of tax computed on statutory income tax rate to the income tax expense reflected in the Statements of Income and Members' Equity for the years ended December 31 is as follows:

	2023	2022
Excess of revenues over cost of services before tax	3,877,678	4,310,051
Income tax at statutory rate	(775,536)	(862,010)
Add (deduct) adjustment on:		
Income from exempt transactions	351,251	575,100
Income subjected to final tax	-	24,084
	<b>(424,285)</b>	<b>(262,826)</b>

In 2020, the Association's application for tax exemption has been approved as disclosed in Note 1.

**CREATE Act**

The salient provisions of the CREATE Act applicable to the Association are as follows:

- Effective July 1, 2020, corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax.
- MCIT rate reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- Improperly accumulated earnings tax has been repealed.

Applying the provisions of the CREATE Act, the Association is qualified for corporate income tax rate of 20% for taxable years 2023 and 2022.

The Association has prepaid income tax amounting to ₱179,423 and ₱389,722 as of December 31, 2023 and 2022, respectively.

Details of the Association's unutilized MCIT are as follows:

Year Incurred	Year of Expiration	2022 MCIT	Additions (deductions) during the year	2023 MCIT
2020	2023	39,904	(39,904)	-

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The Association shall pay the Minimum Corporate Income Tax (MCIT) or the normal tax whichever is higher starting in its fourth year of operations. MCIT is 1.5% of gross income for taxable year 2023 (2022 – 1%). Any excess of MCIT over the normal income tax shall be carried forward annually and credited against the normal income tax for the next three succeeding taxable years.

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**Note 14 – Significant Contracts of Service**

**Ayala Property Management Corporation (APMC)**

The Association has engaged the services of Ayala Property Management Corporation (APMC) for the administration, upkeep and maintenance of the Village for three years ending December 31, 2024, renewable upon mutual agreement of both parties. In consideration for this, the Association pays a monthly administration fee.

**LSERV Corporation**

The Association engaged the services of LSERV Corporation for manpower and administrative services. The contract is from January 1, 2023 to December 31, 2023. This is deemed extended on a month-to-month basis but not to exceed three months unless otherwise terminated by owner in writing.

**Fieldmen Janitorial Services Corporation**

The Association has engaged the services of Fieldmen Janitorial Services Corporation for grounds maintenance from April 1, 2023 to December 31, 2023. This is deemed extended on a month-to-month basis unless otherwise terminated by owner in writing. This is included in “*ground maintenance*” in the statements of income and members’ equity.

**United Megaforce Security Services, Inc.**

The Association has engaged the services of United Megaforce Security Services, Inc. Its responsibility is to safeguard and protect the properties, installations and interest of the Village, to prevent injury to its officials and employees, and to maintain peace and order in and around its premises from January 1, 2023 to December 31, 2023, this is deemed extended on a month-to-month basis unless otherwise terminated by owner in writing. This is included in “*security services*” in the statements of income and members’ equity.

**Pest Science Corporation**

During the year, the Association also contracted Pest Away Corporation for the provision of pest control services. Contract period is from January 1, 2023 to December 31, 2023, this is deemed extended on a month-to-month basis unless otherwise terminated by owner in writing. This is included in “*pest control*” in the statements of income and members’ equity.

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**Note 15 – Supplementary disclosure required by the Bureau of Internal Revenue (BIR) under Revenue Regulation Nos. 15-2010 and 34-2020**

The following supplementary information are presented for purpose of filing with the BIR and is not required part of the basic financial statements.

**Revenue Regulation No. 15-2010**

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

**a. Output and Input VAT**

As discussed in Note 1, the Association is exempt from paying VAT.

**b. Information on the Association’s importations**

The Association has no transaction involving importations.

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**c. Taxes and Licenses**

Real property tax	3,332,764
License and permit fees	45,618
	<b>3,378,382</b>

**d. Withholding Taxes**

During the year, the Association has paid and/or accrued expanded withholding taxes amounting to ₱755,406.

**e. Tax assessments and cases**

The Association has no Final Assessment Notice and/or Formal Letter of Demand from the BIR for alleged deficiency income tax, VAT and withholding tax.

In addition, the Association has no pending tax case outside the administration of the BIR.

**Revenue Regulation 34-2020**

Revenue Regulation 34-2020 prescribes the guidelines and procedures for the submission of BIR Form 1709, Transfer Pricing Documentation (TPD) and other supporting documents, amending for this purpose the pertinent provisions of Revenue Regulations (RR) Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010.

In compliance with RR 34-2020, the Association is not covered under Section 2 of the said RR and is therefore not covered by the requirements and procedures for related party transactions as stated thereof.