

## **INDEPENDENT AUDITOR'S REPORT**

To the Members and Board of Governors  
**BEL-AIR VILLAGE ASSOCIATION, INC.**  
40 Solar St., Bel-Air Village  
Makati City

We have audited the accompanying financial statements of **BEL-AIR VILLAGE ASSOCIATION, INC.** (*A Non-Stock and Non-Profit Corporation*), which comprise the balance sheets as of December 31, 2008 and 2007, and the related statements operations, cash flows and changes in members' equity for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines for non-publicly accountable entities. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's 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 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 **BEL-AIR VILLAGE ASSOCIATION, INC.** (*A Non-Stock and Non-Profit Corporation*) as of December 31, 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the Philippines for non-publicly accountable entities.

*Alba Ramos & Co*

Makati City, Philippines  
April 8, 2009

**BEL-AIR VILLAGE ASSOCIATION, INC.**

(A Non-Stock and Non-Profit Corporation)

**BALANCE SHEETS**

December 31, 2008 and 2007

	Notes	2008	2007
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	<b>P60,451,902</b>	P47,917,041
Assessment dues and other receivables	4	<b>4,127,901</b>	2,316,859
Prepaid expenses		<b>44,972</b>	52,415
<b>Total Current Assets</b>		<b>64,624,775</b>	50,286,315
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net	5	<b>18,480,158</b>	20,370,986
Other assets	6	<b>225,990</b>	245,726
<b>Total Non-current Assets</b>		<b>18,706,148</b>	20,616,712
<b>TOTAL ASSETS</b>		<b>P83,330,923</b>	P70,903,027
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		<b>P1,601,676</b>	P1,527,639
Accrued expenses		<b>839,068</b>	575,296
Refundable deposits	7	<b>28,776,146</b>	21,726,646
Deferred assessment dues, net		<b>2,571,279</b>	2,076,512
<b>Total Current Liabilities</b>		<b>33,788,169</b>	25,906,093
<b>NON-CURRENT LIABILITY</b>			
Reserve for general contingencies	8	<b>18,047,776</b>	18,047,776
<b>Total Liabilities</b>		<b>51,835,945</b>	43,953,869
<b>EQUITY</b>			
Members' equity		<b>31,494,978</b>	26,949,158
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P83,330,923</b>	P70,903,027

*See accompanying Notes to Financial Statements.*

**BEL-AIR VILLAGE ASSOCIATION, INC.**

(A Non-Stock and Non-Profit Corporation)

**STATEMENTS OF REVENUES AND EXPENSES**

For the Years Ended December 31, 2008 and 2007

	Notes	2008	2007
<b>REVENUES</b>			
Assessment and other dues, net		<b>P16,036,561</b>	P14,126,800
Interest and other income, net		<b>7,788,962</b>	5,536,926
		<b>23,825,523</b>	19,663,726
<b>EXPENSES</b>			
Security services and related charges		<b>6,985,301</b>	9,539,791
Office salaries and bonuses		<b>2,841,343</b>	2,845,246
Depreciation and amortization	5,6	<b>2,057,721</b>	2,031,860
Repairs and maintenance		<b>1,930,387</b>	2,091,952
Employees' benefits		<b>1,614,632</b>	1,823,057
Socials and athletics		<b>1,112,806</b>	1,309,495
Special project		<b>927,927</b>	950,146
Taxes and licenses		<b>464,193</b>	458,051
Bad debts		-	381,996
Retirement benefits cost	9	<b>344,709</b>	320,782
Communications and publications		<b>355,578</b>	288,460
Professional fees		<b>210,365</b>	432,629
Stationery and office supplies		<b>102,471</b>	118,667
Foreign exchange loss		-	67,539
Miscellaneous		<b>332,270</b>	268,464
		<b>19,279,703</b>	22,928,135
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>		<b>P4,545,820</b>	(P3,264,409)

*See accompanying Notes to Financial Statements.*

**BEL-AIR VILLAGE ASSOCIATION, INC.**

(A Non-Stock and Non-Profit Corporation)

**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2008 and 2007

	Notes	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over expenses		<b>P4,545,820</b>	(P 3,264,409)
Adjustments for -			
Bad debts		-	381,996
Depreciation and amortization	5,6	<b>2,057,721</b>	2,031,860
Gain on disposal of property and equipment		<b>(56,597)</b>	-
Interest income		<b>(2,914,177)</b>	(1,943,342)
Operating income (loss) before working capital changes		<b>3,632,767</b>	(2,793,895)
Changes in working capital accounts -			
Decrease (increase) in			
Assessment dues and other receivables		<b>(1,417,992)</b>	(1,147,040)
Prepaid expenses		<b>7,443</b>	2,838
Increase (decrease) in			
Accounts payable		<b>74,037</b>	(212,296)
Accrued expenses		<b>263,772</b>	125,294
Refundable deposits		<b>7,049,500</b>	5,493,531
Deferred assessment dues		<b>494,767</b>	1,618,330
Cash generated from operations		<b>10,104,294</b>	3,086,762
Decrease in prepaid benefit cost		-	157,200
Increase in reserve for general contingencies	8	-	2,184,858
Interest received		<b>2,521,127</b>	2,226,315
Net cash provided by operating activities		<b>12,625,421</b>	7,655,135
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	5	<b>(97,160)</b>	(7,868)
Proceeds from disposal of property and equipment		<b>6,600</b>	-
Net cash used in investing activities		<b>(90,560)</b>	(7,868)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>12,534,861</b>	7,647,267
<b>CASH AND CASH EQUIVALENTS, January 1</b>		<b>47,917,041</b>	40,269,774
<b>CASH AND CASH EQUIVALENTS, December 31</b>		<b>P60,451,902</b>	P47,917,041

*See accompanying Notes to Financial Statements.*

**BEL-AIR VILLAGE ASSOCIATION, INC.**  
(A Non-Stock and Non-Profit Corporation)

**STATEMENTS OF CHANGES IN MEMBERS EQUITY**

For the Years Ended December 31, 2008 and 2007

	<b>Note</b>	
Balance at January 1, 2007		P29,432,846
Reversion of that portion of the reserve for general contingencies equivalent to expenses from lawsuits actually incurred in 2007	<b>8</b>	780,721
Deficiency of revenues over expenses for the year		(3,264,409)
Balance at December 31, 2007		26,949,158
Excess of revenues over expenses for the year		4,545,820
<b>Balance at December 31, 2008</b>		<b>P31,494,978</b>

*See accompanying Notes to Financial Statements.*

**BEL-AIR VILLAGE ASSOCIATION, INC.**  
(A Non-Stock and Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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**Note 1 – Corporate Information**

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Bel-Air Village Association, Inc. (“the Association”), a non-stock and non-profit corporation was organized under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission (SEC) per SEC Registration No. 013005; its primary purpose is to maintain sanitation, afford community police protection, fire prevention, and uniformity of the surrounding premises of the occupants of the Bel-Air Subdivision situated in the City of Makati.

The Board of Governors approved and authorized for issue the Association’s December 31, 2008 financial statements on April 1, 2009.

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**Note 2 – Summary of Significant Accounting and Financial Reporting Policies**

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Basis of Preparation

The financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the Philippines applicable to non-publicly accountable entities (NPAEs) as set forth in Philippine Accounting Standards (PAS) 101, *Financial Reporting Standards for NPAEs*, issued and approved by the Accounting Standard Council (ASC) and the SEC, effective for periods beginning on or after January 1, 2005 to 2007\*. PAS 101 provides an option to NPAEs to apply financial reporting standards effective as of December 31, 2004, and not to apply any of the new Philippine Accounting Standards (PASs) and Philippine Financial Reporting Standards (PFRSs) that became effective in 2006 and 2005, or to apply all or some of the relevant new accounting standards.

The Association has qualified as an NPAE under PAS 101 and it has opted to apply the applicable financial reporting standards effective as of December 2004 and some of the PASs and PFRSs that became effective in 2005, which are relevant to the Association.

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\*PAS 101 would still be effective after 2007 since standards for NPAEs have not yet been adopted. This is based on the Philippine Interpretations Committee (PIC) Questions and Answers (Q&As) Q&A No. 2007-01.

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**Note 2 – Summary of Significant Accounting and Financial Reporting Policies - *continued***

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The accompanying financial statements have been prepared under the historical cost convention and in the Philippine pesos, which is the Association's functional currency.

Accounting estimates and assumptions are used in preparing the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Interpretations to Existing Standards in 2008

The following are the interpretations to existing standards, which became effective in 2008:

*Philippine Interpretation IFRIC 12, Service Concession Agreements*

This interpretation was issued in November 2006 and became effective for annual periods beginning on or after January 1, 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession agreements. The Association does not have any service concession arrangements and hence this interpretation will have no impact on its financial statements.

*Philippine Interpretation IFRIC 14, PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*

This interpretation was issued in July 2007 and became effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, Employee Benefits. The actuarial valuation of the Association's retirement plan for 2008 resulted to an accrued liability and therefore, this interpretation has no impact on the Association's financial statements.

Standard and Amendment to Existing Standard Subsequent to 2008

The Association is aware of the following accounting standard and amendment to existing standard that have been approved and are effective subsequent to 2008:

*PFRS 8, Operating Segments*

PFRS 8, *Operating Segments*, becomes effective for financial years beginning on or after January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliation of the differences. As the Association operates only in one reportable segment, adoption of this standard will have no significant impact on the current manner of reporting segment information.

*PAS 23, Borrowing Costs*

A revised PAS 23, *Borrowing Costs*, was issued in March 2007, and becomes effective for the financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Association does not have any long-term obligations and therefore, does not expect this interpretation to have an impact on its financial statements.

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**Note 2 – Summary of Significant Accounting and Financial Reporting Policies - *continued***

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The Association is also aware of the future changes on the following accounting standards, amendments and interpretations to existing standards that have been approved but are not yet effective:

- PFRS 1, *Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Effective January 1, 2009)
- PFRS2, *Amendments to PFRS 2: Vesting Conditions and Cancellations* (Effective January 1, 2009)
- PFRS 3, *Business Combinations* (Effective July 1, 2009)
- PAS 1, *Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation* (Effective January 1, 2009)
- PAS 27, *Consolidated and Separate Financial Statements* (Effective July 1, 2009)
- PAS 39, *Eligible Hedged Items* (Effective July 1, 2009)

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied.

Cash and Cash Equivalents

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

Receivables

Receivables are stated at their nominal value.

Bad debts are written off when identified as no longer collectible.

Property and Equipment

Property and equipment are initially measured at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

The initial cost of property and equipment consists of its purchase price and any costs directly attributable to bringing the asset to the location and condition for its intended use. Subsequent expenditures relating to an item of property and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing property and equipment will flow to the Association. All other subsequent expenditures are recognized as expenses in the period they are incurred.

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**Note 2 – Summary of Significant Accounting and Financial Reporting Policies - *continued***

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Depreciation is calculated on a straight-line basis over the useful lives of the assets as follows:

<u>Classification</u>	<u>Useful life</u>
Community center	10 - 25 years
Park improvements and playground equipment	4 - 10 years
Perimeter walls and steel gates	10 years
Security building and equipment	4 - 25 years
Furniture, fixtures and equipment	2 - 25 years
Water cistern	20 years
Computer software	5 years
Small tools and other equipment	2 -10 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and any accumulated impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Impairment of Non-Financial Assets

The carrying amounts of the Association's non-financial assets such as property and equipment and other assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized in the statement of revenues and expenses whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of revenues and expenses.

Payables and Provisions

Payables are stated at their nominal value.

Provisions are recognized when there is a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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**Note 2 – Summary of Significant Accounting and Financial Reporting Policies - *continued***

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**Equity**

Member's equity includes all current and prior period results as disclosed in the statement of revenues and expenses.

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Association and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

***Assessment and Other Dues***

Assessment and other dues are recognized on a yearly basis and the Association believes that there is a reasonable degree of certainty as to its collectibility.

***Interest Income***

Interest income is recognized as the interest accrues on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

**Retirement Benefits**

The Association has a defined benefit retirement plan covering all permanent regular full-time employees. The Association's retirement benefits cost are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning the employee's projected salaries. Retirement benefit costs include current service cost plus amortization of past service costs, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

**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 in the notes to financial statements when an inflow of economic benefits is probable.

**Foreign Currency Transactions**

Transactions entered into by Association in currencies other than the Philippine Peso, the currency of the primary economic environment in which it operates (the "functional currency"), are recorded at the rates prevailing when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement of or unsettled monetary items, and on the translation of monetary items, are recognized in the statement of revenues and expenses in the period in which they arise.

**Events After the Financial Reporting Date**

Post year-end events up to the date of the auditor's report that provide additional information about the Association's position at balance sheet 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.

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**Note 3 – Cash and Cash Equivalents**

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Cash and cash equivalents consists of:

	<u>2008</u>	<u>2007</u>
Cash on hand	<b>P19,087</b>	P281,650
Cash in banks	<b>2,462,767</b>	2,504,810
Short-term placements	<b><u>57,970,048</u></b>	<u>45,130,581</u>
	<b><u>P60,451,902</u></b>	<u>P47,917,041</u>

Short-term time placements with certain domestic banks earn interest based on prevailing money market rates.

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**Note 4 – Assessment Dues and Other Receivables**

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This consists of the following:

	<u>2008</u>	<u>2007</u>
Residential dues receivable	<b>P293, 556</b>	P263,521
Commercial dues receivable	<b>2,304,222</b>	1,259,149
Other accounts receivable	<b>1,444,498</b>	685,414
Advances to employees	<b>85,625</b>	108,775
	<b><u>P4,127,901</u></b>	<u>P2,316,859</u>

The bulk of the 2007 balance of the commercial dues receivable is a subject of a case filed by Randall Hamilton Realty Corporation, et al. This is a petition filed by some lot-owners in Bel-Air Village on December 15, 2006 with the Housing and Land Use Regulatory Board (HLURB) to declare as null and void the extension of the BAVA deed restrictions approved at the general membership meeting on December 12 2006. In a Resolution dated January 30, 2007, the HLURB Arbiter issued a writ of preliminary injunction restraining BAVA from implementing the BAVA deed restrictions as against the petitioners while the case is pending. BAVA appealed the Resolution to the HLURB Board of Commissioners on February 19, 2007. In a Decision dated January 21, 2008, the HLURB Board granted BAVA's appeal, thereby lifting the injunction, and ordered that the records of the case can be remanded to the Arbiter for trial on the merits. The petitioners moved for the reconsideration of the order lifting the injunction. The HLURB Board partially reversed its decision and enjoined both parties from any action arising from their respective positions on the status of the December 12, 2006 BAVA meeting and the resolutions adopted therein, as well as the extension/ expiration of the deed restrictions, while the main case is pending. In the meantime, the main case remains pending with the HLURB Arbiter, with the same undergoing mediation.

## Note 5 – Property and Equipment

The details pertinent to this account are presented below.

	Community Center	Park Improvements and Playground Equipment	Perimeter Walls and Steel Gates	Security Building and Equipment	Furniture, Fixture and Equipment	Water Cistern	Computer Software	Small Tools and Other Equipment	Total
<b>Cost</b>									
<b>At January 1, 2008</b>	27,304,051	5,123,035	761,275	678,482	3,108,000	343,120	202,400	576,232	38,096,595
<b>Additions</b>	-	-	-	-	147,160	-	-	-	147,160
<b>Disposals</b>	-	-	-	(128,000)	(97,701)	-	-	-	(225,701)
<b>At December 31, 2008</b>	27,304,051	5,123,035	761,275	550,482	3,157,459	343,120	202,400	576,232	38,018,054
<b>Accumulated depreciation</b>									
<b>At January 1, 2008</b>	8,848,517	3,820,339	728,331	643,011	2,773,685	343,119	33,156	535,451	17,725,609
<b>Provisions</b>	1,246,059	487,660	1,508	10,674	115,587	-	158,501	17,995	2,037,984
<b>Write-offs</b>	-	-	-	(127,998)	(97,699)	-	-	-	(225,697)
<b>At December 31, 2008</b>	10,094,576	4,307,999	729,839	525,687	2,791,573	343,119	191,657	553,446	19,537,896
<b>Net Book Value</b>									
<b>December 31, 2008</b>	<b>P17,209,475</b>	<b>P815,036</b>	<b>P31,436</b>	<b>P24,795</b>	<b>P365,886</b>	<b>P1</b>	<b>P10,743</b>	<b>P22,786</b>	<b>P18,480,158</b>
<b>Cost</b>									
At January 1, 2007	P27,304,051	P5,123,035	P761,275	P675,682	P3,102,932	P343,120	P202,400	P576,232	38,088,727
Additions	-	-	-	2,800	5,068	-	-	-	7,868
At December 31, 2007	27,304,051	5,123,035	761,275	678,482	3,108,000	343,120	202,400	576,232	38,096,595
<b>Accumulated depreciation</b>									
At January 1, 2007	7,602,458	3,300,184	726,822	608,594	2,643,965	308,808	23,036	499,618	15,713,485
Provisions	1,246,059	520,155	1,509	34,417	129,720	34,311	10,120	35,833	2,012,124
At December 31, 2007	8,848,517	3,820,339	728,331	643,011	2,773,685	343,119	33,156	535,451	17,725,609
<b>Net Book Value</b>									
<b>December 31, 2007</b>	<b>P18,455,534</b>	<b>P1,302,696</b>	<b>P32,944</b>	<b>P35,471</b>	<b>P 334,315</b>	<b>P 1</b>	<b>P169,244</b>	<b>P 40,781</b>	<b>20,370,986</b>

The Association recognized depreciation on property and equipment in the amount of P2,037,984 in 2008 and P2,012,124 in 2007.

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**Note 5 – Property and Equipment - *continued***

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Management has also reviewed the carrying values of property and equipment as of December 31, 2008 for any impairment. Based on its evaluation, there were no indications that these assets are impaired.

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**Note 6 – Other Assets**

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The breakdown of this account is as follows:

	<u>2008</u>	<u>2007</u>
Investment in PLDT shares of stock, at cost	<b>P14,500</b>	P 14,500
Internet website	<b>39,473</b>	59,209
Miscellaneous deposits	<b>172,017</b>	172,017
	<b><u>P225,990</u></b>	<b><u>P245,726</u></b>

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**Note 7 – Refundable Deposits**

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This account pertains to non-interest bearing surety deposits for construction, excavation, violation, parking & others from members, refundable upon satisfaction of certain conditions.

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**Note 8 – Reserve for General Contingencies**

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This reserve refers to the accumulated balance of the unused allocations for general contingencies, computed at 10% of the Association's yearly net revenues.

This shall answer for all possible legal expenses or losses that might arise from the cases filed against or will be filed by the Association before the court or the HLURB in relation to its deed restrictions, as well as all other contingencies and expenses which the Association may have to pay or assume and which may arise in the future as a result of its operations, whether or not related to deed restrictions.

In 2007, the allocation determined for the year amounted to P2,184,858. In the same year the Association incurred actual losses from lawsuits amounting to P780,721, thus, reducing subject account balance as of said year-end by as much.

On February 28, 2008, a resolution was passed by the Board of Governance for the discontinuance of the 10% annual allocations for general contingency fund, which was approved and ratified by the members on June 28, 2008.

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**Note 9 – Retirement Benefits Cost**

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The Association adopted a funded, non-contributory retirement plan known as “Bel-Air Village Association, Inc. Employees’ Retirement Plan” made effective January 1, 1976, providing for retirement, death, disability, and separation benefits to all regular and full-time employees. The Association has the right to amend, reduce, suspend or discontinue its contribution at any time without the consent of the participants or their beneficiaries, except that no amendments shall deprive any participants or his beneficiaries of any accrued or vested benefits derived from contributions previously made and no amendment shall permit the return or transfer to the Association of any money or shall change the purpose of the plan.

The plan has qualified as a reasonable retirement plan within the contemplation of Republic Act No. 4917 and, as such, it shall be entitled to all tax benefits and/or privileges provided under the said Act.

As of December 31, 2008, the principal balance of the retirement fund under the trusteeship or management of China Banking Corporation stands at P5,703,173 (2007: P5,390,326).

The principal actuarial assumptions used to determine pension benefits are as follows:

	<u>2008</u>	<u>2007</u>
Discount rate	<b>9.79%</b>	10%
Expected rate of return	<b>6.84%</b>	7.9%
Salary increase rate	<b>5%</b>	10%

The actuarial valuation report by Actuarial Advisers, Inc. dated March 26, 2009, which was based on PAS 19, resulted to a recognition of accrued retirement liability amounting to P60,591 and P163,582 as of December 31, 2008 and 2007, respectively.

Retirement benefits charged to operations amounted to P344,709 in 2008 and P320,782 in 2007.

Changes in the present value of the obligation and in the fair value of the plan assets for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Present value of obligation, January 1	<b>P5,572,994</b>	P4,715,400
Interest cost	<b>428,563</b>	518,694
Current service cost	<b>284,844</b>	338,900
Benefits paid	-	-
Actuarial loss on obligation	<b>(1,525,055)</b>	-
	<hr/>	<hr/>
Present value of obligation, December 31	<b>P4,761,346</b>	P5,572,994
	<hr/>	<hr/>
Fair value of plan assets, January 1	<b>P5,390,326</b>	P4,993,600
Expected return on plan assets	<b>368,698</b>	536,812
Contributions	-	-
Benefits paid	-	-
Actuarial loss on plan assets	<b>(55,851)</b>	(140,086)
	<hr/>	<hr/>
Fair value of plan assets, December 31	<b>P5,703,173</b>	P5,390,326
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**Note 9 – Retirement Benefits Cost - *continued***

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The computation of liability (asset) recognized in the balance sheet as of December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Present value of the obligation	<b>P4,761,346</b>	P5,572,994
Fair value of plan assets	<b>(5,703,173)</b>	(5,390,326)
Unfunded obligation	<b>(941,827)</b>	182,668
Unrecognized actuarial losses	<b>1,002,418</b>	(466,786)
Unrecognized asset due to limit	<b>-</b>	447,700
Liability (asset) recognized in balance sheet	<b><u>P60,591</u></b>	<u>P163,582</u>

Details of the retirement benefits cost recognized in the statements of revenues and expenses for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Current service cost	<b>P284,844</b>	P338,900
Interest cost	<b>428,563</b>	518,694
Expected return on plan assets	<b>(368,698)</b>	(536,812)
	<b><u>P344,709</u></b>	<u>P320,782</u>