Tala Island Owners' Association

Financial statements for the year ended 31 December 2017

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Members of the Board	Shawki Abdullah Abdul Hussein Khalaf	Chairman
	Qais Faisal Saleh Al Masqati	Vice-Chairman
	Iqbal Muhammad Ibrahim Jasem Shehab	Member
	Hassan Abdul Hussein Abdullah Dhaif	Member
	Stephen John Tolle	Member
	Melvyn James Dabbs	Member
Association Manager	Tala Island Facility Management W.L.L.	
Office	Building 1034, Road 5710 Block 257 PO Box 18286 Amwaj Islands Kingdom of Bahrain	
Banker	Ahli United Bank	
Auditors	BDO 17th Floor Diplomat Commercial Office Tower PO Box 787 Manama Kingdom of Bahrain	

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
Kingdom of Bahrain

Independent auditor's report to the management of Tala Island Owners' Association

Opinion
We have audited the financial statements of Tala Island Owners' Association ("the Association"), which comprise the statement of financial position, the statement of income and expenditure, the statement of changes in accumulated funds and the statement of cash flows for the year ended 31 December 2017, 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 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") issued by International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with its requirements. 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 (TCWG) for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 have no realistic alternative but to do so.

Those Charged With Governance are responsible for overseeing the Association's financial reporting process.

Auditor's 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 auditor's 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

BDO

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
Kingdom of Bahrain

Independent auditor's report to the management of Tala Island Owners' Association (continued)

Auditor's responsibilities for the audit of the financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 auditor's 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 auditor's 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 the management and 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.

BDO

Manama, Kingdom of Bahrain
17 February 2019

بي دي أو
BDO
PO Box: 787 Kingdom of Bahrain
C.R. 10201

Tala Island Owners' Association
Statement of financial position as at 31 December 2017
(Expressed in Bahrain Dinars)

	Notes	2017	2016
ASSETS			
Non-current assets			
Plant and equipment	5	20,215	20,976
Current assets			
Fee and other receivables	6	931,113	1,048,537
Cash and bank balance	7	51,208	3,302
		982,321	1,051,839
Total assets		1,002,536	1,072,815
EQUITY AND LIABILITIES			
Capital and reserves			
Accumulated deficit		(75,461)	(119,157)
Sinking fund	8	354,768	321,381
Maintenance reserve	9	140,500	190,440
		419,807	392,664
Non-current liabilities			
Employees' terminal benefits	10	715	15,689
Current liabilities			
Trade and other payables	11	582,014	664,462
Total equity and liabilities		1,002,536	1,072,815

These financial statements, set out on pages 5 to 21, were approved and authorised for issue and signed by the management on 17 February 2019.

Jameel Ali Matrook Al Matrook
(on behalf of Tala Island Facility
Management W.L.L.)

Ashraf Sameer Saleem Othman
(on behalf of Tala Island Facility
Management W.L.L.)

Tala Island Owners' Association
Statement of income and expenditure for the year ended 31 December 2017
(Expressed in Bahrain Dinars)

	Notes	2017	2016
Revenue			
Facility management fee income	12	628,386	658,117
Leisure centre income		40,393	42,841
		668,779	700,958
Direct costs			
Facility management expenses	13	(339,320)	(308,275)
Leisure centre expenses		(31,662)	(26,530)
		(370,982)	(334,805)
		297,797	366,153
Other income	14	12,923	3,940
		310,720	370,093
Expenses			
General and administrative expenses	15	(233,637)	(283,845)
Excess of income over expenditure for the year		77,083	86,248

These financial statements, set out on pages 5 to 21, were approved and authorised for issue and signed by the management on 17 February 2019.

Jameel Ali Matrook Al Matrook
(on behalf of Tala Island Facility
Management W.L.L.)

Ashraf Sameer Saleem Othman
(on behalf of Tala Island Facility
Management W.L.L.)

Tala Island Owners' Association
Statement of changes in accumulated funds for the year ended 31 December 2017
(Expressed in Bahrain Dinars)

	Accumulated funds	Sinking fund	Maintenance reserve	Total
At 31 December 2015	(139,593)	255,569	190,440	306,416
Excess of income over expenditure for the year	86,248	-	-	86,248
Transfer to sinking fund (Note 8)	(65,812)	65,812	-	-
At 31 December 2016	(119,157)	321,381	190,440	392,664
Excess of income over expenditure for the year	77,083	-	-	77,083
Utilisation of maintenance reserve (Note 9)	-	-	(49,940)	(49,940)
Transfer to sinking fund (Note 8)	(33,387)	33,387	-	-
At 31 December 2017	(75,461)	354,768	140,500	419,807

Tala Island Owners' Association
Statement of cash flows for the year ended 31 December 2017
(Expressed in Bahrain Dinars)

	Notes	2017	2016
Operating activities			
Excess of income over expenditure for the year		77,083	86,248
Adjustments for:			
Depreciation	5	4,528	5,260
Loss on disposal of plant and equipment		-	4
Changes in operating assets and liabilities:			
Fee and other receivables		117,424	377,975
Trade and other payables		(148,077)	(445,149)
Employees' terminal benefits, net		715	3,582
Net cash provided by operating activities		51,673	27,920
Investing activities			
Purchase of plant and equipment	5	(3,767)	(24,618)
Net cash used in investing activities		(3,767)	(24,618)
Net increase in cash and cash equivalents		47,906	3,302
Cash and cash equivalents, beginning of the year		3,302	-
Cash and cash equivalents, end of the year	7	51,208	3,302

Non-cash transactions:

The non-cash transactions relating to the transfer of the employees' terminal benefits to a third party have been excluded from the statement of cash flows as being non-cash transactions.

1 Organisation and activities

Tala Island Owners' Association ("the Association"), is registered with the Ministry of Justice and Social Affairs under registration number 2017056350 obtained on 27 July 2017 and incorporated in accordance with Article 826 and Article 832 of the Civil Code issued under Decree Law 19 of 2001 and Order No. 9 of 2004.

Upon completion of the registration, the Association has appointed Tala Island Facility Management W.L.L. ("the Managing Company") to provide facility management and related services to the residents on behalf of the Association for the properties located in the Tala Island.

The objectives of the Association include regulating the relations between the Owners, supervising, operating, maintaining and conducting sustainable development of the common parts in the Island, obliging all members to pay the fees for maintenance and managing the common facilities and managing common facilities intended for the use and benefit of the Owners.

The office of the Association is located in Amwaj Islands in the Kingdom of Bahrain.

2 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation and functional currency

The financial statements have been prepared using going concern assumption and under the historical cost convention. The financial statements have been presented in Bahraini Dinars which is the functional currency of the Association.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Association's accounting policies.

Improvements/amendments to IFRS/IAS 2014/2016 cycle

Improvements/amendments to IFRS/IAS issued in 2014/2016 cycle contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Association's annual audited financial statements beginning on or after 1 January 2017 and subsequent periods with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

2 Basis of preparation (continued)

Standards, amendments and interpretations issued and effective in 2017 but not relevant

The following new standards, amendments to existing standards and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2017 or subsequent periods, but are not relevant to the Association's operations:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 12	Income Taxes	1 January 2017
IFRS 12	Disclosure of Interest in Other Entities	1 January 2017
IAS 7	Statement of Cash Flows	1 January 2017

Standards, amendments and interpretations issued but not yet effective in 2017

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 31 December 2017. They have not been adopted in preparing the financial statements for the year ended 31 December 2017 and are expected to affect the entity in the period of initial application. In all cases, the entity intends to apply these standards from application date as indicated in the table below.

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 28	Investments in Associates and Joint Ventures	1 January 2018
IAS 40	Investment Property	1 January 2018
IFRS 2	Share-based Payment	1 January 2018
IFRS 4	Insurance Contracts	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

There would have been no change in the operational results of the Association for the year ended 31 December 2017 had the Association early adopted any of the above standards applicable to the Association.

Early adoption of amendments or standards in 2017

The Association did not early-adopt any new or amended standards in 2017.

3 Significant accounting policies

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost includes all costs directly attributable to bringing the plant and equipment to their present location and condition for their intended use.

Depreciation is calculated on the straight-line method to write-off the cost of plant and equipment to their estimated residual values over their expected useful lives as follows:

Office equipment	3 years
Gym equipment	5 years

Gains and losses on disposal of plant and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Repairs and renewals are charged to the statement of income and expenditure when the expenditure is incurred.

The carrying values of the plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts plant and equipment are written-down to their recoverable amounts.

Financial assets

The Association classifies its financial assets into loans and receivables. This classification depends on the purpose for which the asset is acquired.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers and also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Association's loans and receivables comprises of fee and other receivables excluding prepayments, and cash and bank balance in the statement of financial position.

a) Fee receivables

Fee receivables are carried at their anticipated realisable values. An estimate is made for impaired fee receivables based on a review of all outstanding amounts at the year-end. Impaired fee receivables which are not considered recoverable are written-off when they are identified.

b) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprises of cash on hand and current account balance with a bank.

3 Significant accounting policies (continued)

Financial liabilities

The financial liabilities of the Association consist of trade and other payables. These financial liabilities are initially recognised at fair value and are subsequently remeasured at amortised cost using the effective interest method.

Trade payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Association has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation in future and the amount of the obligation can be reliably estimated.

Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Association has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post employment benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Association contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain. This is a defined contribution pension plan and the Association's contributions are charged to the statement of income and expenditure in the year to which they relate. In respect of this plan, the Association has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Association are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Association accrues for its liability in this respect on an annual basis.

Revenue recognition

Revenue represents the contributions collected in return for providing facility management services to the residents of Tala Island on behalf of the Owners' association, which is recorded based on the agreements entered into and is accounted for on the accruals basis.

Other income is recognised on an accruals basis, unless collectability is in doubt.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income and expenditure on a straight-line basis over the period of the lease.

4 Critical accounting judgments and key source of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires the Association's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions in these financial statements relate to:

- economic useful lives of plant and equipment;
- fair value measurement;
- provisions;
- contingencies; and
- going concern.

Economic useful lives of plant and equipment

The Association's plant and equipment are depreciated on a straight-line basis over their economic useful lives. Useful economic lives of plant and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Association.

Fair value measurement

A number of assets and liabilities included in the Association's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Association's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The financial assets and financial liabilities of the Association that either require fair value measurements or only fair value disclosures as at 31 December 2017 is shown in Note 16.

Provisions

The Association creates provision for impaired fee receivables to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2017, in the opinion of the Association's management, no provision is required towards impaired fee receivables (2016: BDNil). When evaluating the adequacy of provision for impaired fee receivables, management bases its estimate on current overall economic conditions, ageing of the trade receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the provision for impaired fee receivables recorded in these financial statements.

4 Critical accounting judgments and key source of estimation uncertainty (continued)

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Going concern

The management of the Association reviews the financial position on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due. In addition, the management of the Association ensures that they provide adequate financial support to fund the requirements and to ensure the going concern status of the Association.

5 Plant and equipment

	Office equipment	Gym equipment	Total
Cost			
At 31 December 2015	9,524	-	9,524
Additions	1,130	23,488	24,618
Disposals	(1,205)	-	(1,205)
At December 2016	9,449	23,488	32,937
Additions	1,130	2,637	3,767
At December 2017	10,579	26,125	36,704
Accumulated depreciation			
At 31 December 2015	7,902	-	7,902
Charge for the year	996	4,264	5,260
On disposals	(1,201)	-	(1,201)
At 31 December 2016	7,697	4,264	11,961
Charge for the year	1,275	3,253	4,528
At December 2017	8,972	7,517	16,489
Net book amount			
At 31 December 2017	1,607	18,608	20,215
At 31 December 2016	1,752	19,224	20,976

The Association operates from premises with monthly rent of BD2,650 (2016: BD2,650).

Depreciation on plant and equipment has been charged to the statement of income and expenditure as follows:

	31 December 2017	31 December 2016
Leisure centre expenses	3,253	4,264
General and administrative expenses (Note 15)	1,275	996
	4,528	5,260

6 Fee and other receivables

	31 December 2017	31 December 2016
Fee receivables	918,157	1,030,333
Prepayments and other receivables	12,956	18,204
	931,113	1,048,537

Fee receivables are generally on 90 to 120 days credit terms.

As at 31 December, the ageing of unimpaired fee receivables is as follows:

	31 December 2017	31 December 2016
Less than six months	291,591	167,264
More than six months	626,566	863,069

Unimpaired fee receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Association to obtain collateral over fee receivables and, therefore, are all unsecured. In the opinion of the Association's management, the fair values of the fee receivables are not expected to be significantly different from their carrying values.

The Association's fee receivables are primarily denominated in Bahrain Dinars.

7 Cash and bank balance

	31 December 2017	31 December 2016
Cash on hand	2,715	726
Current account balance with a bank	48,493	2,576
	51,208	3,302

The current account balance with a bank is non-interest bearing.

The Association's current account balance, though registered in the name of a third party, is held on behalf, and for the beneficial interest, of the Association.

8 Sinking fund

In accordance with the Bye-laws of the Tala Island Owners' Association, an amount equivalent to 10% of the budgeted expenditure of the direct and indirect costs excluding the operational costs in accordance with Article 46.2 of the Bye-laws shall be set aside in a special fund and shall belong to the Owner's Association. Such amounts maintained shall be treated as a sinking fund and shall be earmarked to meet any renovations and emergency requirements. During the year ended 31 December 2017, an amount of BD33,387 has been transferred to the sinking fund (2016: BD65,812).

9 Maintenance reserve

In accordance with the Bye-laws of the Tala Island Owners' Association, the Association is required to set aside amounts from the contributions received from the Owners, in a reserve which shall belong to the Owner's Association. Such amounts maintained shall be treated as a maintenance reserve and shall be earmarked to meet the periodic maintenance and related expenses that might be required towards the general upkeep of Tala Island. During the year ended 31 December 2017, an amount of BD49,940 (2016: BDNil) has been utilised from the reserve towards meeting the periodic maintenance expenditure. No amounts have been transferred to the maintenance reserve during the year ended 31 December 2017 (2016: BDNil).

10 Employees' terminal benefits

Local employees

The contributions made by the Association towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2017 amounted to BD8,412 (2016: BD7,219).

Expatriate employees

The movement in leaving indemnity liability applicable to the expatriate employees is as follows:

	31 December 2017	31 December 2016
Opening balance	15,689	12,107
Transferred from/(to) a third party	(15,359)	10,128
Accruals for the year	385	1,927
Payments during the year	-	(8,473)
Closing balance	715	15,689
Number of staff employed by the Association	2	17

11 Trade and other payables

	31 December 2017	31 December 2016
Trade payables	104,430	58,371
Advances from customers	6,152	6,407
Accruals and other payables	471,432	599,684
	582,014	664,462

Trade payables are generally settled within 30 to 60 days of the suppliers' invoice date.

As at 31 December 2017, the maturity profile of trade payables is as follows:

	Total	Less than 6 months	More than 6 months
At 31 December 2017	104,430	69,690	34,740
At 31 December 2016	58,371	58,371	-

12 Facility management fee income

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue Garden View Phase 4EFGH	128,668	144,218
Revenue Palm Phase 1FGH	113,615	129,589
Revenue Marina Phase 1A1B	99,986	104,826
Revenue Reef Phase 4CD	71,306	81,316
Revenue Coral Phase 3CDEF	68,803	67,747
Revenue Villas Phase 1C,1D,1E,4A,4B	69,966	61,214
Revenue Houses Phase 2A,2B,3B	33,584	29,385
Revenue Sea View Phase 3A	22,165	21,824
Revenue Sea View Phase 2C	15,523	13,824
Revenue Retail Center	4,770	4,174
	628,386	658,117

13 Facility management expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Costs Garden View Phase 4EFGH	34,136	43,781
Costs Palm Phase 1FGH	33,902	38,245
Costs Marina Phase 1A1B	34,174	39,246
Costs Coral Phase 3CDEF	23,955	27,592
Costs Reef Phase 4CD	17,994	23,284
Costs Villas Phase 1C,1D,1E,4A,4B	3,354	13,344
Costs Houses Phase 2A,2B,3B	2,134	6,991
Costs Sea View Phase 3A	7,041	8,610
Costs Sea View Phase 2C	5,074	7,275
Costs Retail Center	193	876
Common Areas	177,363	99,031
	339,320	308,275

14 Other income

	Year ended 31 December 2017	Year ended 31 December 2016
Rental income	9,930	1,350
Other miscellaneous income	2,993	2,590
	12,923	3,940

15 General and administrative expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Staff costs and allowances	139,169	192,782
Depreciation (Note 5)	1,275	996
Rent expenses	31,800	31,800
Management supervision fee	24,000	-
Other general and administrative expenses	37,393	58,267
	233,637	283,845

16 Financial assets and liabilities and risk management

Financial assets and liabilities carried on the statement of financial position include fee and other receivables excluding prepayments, cash and bank balance and trade and other payables excluding employees' benefits. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Capital management

The primary objective of the Association's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise management' value.

The Association manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. No changes were made in the objectives, policies and processes during the years ended 31 December 2017 and 2016.

The Association monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Association includes within net debt, trade and other payables less cash and bank balance. Capital includes reserves attributable to the members of the Association.

	31 December 2017	31 December 2016
Trade and other payables	582,014	664,462
Less: cash and bank balance	(51,208)	(3,302)
Net debt	530,806	661,160
Accumulated surplus	419,807	392,664
Total capital	419,807	392,664
Total capital and net debt	950,613	1,053,824
Gearing ratio	55.84%	62.74%

16 Financial assets and liabilities and risk management (continued)

Principal financial instruments

The *principal* financial instruments used by the Association, from which financial instrument risk arises, are as follows:

- Fee and other receivables excluding prepayments;
- Cash and bank balances; and
- Trade and other payables excluding employees' benefits.

A summary of the financial instruments held by category is provided below as at 31 December 2017:

Financial assets	*Loans and receivables*
Fee and other receivables excluding prepayments	923,213
Cash and bank balance	51,208
Total financial assets	974,421

Financial liabilities	*Financial liabilities at amortised cost*
Trade and other payables excluding employees' benefits	581,408

A summary of the financial instruments held by category is provided below as at 31 December 2016:

Financial assets	*Loans and receivables*
Fee and other receivables excluding prepayments	1,030,333
Cash and bank balance	3,302
Total financial assets	1,033,635

Financial liabilities	*Financial liabilities at amortised cost*
Trade and other payables excluding employees' benefits	664,462

Risk management is carried out by the Finance Department of the Association under policies approved by the Directors. The Association's Finance Department evaluates and hedges financial risks in close co-operation with the Association's operating units. The Directors provide principles for overall risk management, as well as policies covering specific areas.

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk with respect to fee receivables is limited due to the Association's large number of customers. Management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Association's fee receivables.

16 Financial assets and liabilities and risk management (continued)

Credit risk (continued)

	At 31 December 2017	
Financial assets	***Carrying value***	***Maximum exposure***
Cash and bank balance	51,208	48,493
Fee and other receivables excluding prepayments	923,213	923,213
Total financial assets	974,421	971,706

	At 31 December 2016	
Financial assets	***Carrying value***	***Maximum exposure***
Cash and bank balance	3,302	2,576
Fee and other receivables excluding prepayments	1,048,537	1,048,537
Total financial assets	1,051,839	1,051,113

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Association's assets and liabilities, in the opinion of the management, are not sensitive to interest rate risk.

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial assets and liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity risk is managed by monitoring on a regular basis to help ensure that sufficient funds are available to meet all liabilities as they fall due.

Fair value measurement

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments not measured at fair value on recurring basis include fee and other receivables excluding prepayments and trade and other payables excluding employees' benefits. In the opinion of the management, due to the short-term nature of these financial instruments, the fair value of these financial instruments is not significantly different from their carrying amounts as at 31 December 2017.

16 Financial assets and liabilities and risk management (continued)

Fair value measurement (continued)

The following table sets out the fair value hierarchy of financial instruments measured at fair value on recurring basis along with valuation techniques and significant unobservable input used in determining the fair value measurement of financial instruments as well as the inter-relationship between observable inputs and fair value:

	Fair value at 31 December	Level of hierarchy	Valuation technique used and key inputs	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value
Financial assets and liabilities					
Fee receivables	918,157 (2016: BD1,030,333)	L3	The carrying amount of trade receivables approximates its fair values	Not applicable	Not applicable
Trade payables	104,430 (2016: BD58,371)	L3	The carrying amount of trade payables approximates its fair values	Not applicable	Not applicable

There are no transfers between levels during the year.

17 Events after reporting date

There were no events subsequent to 31 December 2017 and occurring before the date of the report that are expected to have a significant impact on these financial statements.