



Financial Statements

ANNUAL REPORT 2013

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
SM Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of SM Foundation, Inc., (a nonstock, nonprofit corporation), which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of activities, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SM Foundation, Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of SM Foundation, Inc. in a separate schedule. Revenue Regulations 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

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March 13, 2014, valid until March 12, 2017
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BIR Accreditation No. 08-001998-105-2014,
March 10, 2014, valid until March 9, 2017
PTR No. 4225227, January 2, 2014, Makati City

March 14, 2014

SM FOUNDATION, INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱88,580,307	₱41,550,053
Receivables and other current assets (Notes 5 and 9)	452,908	2,211,914
Total Current Assets	89,033,215	43,761,967
Noncurrent Assets		
Property and equipment (Note 6)	28,792,794	28,462,298
Pension asset (Note 10)	3,535,710	3,028,566
Total Noncurrent Assets	32,328,504	31,490,864
Total Assets	₱121,361,719	₱75,252,831
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other current liabilities (Notes 7 and 9)	₱25,534,154	₱35,670,372
Net Assets		
Fund balance:		
Restricted	61,271,684	14,698,151
Unrestricted	34,555,881	24,884,308
Total Net Assets	95,827,565	39,582,459
Total Liabilities and Net Assets	₱121,361,719	₱75,252,831

See accompanying Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

	Years Ended December 31	
	2013	2012
FUNDS GENERATED		
Restricted -		
Donations (Note 9)	P65,963,455	P32,037,478
Unrestricted:		
Donations (Note 9)	147,210,158	19,848,659
Interest income (Notes 4 and 5)	1,044,292	2,702,430
Unrealized foreign exchange gain	6,483	-
	148,260,933	22,551,089
	214,224,388	54,588,567
EXPENDITURES		
Restricted:		
Donations and contributions (Note 8)	11,168,455	16,024,974
Scholarship grants (Note 8)	8,197,376	6,253,439
Transportation and travel	22,284	11,396
Stationery and supplies	1,607	-
Others	200	-
	19,389,922	22,289,809
Unrestricted:		
Scholarship grants (Note 8)	60,684,907	59,594,381
Donations and contributions (Note 8)	46,080,310	37,453,158
Salaries and wages	8,761,446	7,817,156
Stationery and supplies	5,929,930	6,150,905
Professional fee	5,921,422	4,198,125
Transportation and travel	3,447,103	3,010,374
Advertising and promotion	2,793,443	1,043,122
Entertainment, amusement and recreation	1,091,793	1,903,669
Repairs and maintenance	1,016,084	1,640,959
Janitorial and messengerial fees	446,430	388,887
Depreciation (Note 6)	373,366	331,073
SSS and Philhealth contributions	366,521	348,820
Rent	335,783	196,328
Pension expense (income) (Note 10)	308,146	(331,200)
Others	1,032,676	1,641,808
	138,589,360	125,387,565
	157,979,282	147,677,374
EXCESS (DEFICIENCY) OF FUNDS GENERATED OVER EXPENDITURES	P56,245,106	(P93,088,807)

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31	
	2013	2012
RESTRICTED		
Balance at beginning of year	P14,698,151	P4,950,482
Excess of receipts over expenses	46,573,533	9,747,669
Balance at end of year	61,271,684	14,698,151
UNRESTRICTED		
Balance at beginning of year	24,884,308	127,720,784
Excess (deficiency) of receipts over expenses	9,671,573	(102,836,476)
Balance at end of year	34,555,881	24,884,308
	P95,827,565	P39,582,459

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of funds generated over expenditures	P56,245,106	(P93,088,807)
Adjustments for:		
Interest income (Notes 4 and 5)	(1,044,292)	(2,702,430)
Pension expense (income) (Note 10)	308,146	(331,200)
Depreciation (Note 6)	373,366	331,073
Unrealized foreign exchange gain	(6,483)	-
Funds generated (used) before working capital changes	55,875,843	(95,791,364)
Decrease in receivables and other current assets	1,759,006	4,463,904
Increase (decrease) in accounts payable and other current liabilities	(10,136,218)	19,514,194
Cash generated from (used in) operations	47,498,631	(71,813,266)
Interest received	1,044,292	3,091,010
Contribution to pension plan asset (Note 10)	(815,290)	(1,039,098)
Net cash provided by (used in) operating activities	47,727,633	(69,761,354)
CASH FLOWS FROM INVESTING ACTIVITY		
Additions to property and equipment (Note 6)	(703,862)	(911,049)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,023,771	(70,672,403)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6,483	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	41,550,053	112,222,456
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P88,580,307	P41,550,053

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

SM Foundation, Inc. (the Foundation) is incorporated in the Philippines on March 24, 1983. Its registered office address is SM Corporate Offices, Building B, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

The Foundation is a nonstock, nonprofit corporation created for the purpose of promoting social, cultural, educational and the general well-being and economic development of the Filipino people and to provide assistance, scholarship, endowments or otherwise establish facilities for the study, education and training of the youth for them to become useful members of the society.

The Foundation is accredited by the Philippine Council for NGO Certification as a registered donee institution in accordance with the provisions of Revenue Regulation No. 13-98 at which donations received shall entitle the donor to full or limited deduction pursuant to Section 34 (H) (1) or (2) and exemption from donor's tax pursuant to Section 101 (A) (3) of the National Internal Revenue Code (NIRC). The Foundation renewed its accreditation for a period of five years from August 6, 2010.

On December 27, 2013, the Foundation has filed its application for revalidation of tax-exempt status to the Bureau of Internal Revenue (BIR). As at March 14, 2014, the certification is still pending with the BIR.

The Foundation is exempt from payment of income tax under the provisions of Section 30 (e) of the NIRC. However, income of whatever kind and character of the Foundation from any other properties, real or personal or from any of its activities conducted for profit, regardless of the disposition of such income, shall be subjected to tax imposed under the NIRC.

The accompanying financial statements were authorized for issue by the Board of Trustees (the Board) on March 14, 2014.

2. BASIS OF PREPARATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Foundation have been prepared under the historical cost basis. The financial statements are presented in Philippine peso, which is the Foundation's functional and presentation currency. Amounts are rounded off to the nearest peso, except when otherwise indicated.

Statement of Compliance

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS) for Small and Medium-sized Entities (SMEs).

Cash and Cash Equivalents

Cash pertains to 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.

Cash in banks denominated in a foreign currency are translated into Philippine Peso using the closing rate at the reporting date. Foreign exchange gains or losses are included in statements of activities.

Receivables and Other Current Assets

Receivables and other current assets are recognized at face value less any allowance for uncollectible amounts. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss. If there is objective evidence that an impairment loss on trade and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

NOTES TO FINANCIAL STATEMENTS

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

Land improvements	10 years
Transportation equipment	10 years
Fixtures and equipment	5 years

The residual values, useful lives and method of depreciation of the assets are reviewed and adjusted, if appropriate, at each reporting date.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of property and equipment are recognized in the statements of activities in the period of retirement or disposal.

Asset Impairment

At each reporting date, property and equipment are reviewed to determine whether there is any indication that those assets suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statements of activities.

If impairment loss subsequently reverses, the carrying amount of the asset (or group of assets) is increased to the revised estimate of recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of assets) in prior years. A reversal of impairment loss is recognized immediately in the statements of activities.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities are obligations incurred in the ordinary course of business, which are based on normal credit terms and do not bear interest.

Fund Balance

Fund balance pertains to the donations received by the Foundation less the program and administrative expenses. The Fund balance is measured at the fair value of the consideration received at the date of contribution.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Foundation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

Donations. Donation income is recognized when the Foundation's right to receive the donation is established, which in most cases, is upon receipt of the donation from donors.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Expenditures

Expenditures are recognized as incurred.

Pension Expense

The Foundation is a participant to the SM Corporate and Management Companies Multi-employer Retirement Plan. The Plan is a funded, noncontributory defined benefit pension plan administered by the Board covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Retirement expense includes current service cost, interest cost, expected return on plan assets, amortization of any unrecognized past service costs, recognition of any actuarial gains or losses, and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. Actuarial gain or loss is recognized in full in the statement of comprehensive income.

The amount recognized as defined benefit liability or asset is the net of the present value of the defined benefit obligation at the reporting date, minus past service cost not recognized minus the fair value at the reporting date of plan assets out of which the obligations are to be settled directly. Actuarial valuations are made with sufficient regularity that the amounts recognized in the Foundation's financial statements do not differ materially from the amounts that would be determined at the reporting date.

Provisions

Provisions are recognized when the Foundation has 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.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when inflows of economic benefits are probable.

Events after the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

Management makes judgments in the process of applying the Foundation's accounting policies. The Foundation does not have significant judgments on the reported amounts in the financial statements as at and for the years ended December 31, 2013 and 2012.

Estimates

The key sources of estimation uncertainty at the reporting date that have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimated Useful Lives and Impairment of Property and Equipment. The useful life of each of the Foundation's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the recorded expenditures and decrease noncurrent assets. On the other hand, the Foundation assesses impairment on its property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Foundation considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and significant changes in the manner of use of the acquired assets or the strategy for overall business.

No changes in the useful life were made and no impairment losses were recognized in 2013 and 2012 for property and equipment. The carrying value of property and equipment as at December 31, 2013 and 2012 amounted to ₱28.8 million and ₱28.5 million, respectively (see Note 6).

Provision for Pension Expense. The determination of the pension asset and pension expense is dependent on the selection of certain assumptions by management. Those assumptions used in the calculation of pension expense are described in Note 10 of the financial statements.

As at December 31, 2013 and 2012, the Foundation's pension asset amounted to ₱3.5 million and ₱3.0 million, respectively. Pension expense of ₱0.3 million was recognized in 2013 and pension income of ₱0.3 million was recognized in 2012 (see Note 10).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2013	2012
Cash on hand and in banks	₱26,174,984	₱11,686,769
Short-term investments	62,405,323	29,863,284
	₱88,580,307	₱41,550,053

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Foundation, and earn interest at the respective short-term investment rates.

Interest income amounted to ₱1.0 million and ₱2.6 million in 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS

5. RECEIVABLES AND OTHER CURRENT ASSETS

This account consists of:

	2013	2012
Receivables:		
Receivables from employees	P388,942	P146,329
Due from related parties (see Note 9)	-	2,000,000
Others	66	1,685
	389,008	2,148,014
Other current assets	63,900	63,900
	P452,908	P2,211,914

In September 2009, the Foundation entered into a Memorandum of Understanding with the Center for Agriculture and Rural Development Inc. (CARD), to provide for financial support in terms of revolving fund and logistics of CARD to underwrite its microfinance operations in the barangays of Bullhan, Calayo, Looc and Papaya of Nasugbu, Batangas.

The Foundation advanced P2.5 million to CARD which earns a fixed annual interest of 6.0%. The amount advanced was returned in 2012. Interest income amounted to nil and P0.1 million in 2013 and 2012, respectively.

6. PROPERTY AND EQUIPMENT

This account consists of:

	2013			
	Land and Land Improvements	Fixtures and Equipment	Transportation Equipment	Total
Cost:				
Balance at beginning of year	P32,314,867	P1,669,494	P1,751,905	P35,736,266
Additions	-	703,862	-	703,862
Balance at end of year	32,314,867	2,373,356	1,751,905	36,440,128
Accumulated depreciation:				
Balance at beginning of year	5,198,476	1,202,694	872,798	7,273,968
Additions	-	198,175	175,191	373,366
Balance at end of year	5,198,476	1,400,869	1,047,989	7,647,334
Net book value	P27,116,391	P972,487	P703,916	P28,792,794
	2012			
	Land and Land Improvements	Fixtures and Equipment	Transportation Equipment	Total
Cost:				
Balance at beginning of year	P32,314,867	P1,458,445	P1,051,905	P34,825,217
Additions	-	211,049	700,000	911,049
Balance at end of year	32,314,867	1,669,494	1,751,905	35,736,266
Accumulated depreciation:				
Balance at beginning of year	5,198,476	1,034,381	710,038	6,942,895
Additions	-	168,313	162,760	331,073
Balance at end of year	5,198,476	1,202,694	872,798	7,273,968
Net book value	P27,116,391	P466,800	P879,107	P28,462,298

The cost of fully depreciated property and equipment still in use by the Foundation amounted to P6.0 million and P5.9 million as at December 31, 2013 and 2012, respectively.

There are no idle property and equipment as at December 31, 2013 and 2012.

7. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

This account consists of:

	2013	2012
Donations payable (see Note 9)	P22,231,688	P24,592,478
Accrued expenses (see Note 9):		
Repairs	2,284,233	879,424
Advertising	320,000	-
Others	25,415	639,748
Payable to government agencies	298,572	201,366
Payables arising from school building projects	-	9,054,395
Others	374,246	302,961
	P25,534,154	P35,670,372

Terms and conditions of the above financial liabilities follow:

- Donations payable pertains to donations received by the Foundation which are expected to be settled within the next financial year.
- Accrued expenses pertain to accrued and unpaid general and administrative expenses which are noninterest-bearing and are normally settled on a 30 to 60 days term.
- Payable to government agencies mainly consists of withholding taxes payable which are normally settled within the next financial year.
- Payables arising from school building projects refers to the construction of schools drawn out from the Foundation's funds and are normally settled within 12 months from the reporting date.

8. PROJECTS

Brief descriptions of the Foundation's projects are as follows:

The 30th year of the Foundation marked an increase of activity in its areas of advocacy, namely education, health and medical, and livelihood and outreach with the last quarter of 2013 devoting more attention to the survivors of typhoon Yolanda/Haiyan.

Education Program

- The SM College Scholarship Program seeks to empower the youth through education. A program of 20 years, it has in its roster 1,700 graduates and 1,300 scholars currently enrolled in 82 colleges and universities all over the country. Of 225 graduates last year, 40% finished with honors. There were 4 Summa Cum Laude, 18 Magna Cum Laude, 48 Cum Laude, and 21 with Academic Distinction. All of the graduates are gifted with a wrist watch with name engraved, and in addition, honor graduates are given gift checks of varying amounts. It is customary for SM to offer jobs to the graduates.

In 2013, the scholarship team went to Cauayan, Isabela and Tacloban City to open the program in these locations. To help in the recovery and rehabilitation of Tacloban City and Leyte, the program will offer 100 scholarship grants for successful applicants from Tacloban City and Leyte. Current scholars come from public high schools, have grades of 88% and higher during their second and third grading periods in the fourth year and whose parents jointly earn at most 150,000 per year. Each scholar receives a grant of tuition and matriculation fees and monthly allowance.

- The Tech-Voc Scholarship Program collaborates with two Tech-Voc schools in the National Capital Region to help out-of-school youth acquire special skills in preparation for better chances to generate income. A total of 283 students have graduated from this program. There are 125 students currently enrolled in Don Bosco Technical School-Makati and Punlaan School.
- The School Building Program is a response to the call of the Department of Education for private sector support in addressing the state of congested classrooms in the public school system. In 2013, five new school buildings with 14 classrooms were donated to Barretto National High School in Olongapo City; Liciada Elementary School in Bustos, Bulacan; Sta. Monica Elementary School in San Pablo, Laguna; Pateros Elementary School in Pateros and Sampaloc National High School in Tanay, Rizal. The donated school buildings come with restrooms, armchairs, teacher's desk sets and wall fans. Deutsche Bank AG, Manila branch was a partner in Pateros Elementary School; Banco De Oro Foundation, Inc. in Sampaloc National High School and Monolith Construction in Sta. Monica Elementary School. The Foundation is committed to the repair and maintenance of the school buildings it has donated. Repairs were done in the following school buildings: Consolacion Elementary School and Mambuaya Elementary School in Cagayan De Oro City; Llano Elementary School in Caloocan City; Sitio Tapayan Elementary School and Manuel I. Santos National High School in Taytay, Rizal. Launched in 2002, the Foundation's school building program has donated 58 school buildings with 144 classrooms to public elementary and high schools nationwide.

NOTES TO FINANCIAL STATEMENTS

Aware of the damage that typhoon Yolanda/Haiyan has caused on people and structures, the Foundation has committed to build and renovate a number of classrooms in the typhoon devastated areas.

Health and Medical Program

- *Gamot Para Sa Kapwa* is a comprehensive medical mission and health education project conducted for indigent families within the vicinity of SM Malls as well as remote communities and disaster-stricken areas. As at December 31, 2013, the Foundation has conducted 901 medical missions for 707,749 beneficiaries. Three SM Mobile Clinics support the medical missions to provide free of charge diagnostic and laboratory services consisting of Chest X-Ray, Electrocardiogram, Urinalysis, Bone Density Scanning, Fasting Blood Sugar, Random Blood Sugar, Cholesterol determination and Dental Tooth Extractions.
- *Oral Health Program* is an oral health mission in partnership with University of the Philippines Pahnungod Society which was conducted in barangay Bulihan Elementary School in Nasugbu, Batangas and Binakayan Elementary School in Cavite benefiting 466 regular and 21 special education students.
- *Felicidad T. Sy Wellness Centers* are identified wards of government hospitals which are renovated, refurbished and enhanced to serve children, elderly, terminally ill soldiers and persons with disabilities. There are now 87 Felicidad T. Sy Wellness Centers nationwide which are composed of 43 Pediatric Wards, 9 Armed Forces of the Philippines Hospital facilities, 1 Philippine National Police Health facility, 7 Hospice Units, 13 Senior Citizens Centers and 14 Health Centers (four of which were made in partnership with BDO Foundation, Inc.). The 14 Health Centers were accredited by the Philippine Health Insurance Corporation thru the Foundation's assistance.
- *Operation Tulong Express Medical Missions* were conducted immediately in Luzon areas affected by Monsoon Habagat and Typhoons Maring and Labuyo. A total of 13,500 individuals were served.

The medical team also responded immediately after typhoon Yolanda/Haiyan devastated the Visayas region. It conducted its medical mission at SM City Consolacion in coordination with the Watson's group covering Cebu City and the nearby areas which were struck by the typhoon. The mission served eight barangays of 1,506 individuals.

Together with the Philippine Air Force (PAF), the Foundation was the very first organization to set up a medical mission tent at Villamor Airbase, Pasay City for typhoon Yolanda/Haiyan survivors who were airlifted from Tacloban City and Leyte through PAF and foreign aircraft. In collaboration with the PAF, and with the help of volunteer doctors, pharmaceutical companies, teachers, students and SM employee-volunteers and other volunteers from government and non-government organizations, the 12-day Operation Tulong Express medical missions were conducted from November 14-25, 2013. A total of 5,581 patients were served on this medical mission.

- *Blood Bank for SM Employees.* A series of blood-letting activities among various SM departments were conducted for the establishment of a Blood Bank for SM employees and their immediate relatives. As the first organization to establish a "Virtual Blood Bank," the Philippine Blood Center of the Department of Health awarded the Jose Rizal Award to the Foundation in 2012. The Foundation received its second Jose Rizal Award from the Department of Health's Philippine Blood Center for its Virtual Blood Bank and conducting mobile blood activities, accumulating more than a total of 2,000 blood units in 2013.
- *Medical Assistance to SM Employees.* The Foundation extends assistance to SM employees and their immediate family members who have exhausted their health benefits and health cards, by way of referral to the Foundation's tie-up hospitals and various government institutions and partner organizations to augment their medical needs.

Livelihood and Outreach Programs

- *Kabalikat sa Kabuhayan - Farmers Training Program* is the main livelihood advocacy program of the Foundation. It is implemented through partnership with Harbest Agribusiness Corp. (HAC), the Department of Agriculture (DA) and the Department of Social Welfare and Development (DSWD). The program aims to provide marginalized farmers with updated agricultural farm technology on high value crops to produce a bountiful harvest even on limited space and to enhance the profitability of the farmers thus, enabling them to provide more food on their tables. The training includes a 12-week modular, classroom lectures and hands-on training on high value crop production, product development, marketing, and basic bookkeeping. To ensure the sustainability of the program, HAC conducts post-program monitoring of our graduates' progress and continuously provide them with technical support while the DA and DSWD provide the farm inputs. The SM Food Group connects the farmers to the former's suppliers for the farmers to be part of the supply chain. To date, 60 batches of farmers nationwide have graduated from the training program. In 2013, 14 batches of farmers have been trained under the program.
- *Grow A Million Trees Project.* Launched in March 2013, the Grow A Million Trees Project is a joint environmental effort of different SM Companies in support of the National Greening Program (NGP) of the Department of Environment and Natural Resources. In 2013, the different SM Companies and affiliates have planted 267,707 trees. The Foundation has planted 60,000 saplings in different NGP areas, bringing the total to 327,707 trees. SM Companies and Affiliates have further pledged to plant 448,500 trees in the next five years.
- *Operation Tulong Express.* This is the disaster relief response program of SM Foundation which provides immediate relief assistance through the distribution of basic necessity packs to victims of disasters such as typhoons, earthquake and other calamities. This program is conducted with SM Supermalls and SM Food Group in different areas of the country as needed.

Community Development at Nasugbu, Batangas

- *Livestock Dispersal.* The livestock dispersal project in Nasugbu, Batangas includes the distribution of carabao, hogs, native chicken, goats and ducks to different households in the four covered barangays. The project involves the transfer of the livestock offspring to another batch of beneficiaries in the community. To date, a total of 258 community members have benefitted from this project.
- *Hospitality Skills Training Program.* This skills training course aims to increase the employability and widen the opportunity of out-of-school youth in the community by providing hospitality training on Housekeeping, Food & Beverage and Commercial Cooking. The training uses a holistic approach where trainees undergo preparatory activities such as values formation sessions, teambuilding activities and technical lectures. Afterwards, trainees undergo a 30-day on-the-job training in Taal Vista Hotel and Pico de Loro before taking the Technical and Educational Skills Development Authority (TESDA) assessment and exam. All 98 trainees are TESDA passers and were employed by SM's Hotel Group. Five of them are working abroad and while others are employed in other hotels and resorts.
- *Landscaping Installation and Maintenance.* This new course is in response to the need of honing the skills of the out-of-school youth in the art of landscaping. An increase in the demand of landscape worker has been noticed for hotels and resorts. A total of 26 youth from Nasugbu successfully finished the program and passed the TESDA assessment. These passers are the very first batch of TESDA graduates in the country to receive a National Certificate II on Landscaping Installation and Maintenance. All of them are now gainfully employed by Costa del Hamilo, Inc. and nearby resorts.
- *Cosmetology Skills Training.* The short course includes hairdressing, haircut, perming, hot oil treatment, hair color and highlights, pedicure, manicure, and foot spa. With FilHair Coop and Ang Hortaleza Foundation as partners, the project has produced 140 graduates since its launch in 2011. The graduates do community service in the area and derive income from regular services provided to relatives and neighbors.
- *Oral Health Program and Day Care Centers.* A quarterly medical mission is being conducted in Nasugbu, Batangas to ensure the community's wellness. The Oral Health program was introduced to grade three elementary students and their family for increased awareness on dental hygiene. The four day care centers in the barangays are also being subsidized by the Foundation by providing monthly allowances to the day care teachers and school supplies for the pre-schoolers.

9. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. "Affiliate" refers to an entity that is under the control of the Foundation's Members and Trustees.

In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Due from Related Parties

The Foundation regularly solicits donations from the various companies under the SM Group to support its operations and fund its various projects.

Donation Payable

Donation payable pertains to restricted donations, received by the Foundation for specific beneficiaries, which are expected to be settled within the next financial year.

Transactions with Related Parties

The Foundation, in the normal course of business, has transactions with related parties. Transactions with related parties included in the financial statements are summarized below:

Category	Year	Amount/ Volume	Outstanding Balance	Terms	Conditions
Members and Trustees					
Donation income	2013	₱-	₱-	Noninterest-bearing	Unsecured
	2012	142,693	-		
Real estate development entities controlled by Members					
Donation income/receivable	2013	26,730,000	-	Noninterest-bearing	Unsecured
	2012	15,000	-		
Payables	2013	3,800	3,800	Noninterest-bearing	Unsecured

(Forward)

NOTES TO FINANCIAL STATEMENTS

Category	Year	Amount/ Volume	Outstanding Balance	Terms	Conditions
Shopping mall development entities controlled by Members					
Donation income/receivable	2013	P52,645,000	P-		
	2012	7,400,000	2,000,000	Noninterest-bearing	Unsecured, not impaired
Payables	2013	18,274	-		
	2012	3,800,000	18,274	Noninterest-bearing	Unsecured
Retail entities controlled by Members					
Donation income	2013	51,563,598	-		
	2012	14,025,021	-	Noninterest-bearing	Unsecured
Payables	2013	10,938,625	12,585,215		
	2012	1,646,590	1,646,590	Noninterest-bearing	Unsecured
Other related parties controlled by Members					
Donation income	2013	46,415,578	-		
	2012	10,000,000	-	Noninterest-bearing	Unsecured
Payables	2013	95,546	140,661		
	2012	11,074	45,115	Noninterest-bearing	Unsecured

10. PENSION BENEFITS

The following tables summarize the components of the Foundation's net benefit expense, as included in the statements of activities, and the funded status and amounts recognized in the statements of financial position for the plan. These amounts were based on the assumptions from the Foundation's updated actuarial valuation report as at December 31, 2013.

Pension Expense (Income)

	2013	2012
Expected return on plan assets	(P471,233)	(P349,819)
Current service cost	420,277	508,437
Effect of asset limit	357,262	564,492
Interest cost	243,280	274,450
Net actuarial gain recognized in the year	(241,440)	(1,328,760)
Pension expense (income)	P308,146	(P331,200)
Actual return on plan assets	P740,187	P934,671

Pension Asset

	2013	2012
Fair value of plan assets	P9,312,802	P7,853,876
Present value of defined benefit obligation	(4,576,193)	(3,981,673)
Funded obligation	4,736,609	3,872,203
Amount not recognized due to asset limit	(1,200,899)	(843,637)
Pension asset	P3,535,710	P3,028,566

Changes in the Present Value of the Defined Benefit Obligation

	2013	2012
Defined benefit obligation at beginning of year	P3,981,673	P3,892,905
Current service cost	420,277	508,437
Interest cost	243,280	274,450
Benefits paid from plan assets	(96,551)	-
Actuarial loss (gain) on obligation	27,514	(743,908)
Transfer to the plan	-	49,789
Defined benefit obligation at end of year	P4,576,193	P3,981,673

Changes in the Fair Value of Plan Assets

	2013	2012
Fair value of plan assets at beginning of year	P7,853,876	P5,830,318
Contributions	815,290	1,039,098
Expected return on plan assets	471,233	349,819
Actuarial gain	268,954	584,852
Benefits paid from plan assets	(96,551)	-
Transfer to the plan	-	49,789
Fair value of plan assets at end of year	P9,312,802	P7,853,876

The principal assumptions used in determining pension obligations for the Foundation's plan are shown below:

	2013	2012
Discount rate	6%	6%
Expected rate of return on plan assets	8%	6%
Future salary rate increases	10%	11%

The major categories of plan assets as a percentage of the fair value of plan assets consist of the following investments:

	2013	2012
Government securities	57%	49%
Common trust fund	37%	39%
Time deposits	3%	2%
Shares of stocks	2%	3%
Others	1%	3%
Cash and cash equivalents	-	4%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period within the obligation is to be settled.

The Foundation expects to contribute P0.5 million in its defined benefit pension plan in 2014.

1. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010

The Bureau of Internal Revenue has issued RR 15-2010 which requires certain tax information to be disclosed in the notes to financial statements. The Foundation presented the required supplementary information as a separate schedule attached to its annual income tax return.



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