

SM Foundation, Inc.
(A Nonstock, Nonprofit Corporation)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
SM Foundation, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SM Foundation, Inc. (the Foundation), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of activities, statement of changes in net assets and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS for SMEs, 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Foundation'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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 Foundation'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 Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on 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 require 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.



Sherwin V. Yason

Partner

CPA Certificate No. 104921

SEC Accreditation No. 1514-A (Group A),

October 6, 2015, valid until October 5, 2018

Tax Identification No. 217-740-478

BIR Accreditation No. 08-001998-112-2015,

March 4, 2015, valid until March 3, 2018

PTR No. 5908780, January 3, 2017, Makati City

March 31, 2017



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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱121,657,204	₱156,648,349
Receivables and other current assets (Note 5)	1,698,698	479,900
Total Current Assets	123,355,902	157,128,249
Noncurrent Assets		
Property and equipment (Note 6)	33,306,156	33,905,704
Pension asset - net (Note 10)	3,564,394	4,157,864
Total Noncurrent Assets	36,870,550	38,063,568
	₱160,226,452	₱195,191,817
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other current liabilities (Notes 7 and 9)	₱47,091,613	₱99,306,904
Net Assets		
Fund balance:		
Restricted	3,582,211	33,389,495
Unrestricted	109,552,628	62,495,418
	113,134,839	95,884,913
	₱160,226,452	₱195,191,817

See accompanying Notes to Financial Statements.



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

STATEMENTS OF ACTIVITIES

	Years Ended December 31	
	2016	2015
FUNDS GENERATED		
Restricted:		
Donations (Note 9)	₱56,731,177	₱134,313,344
Interest income (Note 4)	512,685	727,128
	57,243,862	135,040,472
Unrestricted:		
Donations (Note 9)	236,057,136	174,689,016
Interest income (Note 4)	909,948	459,120
Unrealized foreign exchange gain	63,127	47,786
	237,030,211	175,195,922
	294,274,073	310,236,394
EXPENDITURES		
Restricted:		
Donations and contributions (Note 8)	67,847,426	84,562,586
Scholarship grants (Note 8)	9,913,591	9,191,765
Project cost (Note 8)	5,616,058	159,227,032
Transportation and travel	2,552,386	2,226,907
Janitorial and messengerial fees	586,362	562,240
Advertising and promotion	187,635	-
Stationery and supplies	108,529	136,539
Professional fee	56,000	-
Rent	11,000	-
Others	172,159	46,186
	87,051,146	255,953,255
Unrestricted:		
Scholarship grants (Note 8)	86,469,043	66,382,941
Donations and contributions (Note 8)	61,004,748	66,243,290
Salaries and wages	10,032,181	9,722,344
Professional fee	8,879,905	6,268,033
Stationery and supplies	7,797,628	7,166,437
Transportation and travel	5,114,329	4,839,218
Advertising and promotion	2,804,929	829,335
Depreciation (Note 6)	1,126,496	957,495
Repairs and maintenance	852,638	623,436
Janitorial and messengerial fees	622,813	349,885
Pension expense (income) (Note 10)	593,470	(4,373)
SSS and Philhealth contributions	458,475	434,616
Rent	337,588	253,560
Others	3,878,758	4,353,816
	189,973,001	168,420,033
	277,024,147	424,373,288
EXCESS (DEFICIENCY) OF FUNDS GENERATED OVER EXPENDITURES	₱17,249,926	(₱114,136,894)

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31	
	2016	2015
RESTRICTED		
Balance at beginning of year	₱33,389,495	₱154,302,278
Deficiency of funds generated over expenditures	(29,807,284)	(120,912,783)
Balance at end of year	3,582,211	33,389,495
UNRESTRICTED		
Balance at beginning of year	62,495,418	55,719,529
Excess of funds generated over expenditures	47,057,210	6,775,889
Balance at end of year	109,552,628	62,495,418
	₱113,134,839	₱95,884,913

See accompanying Notes to Financial Statements.



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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of funds generated over expenditures	₱17,249,926	(₱114,136,894)
Adjustments for:		
Interest income (Note 4)	(1,422,633)	(1,186,248)
Depreciation (Note 6)	1,126,496	957,495
Pension expense (income) (Note 10)	593,470	(4,373)
Unrealized foreign exchange gain	(63,127)	(47,786)
Funds generated (used) before working capital changes	17,484,132	(114,417,806)
Increase in receivables and other current assets	(1,218,798)	(182,955)
Increase (decrease) in accounts payable and other current liabilities	(52,215,291)	66,310,417
Cash used from operations	(35,949,957)	(48,290,344)
Interest received	1,422,633	1,186,248
Contribution to pension plan asset (Note 10)	—	(320,647)
Net cash used for operating activities	(34,527,324)	(47,424,743)
CASH FLOWS FROM AN INVESTING ACTIVITY		
Additions to property and equipment (Note 6)	(526,948)	(2,174,945)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,054,272)	(49,599,688)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	63,127	47,786
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	156,648,349	206,200,251
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱121,657,204	₱156,648,349

See accompanying Notes to Financial Statements.



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

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.

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 August 10, 2015, the Foundation's accreditation was renewed until January 20, 2016, subject to extension until June 15, 2020 upon presentation of renewed certificate of accreditation from Department of Social Welfare and Development (DSWD).

In February 2016, the Foundation was registered, licensed and accredited with the DSWD with registration number DSWD-SB-RL-000063-2011 as a resource agency providing direct services and DSWD-SB A-001419-2016, valid until February 1, 2019, which provides community-based programs and services to children, youth, families and communities.

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 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 approved and authorized for issue by the Board of Trustees (the Board) on March 31, 2017.

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 Standard for Small and Medium-sized Entities (PFRS for SMEs).



2015 Amendments to the PFRS for SMEs

In August 2016, the Securities and Exchange Commission resolved to adopt the *2015 Amendments to the PFRS for SMEs* as part of its rules and regulations on financial reporting.

Most of the amendments clarify existing requirements and add supporting guidance to the existing standard rather than change the underlying requirements. Among the most significant amendments to the standard are:

- Permitting SMEs to use the revaluation model to measure items of property, plant and equipment
- Aligning the recognition and measurement requirements for deferred income tax with full Philippine Financial Reporting Standard
- Allowing SMEs to use the equity method to account for investments in subsidiaries, associates and jointly controlled entities in the separate financial statements

The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The adoption of the *2015 Amendments to the PFRS for SMEs* is not expected to have a significant impact on the Foundation's financial statements. The Foundation intends to adopt the amendments when they become effective.

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 are subject to an insignificant risk of change in value.

Cash in banks denominated in foreign currency are translated into Philippine Peso using the closing rate at the reporting date. Foreign exchange gains or losses are included in the 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 statements of activities. If there is objective evidence that an impairment loss on receivables and other current assets 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 statements of activities.

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.

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

Net Assets

This account pertains to the donations received by the Foundation less the program and administrative expenses. The net assets are 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 Benefits

The Foundation is a participant to the SM Corporate and Management Companies Multi-employer Retirement Plan (the 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. Pension 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 activities. 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

The Foundation does not have significant judgments on the reported amounts in the financial statements as at and for the years ended December 31, 2016 and 2015.

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:

Estimating Impairment of Property and Equipment. 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.

There were no impairment losses were recognized in 2016 and 2015 for property and equipment. The carrying values of property and equipment amounted to ₱33.3 million and ₱33.9 million as at December 31, 2016 and 2015, respectively (see Note 6).

Estimating Pension Expense. The determination of 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.

Pension expense (income) recognized in the statements of activities amounted to ₱0.6 million and (₱0.01 million) in 2016 and 2015, respectively. Net pension asset amounted to ₱3.6 million and ₱4.2 million as at December 31, 2016 and 2015, respectively (see Note 10).

4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand and in banks	₱29,765,016	₱106,833,061
Short-term investments	91,892,188	49,815,288
	₱121,657,204	₱156,648,349

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 ₱1.4 million and ₱1.2 million in 2016 and 2015, respectively.



5. Receivables and Other Current Assets

This account consists of:

	2016	2015
Receivables:		
Receivables from a third party	₱1,320,547	₱181,692
Receivables from employees	283,070	185,186
Others	31,181	49,122
	1,634,798	416,000
Other current assets	63,900	63,900
	₱1,698,698	₱479,900

The term and conditions of the above receivables are as follows:

- Receivables from a third party are noninterest-bearing advances to contractors and are to be applied as payments to contractors' billings for the Foundation's projects within the next financial year.
- Receivables from employees and other receivables are noninterest-bearing and are normally collected within the next financial year.

6. Property and Equipment

The movements on this account are as follows:

	2016			
	Land and Land Improvements	Transportation Equipment	Fixtures and Equipment	Total
Cost:				
Balance at beginning of year	₱32,314,867	₱3,039,332	₱7,670,098	₱43,024,297
Additions	-	-	526,948	526,948
Balance at end of year	32,314,867	3,039,332	8,197,046	43,551,245
Accumulated depreciation:				
Balance at beginning of year	5,198,476	1,485,606	2,434,511	9,118,593
Additions	-	198,743	927,753	1,126,496
Balance at end of year	5,198,476	1,684,349	3,362,264	10,245,089
Net book value	₱27,116,391	₱1,354,983	₱4,834,782	₱33,306,156

The cost of fully depreciated property and equipment still in use by the Foundation amounted to ₱7.7 million and ₱7.5 million as at December 31, 2016 and 2015, respectively.

There are no idle property and equipment as at December 31, 2016 and 2015.



7. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Scholarship grants payable	₱13,633,124	₱12,933,317
Retention payable	15,364,388	15,418,538
Donations payable (see Note 9)	12,830,953	67,104,124
Accrued expenses:		
Operations	4,333,868	2,495,879
Others	90,291	489,136
Payable to government agencies	216,414	383,459
Others	622,575	482,451
	₱47,091,613	₱99,306,904

Terms and conditions of the above current liabilities follow:

- Scholarship grants payable pertains to unpaid tuition fees of the Foundation's scholars which are expected to be settled within the next financial year.
- Retention payable is the amount retained by the Foundation from contractors as insurance for the completion of various projects, which will be released upon completion of the related construction contract.
- Donations payable pertains to unpaid expenditures related to the Foundation's projects which are expected to be settled within the next financial year.
- Accrued expenses pertain to accrued and unpaid general and administrative expenses related to the operations of the Foundation which are noninterest-bearing and are normally settled on a 30- to 60-day terms.
- Payable to government agencies mainly consists of withholding taxes payable which are normally settled within the next financial year.

8. Projects

The Foundation serves as the heart of the SM Group's commitment to serve by supporting and empowering our host communities through education, health care, disaster response and farmers' training and environmental program. SM Cares, a division of SM Foundation strives to create an environment that is enjoyable for every member of the family by focusing its programs on people and the community, environmental sustainability, disaster resilience and green campaigns.

Our vision is "A Philippines where everyone has the opportunity for self-improvement and the environment is sustained for future generations".



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

Education Program

- *College Scholarship.* Foundation seeks to empower the marginalized youth by helping them attain a college education. Out of 225 college graduates in 2016, 75 or 33% of the class graduated with honors, such as: 4 Summa cum Laude, 11 Magna Cum Laude, 48 Cum Laude and 12 with Academic Distinction. This year, the program produced one CPA board topnotcher (Top 6), and 97 board passers: 45 certified public accountants, 7 electrical engineers, 6 mechanical engineers, 13 electrical engineers and 26 civil engineers. The Sy Family tendered a special dinner for the graduates at the SMX Convention Center, Mall of Asia Complex. Along with their parents, they took the opportunity to express their gratitude to their benefactors who awarded each graduate with a wristwatch with name engraved and SM Gift Passes for honor graduates. As of December 31, 2016, the program produced 2,401 graduates and 1,401 undergraduates who enrolled in 12 college courses in 91 partner schools nationwide.
- *Technical-Vocational (Tech-Voc) Scholarship.* This program started in 2007 to open wider opportunities for employment of out-of-school youth through courses in special skills. In 2016, the Foundation's Tech-Voc Scholarship program cognizant of the 90-100% employment rate of its graduates obtained the approval of management to accept 1,000 scholars. A total of 1,073 scholars are now enrolled in 32 partner schools notably Don Bosco, Punlaan, namely: Punlaan School and Don Bosco TVET. These scholars are distributed nationwide: 363 are in NCR, 385 in Luzon, 245 in Visayas and 80 in Mindanao. They are enrolled in courses in Food and Beverage, Automobile Mechanic, Fitter Machinist, Electro-Mechanical Technician, and Refrigeration and Air-Conditioning. There are 113 graduates in 2016 bringing a total of 571 graduates to date. This year also marks the first general assembly for Tech-Voc scholars conducted in Mall of Asia, Pasay City.
- *School Building Project.* The Foundation helps provide access to public school education nationwide by narrowing the gap in public school building requirements. In 2016, the program built and donated 5 new two-storey 4-classroom school buildings with 20 classrooms in Baguio City, San Jose Del Monte in Bulacan, Consolacion and Bogo City in Cebu. To date, 80 school buildings with 248 classrooms have been donated to the public school system nationwide. During the year, the Foundation repaired 13 school buildings with 30 classrooms in Cavite, Baguio, Quezon City, Bacolod, Iloilo and Rosales, Pangasinan bringing to a total of 28 school buildings with 76 classrooms repaired to date since 2006. The beneficiary schools and occupants have been very appreciative of the building donations which came with armchairs, teachers' table and chair sets, blackboards, electric fans and wall clocks and washrooms. Aside from SM Prime Holdings, Inc., the school building project's major donor partners this year are Deutsche Bank AG Manila and DFS Group Limited.

Health and Medical Programs

The Health and Medical Programs cover six (6) areas of health and wellness, namely: Medical Missions, Mobile Clinic Services, Wellness Centers for the Children and the Elderly, Hospice Units, Felicidad T. Sy Wellness Centers and Felicidad T. Sy Wards and the Health Centers.

- *Medical Missions.* The "Gamot Para Sa Kapwa" program which started in 2002 is a comprehensive medical mission for indigent families within the vicinity of SM Malls as well as remote communities and disaster-stricken areas as a tangible and proactive response to



corporate advocacy and civic mindedness. It also provides literacy programs to enable communities to prevent and manage diseases long after the medical mission is gone.

These medical missions are being conducted in partnership with various government agencies such as the DOH, Philippine Red Cross, DSWD, local government units (LGUs), NGOs and various medical and dental societies, as well as private institutions. The Foundation also provides medical assistance to financially-constrained individuals, which involve providing financial supports for special medical cases through the Kapwa Ko, Mahal Ko Foundation.

- *SM Mobile Clinic.* The Foundations' 4 mobile clinics stationed in Luzon, National Capital Region, Visayas and Mindanao, make health services accessible. It was established in support of the medical missions, to provide diagnostic and laboratory services. These services are: chest X-Ray, ECG, urinalysis, bone density scanning, fasting/random blood sugar, uric acid test, cholesterol determination and dental tooth extractions. All services are free of charge. Since year 2002, 1,238 medical missions have been benefitting 938,377 individuals.
- *SM Wellness Centers.* The Foundation has pioneered in the establishment of Felicidad T. Sy Wellness Centers in 2002, which involves the renovation, refurbishment and enhancement of identified structures in government hospitals. These structures intend to serve dedicated sectors, such as children, the elderly, terminally ill, soldiers and persons with disabilities. The program aims to provide a therapeutic environment within the hospital or the health center where patients can momentarily forget their pain and suffering. With the center's patient-friendly approach, it is likewise hoped that patients' fears and apprehensions of doctors and hospitals are eased, if not totally dispelled. As of December 31, 2016, there are already 128 Felicidad T. Sy Wellness Centers (in government hospitals, community health centers and senior citizen centers).
- *Oral Health Program.* Tooth extraction has been and still is the only dental intervention during medical missions in different communities nationwide. Even with this effort, the problem of a number of children suffering from dental caries and carious lesions does not decrease. Furthermore, extraction does not seem to address the problem. There is only an increase in the number of children with missing teeth thus needing dentures. For the children not to experience removal of permanent molars so as to prevent being future denture wearers, Preventive and Restorative Dentistry is one of the objectives of the SM Medical and Dental Missions.

The program started in February 20, 2012 in partnership with the UP Pahinungod Society. The teachers, parents and students from Kinder and Grade I levels in Bulihan Elementary School in Nasugbu, Batangas were identified as the pilot school. For the past 4 years, toothbrushes and toothpaste, including plastic cups, are given quarterly to the students during dental health lectures and Oral Health Care activities such as fluoridation and prophylaxis treatments. This program shall run for 5 years, until the students included in this pilot program shall graduate from elementary.

- *SM Employees Blood Bank.* The Blood Bank for SM employees is a response to the seemingly overwhelming dependence of the public, SM employees included, on paid blood donations during emergencies. The blood is free of charge.

The Foundation was hailed as the pioneer in Virtual Blood Banking: no physical blood bank but we "bank blood" for our employees through the DOH's Philippine Blood Center.



Since its establishment in 2011, the Foundation has received the Jose Rizal Award for 4 consecutive years, the highest award given to an organization because of the Foundation's quarterly bloodletting activities conducted with the different SM Groups. The harvested blood products are banked with the DOH-Philippine Blood Center as an exclusive SM Blood Bank account.

- *Operation Tulong Express.* The Foundation implements special projects when the need arises. It is the Foundation's emergency response to victims of natural calamities and disasters. The Foundation gives immediate assistance in the form of medicines and provision relief packs containing basic needs such as food and water.

In 2016, a total of 11,000 families affected by Typhoon Lawin received Kalinga Packs through this program. 74% of the affected families in Region 1, 2, and CAR were provided with Kalinga Packs.

A total of 3,615 families affected by Typhoon Nina, and 4,000 families affected by heavy monsoon rains, received Kalinga Packs through this program. Moreover, 1,800 families in Mandaue, 148 families in Caloocan, and 600 families in Cebu City, were given Kalinga Packs during the fire calamity in their respective areas.

Livelihood and Outreach Programs

The Livelihood and Outreach Programs aim to empower the marginalized sector thru modern technological and skills development trainings leading to food security, sustainable livelihood opportunities and market linkages with emphasis on the biological importance of the environment. The program partners includes government institutions such as Department of Agriculture, DSWD, and the provincial government units and LGUs.

- *Farmers Training.* Kabalikat sa Kabuhayan Farmers' Rural Farmers Training Program started in August, 2007 is a season-long (12 weeks) lecture and hands-on technological training on production of high-value crops, fruits and vegetables, from seed selection, land preparation to post harvest. Training in accounting and saving, social entrepreneurship, and market linkages is incorporated in the program. Partnering with the Foundation in this endeavor is Harbest Agribusiness Corporation, in cooperation with the government institutions, provincial government units and LGUs.

The Kabalikat sa Kabuhayan Farmers' Rural Farmers Training Program was first launched in 2015 to provide training on the production of healthy and safe vegetables and fruits even with the limited space of a highly urbanized community. This 12 week- training covers seed management, garden preparation and management, and harvest Lectures withhands-on activities and home application of learned topics complete the training cycle. Marginalized families living in the cities can now look forward to alleviating hunger and malnutrition. The program partner is MacPlas Academy, in cooperation with the government institutions, provincial government units and LGUs.

In 2016, the Foundation conducted trainings to 2,638 farmers in 24 sites (rural and urban) in 68 municipalities and 203 barangays, directly benefiting an average of 13,190 families.

As at December 31, 2016, it has conducted 124 trainings in 619 cities or municipalities, 2,326 barangays, benefiting 15,388 farmers.



- *Grow a Million Trees Project (GAMT).* Launched in 2013 in support of Department of Environment and Natural Resources' (DENR) National Greening Program (NGP). It is an environmental initiative which is also aligned to sustainable livelihood. To ensure the survival of the trees, DENR's accredited people's organizations were contracted to become stewards of the GAMT site. From production of sapling of fruit trees and endemic trees, to land preparation, tree-planting activities, and maintenance up to the turn-over of project three years after the launch, the people's organizations take care of the trees. Within the three-year period, the DSWD helps strengthen the capabilities of the people's organizations by providing trainings under their Community-Driven Enterprise Development program. This project also aims to increase environmental awareness among the community, SM employees, affiliates, and volunteers demonstrating on how working together can create a better world for the next generation.

As at December 31, 2016, the SM Group has planted 536,479 trees all over the country.

Nasugbu Community Development Projects

- *Skills Training.* The SM Skills Training Center teaches landscaping, massage therapy, hospitality, housekeeping, food and beverage and commercial cookery. A new course, Tinapa-making was attended by 30 participants. This training workshop was conducted in partnership with Techno Learning Resources, Community Empowerment and Department of Science and Technology. The Foundation strengthened its partnerships with TESDA and Department of Education's Alternative Learning System for the modular guidelines. The Taal Vista Hotel, Costa Del Hamilo, Inc. (CDHI), Pico de Loro Beach and Country Club and Hotel Specialist (Pico de Loro), are industry partners for the on-the-job training and employment.
- *Agricultural Updates.* Agricultural experts issue the latest technological information for further development of our beneficiaries' agricultural skills.
- *Social Development Programs.* The Foundation provides allowances and supplies to Day Care Center teachers.
 - a. *Day Care Center Interaction.* The Foundation provides allowances and supplies to Day Care Center teachers. Once a month, SM volunteers run story-telling, fun games for the children. During the year, 4 day-care centers registered enrollment of 116 children.
 - b. *Youth Camp.* This is a 3-day activity for out-of-school youth from the 4 barangays to inculcate positive values. In 2016, a youth camp was held in Looc National High School which is the Foundation's beneficiary of its school building program. With the Couples for Christ - Youth for Family Life as partner, the program generated 112 youth participants.
 - c. *Kamustahan-Post Training Assessment.* A quarterly gathering with beneficiaries per project to assess program impact.
 - d. *Weekend Markets.* Beneficiaries are given the opportunity to sell their produce of fruits, vegetables and by-products in the weekend market of Pico de Loro.
 - e. *Pistang Pinoy.* A thanksgiving activity where beneficiaries are invited to celebrate a fruitful year of learning and harvest with the Foundation, CDHI, Pico de Loro, Pico Sands Hotel, Manila Southcoast Development Corporation, Taal Vista Hotel, SM Supermalls



and SM-Food Retail Group. SM Group volunteers to serve them by cooking and serving food, providing games and entertainment.

- *Animal Dispersal.* The Foundation initially distributed hogs, goats, carabaos and hens to the beneficiaries. To sustain the program, beneficiaries are required to return to the Foundation a certain number of piglets, goats, calves, and chicks which will be distributed to another set of beneficiaries. In 2016, the project benefitted 27 beneficiaries: 23 benefitted from the hogs, 3 from the goats, and 1 received a carabao to raise.

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.

Transactions with Related Parties

Transactions with related parties included in the financial statements are summarized below:

Category	Year	Amount/ Volume of Transactions	Outstanding Balance (see Note 7)	Terms	Conditions
Real estate development entities controlled by Members					
Donation income	2016	₱25,470,000	₱-	Noninterest-bearing	Unsecured
	2015	23,455,000	-		
Shopping mall development entities controlled by Members					
Donation income	2016	62,526,148	-	Noninterest-bearing	Unsecured
	2015	132,006,818	-		
Donations payable	2016	150,730	10,573	Noninterest-bearing	Unsecured
	2015	30,232,044	30,003,600		
Retail entities controlled by Members					
Donation income	2016	50,460,703	-	Noninterest-bearing	Unsecured
	2015	35,343,347	-		
Donations payable	2016	3,239,210	1,938,326	Noninterest-bearing	Unsecured
	2015	7,354,968	3,944,439		
Other related parties controlled by Members					
Donation income	2016	98,088,598	-	Noninterest-bearing	Unsecured
	2015	48,613,070	-		
Donations payable	2016	-	-	Noninterest-bearing	Unsecured
	2015	229,759	2,190		

Settlement of these related party transactions normally occurs in cash.

Donations Payable

Donations payable pertain to unpaid expenditures related to the Foundation's projects which are expected to be settled within the next financial year.



10. Pension Benefits

The following tables summarize the components of the Foundation's net pension 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.

Pension Expense (Income)

	2016	2015
Expected return on plan assets	(P645,060)	(P843,087)
Current service cost	635,277	524,125
Effect of asset limit	145,870	133,799
Interest cost	293,113	265,821
Net actuarial loss (gain) recognized in the year	164,270	(85,031)
Pension expense (income)	P593,470	(P4,373)
Actual return on plan assets	P750,729	P5,904

Pension Asset - net

	2016	2015
Fair value of plan assets	P11,138,755	P10,750,994
Present value of defined benefit obligation	(6,549,064)	(5,713,703)
Funded status	4,589,691	5,037,291
Amount not recognized due to asset limit	(1,025,297)	(879,427)
Pension asset	P3,564,394	P4,157,864

Changes in the Present Value of Defined Benefit Obligation

	2016	2015
At beginning of year	P5,713,703	P5,960,119
Current service cost	635,277	524,125
Benefits paid	(362,968)	(114,148)
Interest cost	293,113	265,821
Actuarial loss (gain) on obligation	269,939	(922,214)
At end of year	P6,549,064	P5,713,703

Changes in the Fair Value of Plan Assets

	2016	2015
At beginning of year	P10,750,994	P10,538,591
Expected return on plan assets	645,060	843,087
Benefits paid	(362,968)	(114,148)
Actuarial gain (loss) on plan asset	105,669	(837,183)
Contributions	-	320,647
At end of year	P11,138,755	P10,750,994



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

	2016	2015
Discount rate	6.1%	5.1%
Expected rate of return on plan assets	3.0%	6.0%
Future salary rate increases	9.0%	9.0%

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by Board of Trustees of the Plan.

The following table presents the carrying amounts and estimated fair values of the assets of the Plan:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment in government securities	₱5,552,782	₱5,552,782	₱5,180,662	₱5,180,662
Investment in common trust funds	3,785,164	3,785,164	3,528,137	3,528,137
Cash and cash equivalents	1,330,547	1,330,547	1,628,670	1,628,670
Investment in equity securities	399,082	399,082	344,656	344,656
Others	71,180	71,180	68,869	68,869
	₱11,138,755	₱11,138,755	₱10,750,994	₱10,750,994

- Investments in government securities consisting of retail treasury bonds that bear interest ranging from 2.13% to 8.75% have maturities from March 31, 2017 to December 16, 2035 and January 27, 2016 to November 29, 2032 in 2016 and 2015, respectively. Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 4.00% to 6.80% and have maturities from June 8, 2019 to October 25, 2025 in 2016 and interest ranging from 4.38% to 6.80% and have maturities from June 8, 2019 to April 2025 in 2015;
- Investment in common trust funds consists of unit investment trust fund placements;
- Cash and cash equivalents include regular savings and time deposits;
- Investment in equity securities consists of listed and unlisted equity securities; and
- Others pertain to accrued interest income on cash deposits held by the Plan.

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

	2016	2015
Government securities	49.9%	48.2%
Common trust fund	34.0%	32.8%
Cash and cash equivalents	11.9%	15.1%
Equity securities	3.6%	3.2%
Others	0.6%	0.7%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date.

The Foundation does not expect to contribute to its defined benefit pension plan in 2017.



11. Supplementary Information Required Under Revenue Regulations (RR) 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.

