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### United Nations Children's Fund

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### Private Sector Division

#### **Financial report and statements for the year ended 31 December 2006\*\***

#### *Summary*

This document presents the results achieved by the UNICEF Private Sector Division (PSD) for the year ended 31 December 2006. The total net income from PSD activities for the year was \$392.6 million for regular resources, \$104.0 million (36 per cent) higher than the \$288.6 million raised in 2005. The total net income for 2006 includes \$337.6 million from private sector fund-raising activities, \$56.9 million from the sale of UNICEF cards and gifts, and a positive exchange rate adjustment of \$15.3 million, less investment fund expenditures of \$17.2 million. In addition to the regular resources income noted above, \$342.3 million of earmarked funds were raised for other resources from private sector fund-raising activities. The net consolidated income for 2006, including both regular and other resources, amounted to \$734.9 million, a decrease of \$323.3 million (30.5 per cent) compared with the 2005 net consolidated income of \$1,058.2 million, which included \$527.7 million raised for the UNICEF emergency appeals for the Indian Ocean tsunami and South Asia earthquake.

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\* E/ICEF/2007/13.

\*\* This document was submitted late because of the need for internal consultations.

## Contents

	<i>Page</i>
Financial report for the year ended 31 December 2006 .....	3
A. An overview of the results .....	3
B. Financial statements for the year ended 31 December 2006 .....	3
Statement I. Statement of income and expenditure for the year ended 31 December 2006. .	4
Statement II. Statement of assets and liabilities as at 31 December 2006 .....	5
Statement III. Statement of the results for the year ended 31 December 2006 compared with the approved budget.....	6
C. Notes to the financial statements .....	7

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## **Financial report for the year ended 31 December 2006**

### **A. An overview of the results**

1. The total net income contribution to UNICEF regular resources from PSD activities was \$392.6 million. This compares with \$288.6 million in 2005, an increase of \$104.0 million (36 per cent). The contribution consists of \$337.6 million net operating income from private sector fund-raising activities, \$56.9 million net operating income from the sale of UNICEF cards and gifts, a positive exchange rate adjustment of \$15.3 million, less investment fund expenditures of \$17.2 million.

2. Gross proceeds from UNICEF card and gift sales amounted to \$147.0 million, compared to \$145.6 million in 2005.

3. The net operating income from private sector fund-raising activities related to regular resources was \$337.6 million in 2006, compared to \$255.7 million in 2005, an increase of \$81.9 million (32.0 per cent). In addition, \$342.3 million was raised from private sector fund-raising activities that were earmarked by donors to other resources, a decrease of \$427.3 million (or 55.5 per cent) compared to the \$769.6 million raised in 2005 which included \$527.7 million raised for the UNICEF emergency appeals for the Indian Ocean tsunami and South Asia earthquake.

### **B. Financial statements for the year ended 31 December 2006**

4. The three financial statements that follow are supported by explanatory notes, including a summary of significant accounting policies (see paragraphs 6-16).

<b>Statement I</b>							
<b>Statement of income and expenditure for the year ended 31 December 2006</b>							
(In thousands of United States dollars)							
	Note a/	31 December 2006		31 December 2005		Variance Increase/(decrease)	
			%		%		%
Gross proceeds - cards and gifts	3	146,966	100.0	145,645	100.0	1,321	0.9
Less: Retention/commissions and direct expenses at country offices	4	54,564	37.1	46,513	31.9	8,051	17.3
Net proceeds		92,402	62.9	99,132	68.1	(6,730)	(6.8)
Less: Cost of goods delivered	5	27,107	18.4	27,057	18.6	50	0.2
		65,295	44.5	72,075	49.5	(6,780)	(9.4)
Less: Operating costs	6	24,702	16.8	23,269	16.0	1,433	6.2
Provision for uncollectible accounts receivable and write-off	7	1,851	1.3	1,642	1.1	209	12.7
		38,742	26.4	47,164	32.4	(8,422)	(17.9)
Add: Other income	8	18,110	12.3	16,440	11.3	1,670	10.2
Net operating income - cards and gifts	9	56,852	38.7	63,604	43.7	(6,752)	(10.6)
Net operating income – Private sector fund-raising <u>b/</u>	10	337,567		255,677		81,890	32.0
Less Investment Fund Expenditures	11	17,167		16,363		804	4.9
<b>Total net operating income</b>	<b>12</b>	<b>377,252</b>		<b>302,918</b>		<b>74,334</b>	<b>24.5</b>
Exchange rate adjustment	13	15,301		(14,353)		29,654	206.6
<b>Total net income</b>	<b>14</b>	<b>392,553</b>		<b>288,565</b>		<b>103,988</b>	<b>36.0</b>

a/The accompanying notes (see paragraphs 17-32) form an integral part of this statement and should be read in conjunction with it.

b/ Excluding \$342.3 million recognized as other resources, compared to \$769.6 million in 2005. This is shown in the UNICEF financial statements.

**STATEMENT II****Statement of assets and liabilities as at 31 December 2006**  
(In thousands of United States dollars)

	Note	As at 31 December 2006	As at 31 December 2005	Increase/(decrease)
	a/			
<b>ASSETS</b>				
Bank	15	1,268	16	1,252
Accounts receivable	16	354,183	309,692	44,491
Less: Provision for uncollectible accounts receivable		8,454	7,265	1,189
Net accounts receivable	17	345,729	302,427	43,302
Inventory	18	9,748	6,895	2,853
Prepaid expenses	19	36	41	(5)
Capital assets, net of accumulated depreciation	20	0	0	0
<b>TOTAL ASSETS</b>		<b>356,781</b>	<b>309,379</b>	<b>47,402</b>
<b>LIABILITIES</b>				
Accounts payable	21	4,776	4,302	474
UNICEF inter-office account	22	352,005	305,077	46,928
<b>TOTAL LIABILITIES</b>		<b>356,781</b>	<b>309,379</b>	<b>47,402</b>

a/The accompanying notes (see paragraphs 33-40) form an integral part of this statement and should be read in conjunction with it.

**(Signed) Philip O'Brien,**  
Acting Director  
Private Sector Division

**(Signed) Lawrence Picard**  
Deputy Director,  
Operations and Finance,  
Private Sector Division

**STATEMENT III**  
**Statement of the results for the year ended 31 December 2006**  
**compared with the approved budget**  
(In millions of United States dollars)

	Note 23 *	Actual	Budget **	Variance Increase/(decrease)	
				\$	%
<b>Income</b>					
Gross proceeds - cards and gifts	(a)	147.0	161.0	(14.0)	(8.7)
Less: National Committees' expenditures		49.5	50.5	(1.0)	(2.0)
Net proceeds		97.5	110.5	(13.0)	(11.8)
Add: Other income		18.1	9.2	8.9	96.7
Net proceeds - cards and gifts		115.6	119.7	(4.1)	(3.4)
Net proceeds - private sector fund-raising	(b)	351.6	320.0	31.6	9.9
Total net proceeds (regular resources)	(c)	467.2	439.7	27.5	6.3
<b>Expenditures</b>					
Cost of goods delivered		27.1	32.0	(4.9)	(15.3)
Marketing expenditures		27.6	30.9	(3.3)	(10.7)
Support services		18.0	21.0	(3.0)	(14.3)
Investment Fund Expenditures		17.2	21.4	(4.2)	(19.6)
Total expenditures		89.9	105.3	(15.4)	(14.6)
Total net income before adjustments		377.3	334.4	42.9	12.8
<b>Adjustments</b>					
Exchange rate adjustment		15.3	-	15.3	-
Total net income after adjustments - regular resources	(d)	392.6	334.4	58.2	17.4
Add: other resources - private sector fund-raising		342.3	250.0	92.3	36.9
<b>Net consolidated income - regular resources and other resources</b>	(e)	734.9	584.4	150.5	25.8

\* See paragraph 41.

\*\* In accordance with Executive Board decision 2006/5, the approved budget reflected is the medium projection (column II, Table 7 of document E/ICEF/2006/AB/L.2).

## C. Notes to the financial statements

### Note 1. Objectives and activities

5. With the goal of raising resources and enhancing public and private sector support for UNICEF programmes, PSD provides strategic direction, technical support and guidance to private sector fund-raising activities of National Committees for UNICEF and UNICEF country offices, and engages directly in developing and managing multi-country corporate alliances and partnerships.

### Note 2. Summary of significant accounting policies

6. The financial statements are prepared in accordance with the Financial Regulations and Rules of the United Nations Children's Fund (E/ICEF/FINANCIAL RULES/1) and with the Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

7. The PSD fiscal year is 1 January to 31 December, pursuant to Executive Board decision 1996/22 C.5 (E/ICEF/1996/12/Rev.1).

8. The accounts of PSD are incorporated into the UNICEF accounts as at 31 December. Consistent year-end cut-off procedures are in effect to incorporate PSD accounts into the UNICEF financial statements.

9. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rates of exchange on the transaction date.

10. Gross proceeds from the sale of UNICEF cards and gifts are accrued on the basis of the Revenue and Expenditure Reports received from sales partners shortly after the year-end. All but three National Committees for UNICEF (Canada, Japan and the United States) have the same fiscal year as that of UNICEF. While the Revenue and Expenditure Reports from the National Committees for Japan and Canada are based on a fiscal year covering the period 1 April to 31 March, the United States Fund for UNICEF reports on a calendar year basis, although its financial year ends on 31 May.

11. Gross proceeds from card and gift sales are recorded in local currency and converted into United States dollars at the United Nations operational rates of exchange prevailing on 31 December. The accrual is adjusted in the following year upon receipt of the final Revenue and Expenditure Report. In cases where the provisional Revenue and Expenditure Report is not received from a sales partner in time for the year-end closure of accounts, gross proceeds are accrued based on deliveries to that sales partner for the year, less an allowance for unsold goods.

12. Assets and liabilities in currencies other than the United States dollar are valued for accounting purposes at the prevailing United Nations rates of exchange. Any variance in valuation caused by fluctuation of those rates is accounted for as a gain or loss and is included in the statement of income and expenditure under exchange rate adjustment. In accordance with PSD accounting policy, a provision to cover accounts receivable that are considered doubtful for collection may be established. This provision, if made, is shown as a deduction from the accounts receivable on the statement of assets and liabilities.

13. The inventory of work in process and finished goods is valued at standard cost, while raw materials are valued at moving average cost. It is PSD policy to write-down unsold cards and dated gifts at the end of the first sales campaign year, and all other gifts at the end of the second sales campaign year. Gifts that have been written down and carried forward are valued at their add-on cost. All publicity and promotion materials produced in the current campaign year, but relating to future campaign years, are shown at standard cost and included in inventory.

14. Capital assets costing \$100,000 or more are capitalized and depreciated over their estimated useful life.

15. Liabilities are accrued in the PSD accounts following recognized accounting standards, and appropriate cut-off procedures are followed consistently.

16. Income from private sector fund-raising activities and related expenses are recorded separately in the PSD accounts. The net proceeds raised by National Committees from private sector fund-raising activities for regular resources are recorded based on the provisional Revenue and Expenditure Reports submitted by the National Committees after the year-end. These are then adjusted in the following year upon receipt of the final Revenue and Expenditure Reports.

## **Statement I**

### **Note 3. Gross proceeds — cards and gifts**

17. Gross proceeds from UNICEF card and gift sales for 2006 amounted to \$146.9 million, compared to \$145.6 million in 2005, an increase of \$1.3 million (0.9 per cent).

18. A pilot partnership agreement was signed with the United States Fund for UNICEF and Hallmark Cards, Inc. in 2005. The relationship with Hallmark, inaugurated in 2006, represents an entirely new business model for UNICEF and the United States Fund. The United States-based cards activity has been fully outsourced and operationally simplified: Hallmark now designs, manufactures, warehouses, distributes, and sells cards and products on behalf of UNICEF in the United States, and remits a percentage of the retail sales to UNICEF. News of this change has been shared with the Executive Board at recent sessions.

19. The net proceeds from the Hallmark activities are reported as other income, under the heading “Licensed products and royalties”.

### **Note 4. National Committee expenditures, commissions and direct expenses at country offices**

20. This item consists of the expenditures recorded by National Committees and other partners, commissions paid to consignees, and direct operating expenses at UNICEF country offices. For 2006, this amounted to \$54.6 million, an increase of \$8.1 million (17.3 per cent) compared to \$46.5 million in 2005. This increase was made up of an increase of \$7.6 million (17.7 per cent) in National Committees’ retention and commission paid to third parties, primarily due to the weakening of the United States dollar against major currencies and to accounting adjustments. There was also an increase of \$0.5 million (14.3 per cent) in the direct expenses of UNICEF country offices. A breakdown is given below:

	<i>(In millions of United States dollars)</i>			
	2006	2005	<i>Increase/(decrease)</i>	
			\$	%
National Committee				
Expenditures/commissions	50.6	43.0	7.6	17.7
Country offices' expenses	4.0	3.5	0.5	14.3
<b>Total</b>	<b>54.6</b>	<b>46.5</b>	<b>8.1</b>	<b>17.3</b>

**Note 5. Cost of goods delivered**

21. The cost of goods delivered, freight, duties and taxes, and promotional materials amounted to \$27.1 million, with no change compared to 2005. This was made up of an increase of \$1.1 million (32.3 per cent) in costs associated with freight, duties and taxes, and a decrease of \$1.1 million (20.0 per cent) in the costs of promotional materials compared to 2005. There was no change in the total direct cost of goods delivered. Details are presented below:

	<i>(In millions of United States dollars)</i>			
	2006	2005	<i>Increase/(decrease)</i>	
			\$	%
Cost of goods delivered	18.2	18.2	0.0	0.0
Freight, duties and taxes	4.5	3.4	1.1	32.3
Promotional materials	4.4	5.5	(1.1)	(20.0)
<b>Total</b>	<b>27.1</b>	<b>27.1</b>	<b>0.0</b>	<b>(0.0)</b>

**Note 6. Operating costs**

22. Operating costs amounted to \$24.7 million in 2006 compared to \$23.3 million in 2005, an increase of \$1.4 million, or 6.2 per cent. The costs related to card and gift sales increased by \$0.7 million, or 11.7 per cent, compared to the previous year, while operating costs of operations and finance increased by \$0.8 million (4.7 per cent). The expenses are summarized below:

	<i>(In millions of United States dollars)</i>			
	2006	2005	<i>Increase/(decrease)</i>	
			\$	%
Card and gift sales	6.7	6.0	0.7	11.7
Operations and finance	17.8	17.0	0.8	4.7
Director's office	0.2	0.3	(0.1)	(33.3)
<b>Total</b>	<b>24.7</b>	<b>23.3</b>	<b>1.4</b>	<b>6.2</b>

**Note 7. Provision for uncollectible accounts receivable and write-off**

23. The total provision for 2006 amounted to \$1.8 million, an increase of \$0.2 million (12.7 per cent) compared to 2005. This was made up of a provision of \$1.2 million for accounts receivable deemed doubtful and a write-off of \$0.6 million of accounts receivable deemed irrecoverable.

**Note 8. Other income**

24. Other income is based on income reported by partners by 31 December and comprises the following:

(a) **income from licensed products and royalties**, which includes income from the sale of National Committee products during the previous year, and the income from the United States Fund for UNICEF partnership with Hallmark for the current year;

(b) **catalogue donations** of the previous year, which represent contributions generated through PSD brochures/order forms;

(c) **miscellaneous income related to financial operations**, which includes discounts on purchases, miscellaneous proceeds and refunds of unspent investment funds received during the year, and bank interest income received and reported by National Committees in the previous year.

25. Other income in 2006 amounted to \$18.1 million, compared with \$16.4 million in 2005, an increase of \$1.7 million (10.2 per cent). While income from licensed products increased by \$3.5 million (134.6 per cent) due primarily to the United States Fund for UNICEF partnership income from Hallmark, income from catalogue donations declined by \$0.2 million (4.3 per cent), and miscellaneous income decreased by \$1.6 million (17.4 per cent) compared to 2005.

	<i>(In millions of United States dollars)</i>			
	2006	2005	<i>Increase/(decrease)</i>	
			\$	%
Licensed products & royalties	6.1	2.6	3.5	134.6
Catalogue donations	4.4	4.6	(0.2)	(4.3)
Miscellaneous income	7.6	9.2	(1.6)	(17.4)
<b>Total</b>	<b>18.1</b>	<b>16.4</b>	<b>1.7</b>	<b>10.2</b>

**Note 9. Net operating income — cards and gifts**

26. For the 2006 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to \$56.9 million, a decrease of \$6.8 million, or 10.6 per cent, compared to 2005. As a percentage of gross proceeds, net operating income fell to 38.7 per cent from 43.7 per cent a year earlier. This was due primarily to an increase of 17.3 per cent in National Committees' retention, commissions and country office expenses.

27. During the nine months of the activity of the new Hallmark partnership in 2006, the greeting card volume in the United States of America increased by 54 per

cent, from 8.2 million to 12.6 million cards. The net operating income, compared to the results delivered by the United States Fund for UNICEF in 2005, was reduced by \$2.5 million. This outcome is fully in line with expectations for 2006, and the long-term outlook for profitability and volume growth remains excellent.

**Note 10. Net operating income — private sector fund-raising**

28. As presented in the table below, total net proceeds from private sector fund-raising activities reported by partners by 31 December 2006 amounted to \$351.6 million for regular resources, an increase of \$83.2 million (31.0 per cent) compared to 2005.

29. The net operating income from private sector fund-raising activities related to regular resources in 2006 amounted to \$337.6 million, compared to \$255.7 million in 2005, an increase of \$81.9 million (32.0 per cent). The net operating income from private sector fund-raising activities related to regular resources was net of the amount retained by the National Committees; of operating expenses related to private sector fund-raising activities, including country office expenses; and of research and development.

30. In addition to the net operating income from private sector fund-raising activities related to regular resources, \$342.3 million was raised in 2006 and earmarked to various UNICEF other resources projects. The corresponding amount for 2005 was \$769.6 million, which included \$527.7 million for the UNICEF emergency appeals for the Indian Ocean tsunami and South Asia earthquake. This amount is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial statements.

31. Private sector fund-raising expenses for 2006 included \$2.2 million (compared to \$1.7 million in 2005) for research and development to develop new methods for, and test, fund-raising campaigns.

	<i>(In millions of United States dollars)</i>			
	2006	2005	Increase/(decrease)	
			\$	%
Net proceeds	351.6	268.4	83.2	31.0
Less:				
Operating expenses	7.5	7.4	0.1	1.4
Country office expenses	4.3	3.6	0.7	19.4
Research and development	2.2	1.7	0.5	29.4
<b>Net operating income</b>	<b>337.6</b>	<b>255.7</b>	<b>81.9</b>	<b>32.0</b>

**Note 11. Investment Fund Expenditures**

32. To enable PSD to continue to fulfil its mandate in raising funds from private sector fund-raising activities and card and gift sales, the Executive Board approved for 2006 a budget of \$21.4 million for Investment Fund Expenditures. The objective of investment funds is to increase the capacity of National Committees and UNICEF country offices to build a broader support base in raising funds from the private

sector and to test and evaluate new income-generating initiatives, focusing primarily on projects offering high rates of returns. In 2006, the total expenditure for investment funds was \$17.2 million, compared to \$16.4 million in 2005.

**Note 12. Total net operating income**

33. The total net operating income from private sector fund-raising activities for regular resources and UNICEF card and gift sales amounted to \$377.3 million, an increase of \$74.3 million (or 24.5 per cent) compared to 2005.

**Note 13. Exchange rate adjustment**

34. The exchange rate adjustment in 2006 amounted to a gain of \$15.3 million, compared to a loss of \$14.4 million in 2005. This gain was due to the impact of the weakening of the United States dollar against major currencies on PSD's receivables not denominated in United States dollars.

**Note 14. Total net income**

35. After adding the positive exchange rate adjustment, the total net income from UNICEF card and gift sales and private sector fund-raising activities in 2006 was \$392.6 million, an increase of \$104 million (36 per cent) compared to the total net income of \$288.6 million in 2005.

## **Statement II**

**Note 15. Bank**

36. The debit balance of \$1.27 million as at 31 December 2006 comprises balances of PSD bank accounts. Of the \$1.25 million increase in the year-end balance, \$1.19 million pertains to one bank account that was cleared in 2007.

**Note 16. Accounts receivable**

37. Accounts receivable include amounts due from National Committees and other partners for revenues from UNICEF card and gift sales, private sector fund-raising activities, royalties and miscellaneous receivables. The gross accounts receivable as at 31 December 2006 amounted to \$354.2 million, an increase of \$44.5 million (14.4 per cent) over the balance as at 31 December 2005. The increase was due to the higher net proceeds from fund-raising of \$ 351.6 million recorded in 2006 compared to \$268.4 million in 2005.

**Note 17. Net accounts receivable**

38. In accordance with PSD accounting policy (see paragraph 12 above), a provision to cover accounts receivable that are considered doubtful for collection may be established. For 2006, the provision for uncollectible accounts amounted to \$8.5 million, compared to \$7.3 million in 2005. Net accounts receivable after deducting the provision for uncollectible accounts amounted to \$345.7 million.

**Note 18. Inventory**

39. Inventory as at 31 December 2006 amounted to \$9.7 million, an increase of \$2.9 million (40.6 per cent) compared to the balance as at 31 December 2005, and this was largely due to an increase in the number and volume of gift items purchased and remaining unsold at the year-end. A comparison is presented below:

	<i>(In millions of United States dollars)</i>	
	2006	2005
Raw materials & Work in process	2.8	2.9
Finished goods	6.9	4.0
<b>Total</b>	<b>9.7</b>	<b>6.9</b>

**Note 19. Prepaid expenses**

40. Prepaid expenses as at 31 December 2006 amounted to \$0.04 million, the same as in the previous year, and related to a warehouse rental deposit.

**Note 20. Capital assets, net of accumulated depreciation**

41. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 31 December 2006, presented below). In accordance with PSD accounting policies, capital assets costing \$0.1 million or more are capitalized and depreciated over their estimated useful life. There was no new acquisition in 2006.

	<i>(In millions of United States dollars)</i>	
	2006	2005
Production machinery	1.1	1.1
Office equipment and leasehold improvements	1.6	1.6
<b>Subtotal</b>	<b>2.7</b>	<b>2.7</b>
Accumulated depreciation	(2.7)	(2.7)
<b>Total</b>	<b>0.0</b>	<b>0.0</b>

**Note 21. Accounts payable**

42. Total accounts payable as at 31 December 2006 amounted to \$4.8 million, an increase of \$0.5 million (11.0 per cent) compared with the balance as at 31 December 2005.

**Note 22. UNICEF inter-office account**

43. This reflects the net result of transactions between PSD and other UNICEF offices, which, as at 31 December 2006, was \$352.0 million. This amount includes monies advanced as working capital to PSD. PSD earnings for each fiscal period are transferred to UNICEF via this account.

### Statement III

#### Note 23. Comparison of 2006 actual results with budget

44. Some major highlights of PSD performance in 2006 compared with the approved budget are as follows:

(a) Gross proceeds from UNICEF card and gift sales were \$147.0 million, or 8.7 per cent less than the budget (medium projection) of \$161.0 million;

(b) Net proceeds from private sector fund-raising activities were \$351.6 million, or 9.9 per cent higher than the budgeted amount of \$320.0 million;

(c) Total net proceeds from PSD-related activities (regular resources) were \$467.2 million, or 6.3 per cent higher than budget;

(d) The total net income after adjustments (regular resources) was \$392.6 million, or 17.4 per cent higher than the budget of \$334.4 million;

(e) The net consolidated income for both regular resources and other resources was \$734.9 million, or 25.8 per cent higher than the budget of \$584.4 million.

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