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Private Sector Division

Financial report and statements for the year ended 31 December 2007

Summary

This document presents the results achieved by the UNICEF Private Sector Division (PSD) for the year ended 31 December 2007. Beginning 1 January 2008, PSD became part of the enlarged Private Fundraising and Partnerships Division. The report for 2008 will reflect this change.

Total net income from PSD activities for the year was \$391.0 million for regular resources, \$1.5 million (0.4 per cent) lower than the \$392.5 million raised in 2006. The total net income for 2007 includes \$343.3 million from private fund-raising activities, \$63.4 million from the sale of UNICEF cards and gifts, and a positive exchange rate adjustment of \$3.5 million, less investment fund expenditures of \$19.2 million.

In addition to the regular resources income noted above, \$322.9 million of earmarked funds were raised for other resources from private fund-raising activities. The net consolidated income for 2007, including both regular and other resources, amounted to \$713.9 million, a decrease of \$21.0 million (2.9 per cent) compared with the 2006 net consolidated income of \$734.9 million.

* E/ICEF/2008/16.

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Financial report for the year ended 31 December 2007

A. An overview of the results

1. Total net income contribution to UNICEF regular resources from PSD activities was \$391.0 million. This compares with \$392.5 million in 2006, a decrease of \$1.5 million (0.4 per cent). The contribution consists of \$343.3 million net operating income from private fund-raising activities, \$63.4 million net operating income from the sale of UNICEF cards and gifts, a positive exchange rate adjustment of \$3.5 million, less investment fund expenditures of \$19.2 million.

2. Gross proceeds from UNICEF card and gift sales amounted to \$156.2 million, compared to \$147.0 million in 2006.

3. The net operating income from private fund-raising activities related to regular resources was \$343.3 million in 2007, compared to \$337.6 million in 2006, an increase of \$5.7 million (1.7 per cent). In addition, \$322.9 million was raised from private fund-raising activities that were earmarked by donors to other resources, a decrease of \$19.4 million (or 5.7 per cent) compared to the \$342.3 million raised in 2006.

B. Financial statements for the year ended 31 December 2007

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

STATEMENT I							
Statement of income and expenditure for the year ended 31 December 2007							
(In thousands of United States dollars)							
	Note*	31 December 2007		31 December 2006		Variance	
			%		%	Increase/(decrease)	%
Gross proceeds - cards and gifts	3	156,222	100.0	146,966	100.0	9,256	6.3
Less: Retention/commissions and direct expenses at field offices	4	58,553	37.5	54,564	37.1	3,989	7.3
Net proceeds		97,669	62.5	92,402	62.9	5,267	5.7
Less: Cost of goods delivered	5	29,259	18.7	27,107	18.4	2,152	7.9
		68,410	43.8	65,295	44.4	3,115	4.8
Less: Operating costs	6	25,392	16.3	24,702	16.8	690	2.8
Provision for uncollectible accounts receivable	7	2,192	1.4	1,851	1.3	341	18.4
		40,826	26.1	38,742	26.4	2,084	5.4
Add: Other income	8	22,620	14.5	18,110	12.3	4,510	24.9
Net operating income - cards and gifts	9	63,446	40.6	56,852	38.7	6,594	11.6
Net operating income – Private fund-raising ^{a/}	10	343,257		337,567		5,690	1.7
Less Investment Fund Expenditures	11	19,209		17,167		2,042	11.9
Total net operating income	12	387,494		377,252		10,242	2.7
Less: Exchange rate adjustment	13	(3,522)		(15,301)		(11,779)	77.0
Total net income	14	391,016		392,553		(1,537)	(0.4)
<p>* The accompanying notes (see paragraphs 17-35) form an integral part of this statement and should be read in conjunction with it.</p> <p>a/ Excluding \$322.9 million recognized as other resources, compared to \$342.3 million in 2006. This is shown in the UNICEF financial statements.</p>							
<p>Philip O'Brien Director (Signed)</p>				<p>Lawrence Picard Deputy Director, Operations and Finance (Signed)</p>			

STATEMENT II
Statement of assets and liabilities as at 31 December 2007
(In thousands of United States dollars)

	Note	As at 31 December 2007	As at 31 December 2006	Increase/(decrease)
ASSETS				
Bank	15	747	1,268	(521)
Accounts receivable	16	393,074	354,183	38,891
Less: Allowance for uncollectible accounts		9,348	8,454	894
Net accounts receivable	17	383,726	345,729	37,997
Inventory	18	13,667	9,748	3,919
Prepaid expenses	19	35	36	(1)
Capital assets, net of accumulated depreciation	20	0	0	0
TOTAL ASSETS		<u>398,175</u>	<u>356,781</u>	<u>41,394</u>
LIABILITIES				
Accounts payable	21	2,327	4,776	(2,449)
UNICEF inter-office account	22	395,848	352,005	43,843
TOTAL LIABILITIES		<u>398,175</u>	<u>356,781</u>	<u>41,394</u>
				-

The accompanying notes (see paragraphs 36-43) form an integral part of this statement and should be read in conjunction with it.

Philip O'Brien
Director
(Signed)

Lawrence Picard
Deputy Director, Operations and Finance
(Signed)

STATEMENT III
Statement of the results for the year ended 31 December 2007
compared with the approved budget
(In millions of United States dollars)

	Note 23 *	Actual	Budget **	Variance Increase/(decrease)	
				\$	%
Income					
Gross proceeds - cards and gifts	(a)	156.2	160.4	(4.2)	(2.6)
Less: National Committees' expenditures		53.0	49.6	3.4	6.9
Net proceeds		103.2	110.8	(7.6)	(6.9)
Add: Other income		22.6	15.0	7.6	50.7
Net proceeds - cards and gifts		125.8	125.8	0.0	0.0
Net proceeds - private fund-raising	(b)	359.8	337.5	22.3	6.6
Total net proceeds (regular resources)	(c)	485.6	463.3	22.3	4.8
Expenditures					
Cost of goods delivered		29.3	31.9	(2.6)	(8.2)
Marketing expenditures		30.7	35.4	(4.7)	(13.3)
Support services		18.9	21.8	(2.9)	(13.3)
Investment Fund expenditures		19.2	21.4	(2.2)	(10.3)
Total expenditures		98.1	110.5	(12.4)	(11.2)
Total net income before adjustments		387.5	352.8	34.7	9.8
Adjustments					
Exchange rate adjustment		3.5	0.0	3.5	0.0
Total net income after adjustments - regular resources	(d)	391.0	352.8	38.2	10.8
Add: other resources - private fund-raising		322.9	336.3	(13.4)	(4.0)
Net consolidated income - regular resources and other resources	(e)	713.9	689.1	24.8	3.6

* 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/2007/AB/L.3).

C. Notes to the financial statements

Note 1. Objectives and activities

5. With the goal of raising resources and enhancing public and private support for UNICEF programmes, PSD has provided strategic direction, technical support and guidance to private fund-raising activities of National Committees for UNICEF and UNICEF country offices, and has engaged 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 (Canada, Japan and the United States) have the same fiscal year as UNICEF. The National Committees for Japan and Canada report on a fiscal year covering the period 1 April to 31 March. The United States Fund reports on a calendar year cycle.

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 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 fund-raising activities and related expenses is recorded separately in the PSD accounts. The net proceeds raised by National Committees from private 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 2007 amounted to \$156.2 million, compared to \$147.0 million in 2006, an increase of \$9.2 million (6.3 per cent).

18. A pilot partnership agreement was signed with the United States Fund for UNICEF and Hallmark Cards, Inc. in 2005. 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

19. 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 2007, this amounted to \$58.6 million, an increase of \$4.0 million (7.3 per cent) compared to \$ 54.6 million in 2006. This increase was made up of an increase of \$ 3.6 million (7.1 per cent) in National Committees’ retention and commission paid to third parties, primarily due to the weakening of the United States dollar against all major currencies. There was also an increase of \$0.4 million (10.0 per cent) in the direct expenses of UNICEF country offices. A breakdown is given below:

	<i>(In millions of United States dollars)</i>			
	2007	2006	<i>Increase/(decrease)</i>	
			\$	%
National Committee				
Expenditures/commissions	54.2	50.6	3.6	7.1
Country offices' expenses	4.4	4.0	0.4	10.0
Total	58.6	54.6	4.0	7.3

Note 5. Cost of goods delivered

20. The cost of goods delivered, freight, duties and taxes, and promotional materials amounted to \$29.3 million, an increase of \$2.2 million compared to 2006. This was made up of an increase of \$2.1 million (11.5 per cent) in the cost of goods delivered, an increase of \$0.7 million (15.9 per cent) in the costs of promotional materials costs, and a decrease of \$0.6 million (13.3 per cent) in the costs of freight, duties and taxes, compared to 2006. Details are presented below:

	<i>(In millions of United States dollars)</i>			
	2007	2006	<i>Increase/(decrease)</i>	
			\$	%
Cost of goods delivered	20.3	18.2	2.1	11.5
Freight, duties and taxes	3.9	4.5	(0.6)	(-13.3)
Promotional materials	5.1	4.4	0.7	15.9
Total	29.3	27.1	2.2	7.9

Note 6. Operating costs

21. Operating costs amounted to \$25.4 million in 2007 compared to \$24.7 million in 2006, an increase of \$0.7 million, or 2.8 per cent. The costs related to card and gift sales decreased by \$0.2 million, or 3.0 per cent, compared to the previous year, while operating costs of operations and finance increased by \$0.9 million (5.0 per cent). The expenses are summarized below:

	<i>(In millions of United States dollars)</i>			
	2007	2006	<i>Increase/(decrease)</i>	
			\$	%
Card and gift sales	6.5	6.7	(-0.2)	(-3.0)
Operations and finance	18.9	18.0	0.9	5.0
Total	25.4	24.7	0.7	2.8

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

22. The total provision for 2007 amounted to \$2.2 million, an increase of \$0.3 million (18.4 per cent) compared to 2006. This was made up of a provision of \$0.9 million for accounts receivable deemed doubtful and a write-off of \$1.3 million of accounts receivable deemed irrecoverable.

Note 8. Other income

23. 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.

24. Other income in 2007 amounted to \$22.6 million, compared with \$18.1 million in 2006, an increase of \$4.5 million (24.9 per cent). While income from licensed products decreased by \$0.5 million (8.2 per cent) and income from catalogue donations declined by \$0.5 million (11.4 per cent), miscellaneous income increased by \$5.5 million (72.4 per cent) compared to 2006, the latter due to National Committees' reporting of higher investment income (bank interest) of \$12.1 million for the year compared to \$6.8 million in 2006. Most of this increase came from the US Fund.

	<i>(In millions of United States dollars)</i>			
	2007	2006	<i>Increase/(decrease)</i>	
			\$	%
Licensed products & royalties	5.6	6.1	(0.5)	(8.2)
Catalogue donations	3.9	4.4	(0.5)	(11.4)
Miscellaneous income	13.1	7.6	5.5	72.4
Total	22.6	18.1	4.5	24.9

Note 9. Net operating income — cards and gifts

25. For the 2007 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to \$63.4 million, an increase of \$6.6 million, or 11.6 per cent, compared to 2006. As a percentage of gross proceeds, net operating income increased to 40.6 per cent from 38.7 per cent a year earlier.

26. The year 2007 was the first full year of the new Hallmark partnership initiated in 2006. The net income received from Hallmark for the year amounted to \$3.2 million for a total greeting card volume of 11.8 million cards, which is \$1.3 million higher than the \$1.9 million achieved for the nine months of operation in 2006.

Note 10. Net operating income — private fund-raising

27. As presented in the table below, total net proceeds from private fund-raising activities reported by partners by 31 December 2007 amounted to \$359.8 million for regular resources, an increase of \$8.2 million (2.3 per cent) compared to 2006.

28. The net operating income from private fund-raising activities related to regular resources in 2007 amounted to \$343.3 million, compared to \$337.6 million in 2006, an increase of \$5.7 million (1.7 per cent). The net operating income from private fund-raising activities related to regular resources was net of the amount retained by the National Committees; of operating expenses related to private fund-raising activities, including country office expenses; and of research and development.

29. In addition to the net operating income from private fund-raising activities related to regular resources, \$322.9 million was received in 2007 and earmarked to various UNICEF other resources projects. The corresponding amount for 2006 was \$342.3 million, and is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial statements.

30. Private fund-raising expenses for 2007 included \$2.5 million (compared to \$2.2 million in 2006) for research and development to develop new methods for, and test, fund-raising campaigns.

31. Country office operating expenses grew by \$1.1 million, reflecting the increased investment in staffing to support fund-raising initiatives in new markets.

	<i>(In millions of United States dollars)</i>			
	2007	2006	Increase/(decrease)	
			\$	%
Net proceeds	359.8	351.6	8.2	2.3
Less:				
Operating expenses	8.6	7.5	1.1	14.7
Country office expenses	5.4	4.3	1.1	25.6
Research and development	2.5	2.2	0.3	13.6
Net operating income	343.3	337.6	5.7	1.7

Note 11. Investment fund expenditures

32. To enable PSD to continue to fulfil its mandate in raising funds from private fund-raising activities and card and gift sales, the Executive Board approved for 2007 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 individuals and the corporate sector and to test and evaluate new income-generating initiatives,

focusing primarily on projects offering high rates of returns. In 2007, the total expenditure for investment funds was \$19.2 million, compared to \$17.2 million in 2006.

Note 12. Total net operating income

33. The total net operating income from private fund-raising activities for regular resources and UNICEF card and gift sales amounted to \$387.5 million, an increase of \$10.2 million (or 2.7 per cent) compared to 2006.

Note 13. Exchange rate adjustment

34. The exchange rate adjustment in 2007 amounted to a gain of \$3.5 million, compared to \$15.3 million in 2006. 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 fund-raising activities in 2007 was \$391.0 million, a decrease of \$1.5 million (0.4 per cent) compared to the total net income of \$392.6 million in 2006.

Statement II

Note 15. Bank

36. The total bank balance on 31 December 2007 amounted to \$0.7 million compared to \$1.3 million in the previous year.

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 fund-raising activities, royalties and miscellaneous receivables. The gross accounts receivable as at 31 December 2007 amounted to \$393.1 million, an increase of \$38.9 million (11.0 per cent) over the balance as at 31 December 2006. The increase was due partly to the increase in income from sales and fund-raising, and partly to the fact that several National Committees transferred fewer funds for the current campaign year than in the previous year.

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 2007, the provision for uncollectible accounts amounted to \$9.3 million, compared to \$8.5 million in 2006. Net accounts receivable after deducting the provision for uncollectible accounts amounted to \$383.7 million.

Note 18. Inventory

39. Inventory as at 31 December 2007 amounted to \$13.7 million, an increase of \$4.0 million (40.2 per cent) compared to the balance as at 31 December 2006, and this was largely due to an increase in the number and volume of gift items purchased for the 2008 campaign and held in stock at the year-end. A comparison is presented below:

	<i>(In millions of United States dollars)</i>	
	2007	2006
Raw materials & Work in process	3.4	2.8
Finished goods	10.3	6.9
Total	13.7	9.7

Note 19. Prepaid expenses

40. Prepaid expenses as at 31 December 2007 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 2007, 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 2007.

	<i>(In millions of United States dollars)</i>	
	2007	2006
Production machinery	1.1	1.1
Office equipment and leasehold improvements	1.6	1.6
Subtotal	2.7	2.7
Accumulated depreciation	(2.7)	(2.7)
Total	0.0	0.0

Note 21. Accounts payable

42. Total accounts payable as at 31 December 2007 amounted to \$2.3 million, a decrease of \$2.4 million (51.3 per cent) compared with the balance as at 31 December 2006.

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 2007, was \$395.8 million. This amount includes monies advanced as working capital to PSD. PSD earnings for each fiscal period were transferred to UNICEF via this account.

Statement III

Note 23. Comparison of 2007 actual results with budget

44. Some major highlights of PSD performance in 2007 compared with the approved budget are as follows:

(a) Gross proceeds from UNICEF card and gift sales were \$156.2 million, or 2.6 per cent less than the budget (medium projection) of \$160.4 million;

(b) Net proceeds from private fund-raising activities were \$359.8 million, or 6.6 per cent higher than the budgeted amount of \$337.5 million;

(c) Total net proceeds from PSD-related activities (regular resources) were \$485.6 million, or 4.8 per cent higher than the budgeted amount of \$463.3 million;

(d) The total net income after adjustments (regular resources) was \$391.0 million, or 10.8 per cent higher than the budget of \$352.8 million;

(e) The net consolidated income for both regular resources and other resources was \$713.9 million, or 3.6 per cent higher than the budget of \$689.1 million.
