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Private Sector Division

Financial report and statements for the year ended 31 December 2005

Summary

This document presents the results achieved by the UNICEF Private Sector Division (PSD) for the year ended 31 December 2005. The total net income from PSD activities for the year was \$288.6 million for regular resources, \$2.6 million (0.9 per cent) lower than the \$291.1 million raised in 2004. The total net income for 2005 includes \$255.7 million from private sector fund-raising activities, \$63.6 million from the sale of UNICEF cards and gifts, a negative exchange rate adjustment of \$14.3 million and investment fund expenditures of \$16.4 million. The year 2005 was unusual because of the unprecedented donor response to UNICEF emergency appeals for the Indian Ocean tsunami and the South Asia earthquake. In addition to the regular resources funding noted above, \$769.6 million of earmarked funds were raised for other resources from private sector fund-raising activities. This compares with \$218.8 million in 2004, an increase of \$550.8 million, most of which is directly linked to the two emergencies. Earmarked funding for non-emergencies has increased significantly as well, with \$185.7 million raised in 2005, compared with \$143.5 million in 2004. The net consolidated income for 2005, including both regular and other resources, amounted to \$1,058.2 million, an increase of \$548.3 million (107.5 per cent), compared with the 2004 net consolidated income of \$509.9 million.

* E/ICEF/2006/18.

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Financial report for the year ended 31 December 2005

A. An overview of the results

1. The total net income contribution to UNICEF regular resources from PSD activities was \$288.6 million. This compares with \$291.1 million in 2004, a decrease of \$2.6 million (0.9 per cent). The contribution consists of \$255.7 million net operating income from private sector fund-raising activities, \$63.6 million net operating income from the sale of UNICEF cards and gifts, Investment Fund Expenditures of \$16.4 million, and a negative exchange rate adjustment of \$14.3 million.

2. Gross proceeds from UNICEF card and gift sales amounted to \$145.6 million, compared with \$161.5 million in 2004. The decrease of \$15.9 million (9.8 per cent) in gross proceeds was due primarily to the strengthening of the United States dollar against the euro and the Japanese yen.

3. The net operating income from private sector fund-raising activities related to regular resources was \$255.7 million in 2005, compared to \$250.7 million in 2004, an increase of \$5.0 million (2.0 per cent). In addition, \$769.6 million was raised from private sector fund-raising activities that were earmarked by donors to other resources, an increase of \$550.8 million compared to the \$218.8 million raised in 2004 (251.7 per cent). The majority of the increase in other resources was due to the unprecedented donor response to the UNICEF emergency appeals for the Indian Ocean tsunami and South Asia earthquake.

B. Financial statements for the year ended 31 December 2005

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

Statement I

Statement of income and expenditure for the year ended 31 December 2005 (In thousands of United States dollars)

	Note a/	31 December 2005		31 December 2004		Variance Increase/(decrease)	
			%		%		%
Gross proceeds - cards and gifts	3	145,645	100.0	161,518	100.0	(15,873)	(9.8)
Less: Retention/commissions and direct expenses at country offices	4	46,513	31.9	58,976	36.5	(12,463)	(21.1)
Net proceeds		99,132	68.1	102,542	63.5	(3,410)	(3.3)
Less: Cost of goods delivered	5	27,057	18.6	30,188	18.7	(3,131)	(10.4)
		72,075	49.5	72,354	44.8	(279)	(0.4)
Less: Operating costs	6	23,269	16.0	23,271	14.4	(2)	-
Provision for uncollectible accounts receivable	7	1,642	1.1	1,939	1.2	(297)	(15.3)
		47,164	32.4	47,144	29.2	20	-
Add: Other income	8	16,440	11.3	8,799	5.4	7,641	86.8
Net operating income - cards and gifts	9	63,604	43.7	55,943	34.6	7,661	13.7
Net operating income - Private sector fund-raising b/	10	255,677		250,671		5,006	2.0
Less Investment Fund Expenditures	11	16,363		14,198		2,165	15.2
Total net operating income	12	302,918		292,416		10,502	3.6
Less: Exchange rate adjustment	13	14,353		1,291		13,062	1011.6
Total net income	14	288,565		291,125		(2,560)	(0.9)

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 \$769.6 million recognized as other resources, compared to \$218.8 million in 2004. This is shown in the UNICEF financial statements.

(Signed) Terry Brown
Comptroller

STATEMENT II**Statement of assets and liabilities as at 31 December 2005**
(In thousands of United States dollars)

	Note a/	As at 31 December 2005	As at 31 December 2004	Increase/(decrease)
ASSETS				
Bank	15	16	(26)	42
Accounts receivable	16	309,692	305,011	4,681
Less: Allowance for exchange rate fluctuation and uncollectible accounts		7,265	15,965	(8,700)
Net accounts receivable	17	302,427	289,046	13,381
Inventory	18	6,895	5,697	1,198
Prepaid expenses	19	41	43	(2)
Capital assets, net of accumulated depreciation	20	0	0	0
TOTAL ASSETS		309,379	294,760	14,619
LIABILITIES				
Accounts payable	21	4,302	2,642	1,660
UNICEF inter-office account	22	305,077	292,118	12,959
TOTAL LIABILITIES		309,379	294,760	14,619

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

(Signed) Terry Brown
Comptroller

STATEMENT III
Statement of the results for the year ended 31 December 2005
compared with the approved budget
(In millions of United States dollars)

	Note 23 a/	Actual	Budget b/	Variance Increase/(decrease)	
				\$	%
Income					
Gross proceeds - cards and gifts	(a)	145.6	158.0	(12.4)	(7.8)
Less: National Committees' expenditures b/		42.1	50.5	(8.4)	(16.6)
Net proceeds		103.5	107.5	(4.0)	(3.7)
Add: Other income		16.4	7.8	8.6	110.3
Net proceeds - cards and gifts		119.9	115.3	4.6	4.0
Net proceeds - private sector fund-raising	(b)	268.4	278.0	(9.6)	(3.5)
Total net proceeds (regular resources)	(c)	388.3	393.3	(5.0)	(1.3)
Expenditures					
Cost of goods delivered		27.1	33.6	(6.5)	(19.3)
Marketing expenditures c/		24.5	25.5	(1.0)	(3.9)
Support services		17.3	18.6	(1.3)	(7.0)
Investment Fund Expenditures		16.4	17.1	(0.7)	(4.1)
Total expenditures		85.3	94.8	(9.5)	(10.0)
Total net income before adjustments		303.0	298.5	4.5	1.5
Adjustments					
Exchange rate adjustment		14.4	-	14.4	-
Total net income after adjustments - regular resources	(d)	288.6	298.5	(9.9)	(3.3)
Add: other resources - private sector fund-raising		769.6	185.0	584.6	316.0
Net consolidated income - regular resources and other resources	(e)	1058.2	483.5	574.7	118.9

a/ See paragraph 41.

b/ In accordance with Executive Board decision 2005/2, the approved budget reflected is the low projection (column I, Table 7 of document E/ICEF/2005/AB/L.1).

c/ National Committees' expenditures exclude commissions and direct expenses at country offices. These are included in marketing expenditures.

C. Notes to the financial statements

Note 1. Objectives and activities

5. PSD, in cooperation with National Committees for UNICEF, country offices and other partners, raises funds for UNICEF programmes. This activity helps to make people aware of UNICEF activities and gives them the opportunity to be involved in its work.

Note 2. Summary of significant accounting policies

6. The accounts are maintained 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 income 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 2005 amounted to \$145.6 million, compared with \$161.5 million in 2004, a decrease of \$15.9 million (9.8 per cent). The decrease in gross proceeds was primarily due to the strengthening of the United States dollar against the euro and the Japanese yen.

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

18. 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 2005, this amounted to \$46.5 million, a decrease of \$12.5 million (21.2 per cent) compared to 2004. This decrease was made up of a reduction of \$ 12.8 million (22.9 per cent) in National Committees' retention and commission paid to third parties, and an increase of \$0.3 million in the direct expenses of UNICEF country offices. A breakdown is given below:

	<i>(In millions of United States dollars)</i>			
	<i>2005</i>	<i>2004</i>	<i>Increase/(decrease)</i>	
			<i>\$</i>	<i>%</i>
National Committee				
Expenditures/commissions	43.0	55.8	(12.8)	(22.9)
Country offices' expenses	3.5	3.2	0.3	9.4
Total	46.5	59.0	(12.5)	(21.2)

Note 5. Cost of goods delivered

19. The cost of goods delivered, freight, duties and taxes, and promotion materials amounted to \$27.1 million, a decrease of \$3.1 million (10.3 per cent) compared to 2004. This is made up of a decrease of \$1.8 million (9.0 per cent) in the direct cost of goods, a decrease of \$0.3 million (8.1 per cent) compared to 2004 in costs associated with freight, duties and taxes, and a decrease of \$1.0 million (15.4 per cent) in the costs of promotional materials. Details are presented below:

	<i>(In millions of United States dollars)</i>			
	2005	2004	Increase/(decrease)	
			\$	%
Cost of goods delivered	18.2	20.0	(1.8)	(9.0)
Freight, duties and taxes	3.4	3.7	(0.3)	(8.1)
Promotion materials	5.5	6.5	(1.0)	(15.4)
Total	27.1	30.2	3.1	(10.3)

Note 6. Operating costs

20. Operating costs remained flat at \$23.3 million in 2005 compared to 2004. The costs related to card and gift sales decreased slightly by 3.2 per cent compared to the previous year, while operating costs of Operations and Finance increased by 3 per cent. The expenses are summarized below:

	<i>(In millions of United States dollars)</i>			
	2005	2004	Increase/(decrease)	
			\$	%
Card and gift sales	6.0	6.2	(0.2)	(3.2)
Operations and finance	17.0	16.5	0.5	3.0
Director's office	0.3	0.6	(0.3)	(50.0)
Total	23.3	23.3	0.0	0.0

Note 7. Provision for uncollectible accounts receivable

21. The provision for 2005 amounted to \$1.6 million, a decrease of \$0.3 million (15.3 per cent) compared to 2004. The provision is to cover accounts receivable that may become irrecoverable. Accounts receivable deemed irrecoverable are written off.

Note 8. Other income

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

(a) **Income from licensed products**, which includes royalties from special programmes, income from Nippon Telegraph and Telephone Corporation's Pressed

Flower Telegram Programme in Japan, and income from the sale of National Committee products and other items;

(b) **Catalogue donations**, which represent contributions generated through PSD brochures/order forms;

(c) **Miscellaneous income related to financial operations**, which includes discounts on purchases, miscellaneous proceeds, refunds of unspent investment funds and bank interest received from National Committees.

23. Other income in 2005 amounted to \$16.4 million, compared with \$8.8 million in 2004, an increase of \$7.6 million (86.4 per cent). While income from licensed products decreased by \$0.6 million (18.7 per cent), catalogue donations increased by \$2.1 million (84 per cent) and miscellaneous income tripled from \$3.1 million in 2004 to \$9.2 million. The large increase was due to the re-classification of National Committee interest income of \$4.4 million and a \$2.1 million grant from the Government of Canada through the Canadian National Committee. In 2004, interest income was shown under fund-raising. A comparison between 2005 and 2004 is summarized below:

	<i>(In millions of United States dollars)</i>			
	2005	2004	<i>Increase/(decrease)</i>	
			\$	%
Licensed products	2.6	3.2	(0.6)	(18.7)
Catalogue donations	4.6	2.5	2.1	84.0
Miscellaneous income	9.2	3.1	6.1	196.8
Total	16.4	8.8	7.6	86.4

Note 9. Net operating income — cards and gifts

24. For the 2005 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to \$63.6 million, an increase of \$7.7 million or 13.7 per cent compared to 2004. As a percentage of gross proceeds, net operating income increased to 43.7 per cent from 34.6 per cent in 2004.

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

25. In 2005, total net proceeds from private sector fund-raising activities reported by partners by 31 December amounted to \$268.4 million for regular resources, an increase of \$7.4 million (2.8 per cent) compared with 2004.

26. As presented in the following table, the net operating income from private sector fund-raising activities related to regular resources in 2005 amounted to \$255.7 million, compared to \$250.7 million in 2004, an increase of \$5.0 million (2.0 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; operating expenses related to private sector fund-raising activities, including country office expenses; and research and development.

27. In addition to the net operating income from private sector fund-raising activities related to regular resources, \$769.6 million was raised in 2005 and earmarked to various UNICEF other resources projects, primarily the Indian Ocean tsunami and South Asia earthquake emergencies. The corresponding amount for 2004 was \$218.8 million. This amount is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial statements.

28. Private sector fund-raising expenses for 2005 included \$1.7 million (the amount in 2004 was \$1.4 million) for research and development to develop new methods for and test fund-raising campaigns.

<i>(In millions of United States dollars)</i>				
	2005	2004	<i>Increase/(decrease)</i>	
			\$	%
Net proceeds	268.4	261.0	7.4	2.8
Less:				
Operating expenses	7.4	6.5	0.9	13.8
Country office expenses	3.6	2.4	1.2	50.0
Research and development	1.7	1.4	0.3	21.4
Net operating income	255.7	250.7	5.0	2.0

Note 11. Investment Fund Expenditures

29. To enable PSD to continue to fulfil its mandate in raising funds from the sale of card and gift items and private sector fund-raising activities, the Executive Board approved for 2005 a budget of \$17.1 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 for testing and evaluating new income-generating initiatives with focusing primarily on projects offering high rates of returns. In 2005, the total expenditure for investment funds was \$16.4 million (\$14.2 million in 2004).

Note 12. Total net operating income

30. The total net operating income from UNICEF card and gift sales and private sector fund-raising activities for regular resources amounted to \$302.9 million, an increase of \$10.5 million (3.6 per cent) compared to 2004. This represents PSD net operating income before exchange rate and prior years' adjustments.

Note 13. Exchange rate adjustment

31. The exchange rate adjustment in 2005 amounted to a loss of \$14.4 million, compared to a loss of \$1.3 million in 2004. This was due to the strengthening of the United States dollar against major currencies such as the euro and the yen.

Note 14. Total net income

32. After deducting the exchange rate adjustment, the total net income from UNICEF card and gift sales and private sector fund-raising activities in 2005 was \$288.6 million, a decrease of \$2.5 million (0.9 per cent) compared to the total net income of \$291.1 million in 2004.

Statement II**Note 15. Bank**

33. The debit balance of \$0.02 million as at 31 December 2005 comprises balances of PSD bank accounts.

Note 16. Accounts receivable

34. 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 2005 amounted to \$309.7 million, an increase of \$4.7 million (1.5 per cent) over the balance as at 31 December 2004.

Note 17. Net accounts receivable

35. In accordance with PSD accounting policy (see paragraph 11 above), a provision to cover accounts receivable that are considered doubtful for collection may be established. For 2005, the provision for uncollectible accounts amounted to \$7.3 million, compared to \$16.0 million in 2004. The decrease is due to management's decision to discontinue the allowance for exchange rate fluctuation (which in 2004 was \$9.6 million), effective 1 January 2005. Net accounts receivable after deducting the provision for uncollectible accounts amounted to \$302.4 million.

Note 18. Inventory

36. Inventory as at 31 December 2005 amounted to \$6.9 million, an increase of \$1.2 million (21.0 per cent) compared to the balance as at 31 December 2004. A comparison is presented below:

	<i>(In millions of United States dollars)</i>	
	2005	2004
Raw materials & Work in process	2.9	2.7
Finished goods	4.0	3.0
Total	6.9	5.7

Note 19. Prepaid expenses

37. These represented payments made to suppliers for the production of PSD gifts and promotion materials for 2005 and future campaigns. Prepaid expenses as at 31 December 2005 amounted to \$0.04 million, unchanged from the previous year.

Note 20. Capital assets, net of accumulated depreciation

38. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 31 December 2005, 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 2005.

	<i>(In millions of United States dollars)</i>	
	2005	2004
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

39. Total accounts payable as at 31 December 2005 amounted to \$4.3 million, an increase of \$1.7 million (62.8 per cent) compared with the balance as at 31 December 2004. Included in total accounts payable were liabilities to suppliers and National Committees.

Note 22. UNICEF inter-office account

40. This reflects the net result of transactions between PSD and other UNICEF offices, which, as at 31 December 2005, was \$305.1 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 2005 actual results with budget**

41. Some major highlights of PSD performance in 2005 compared with the approved budget are as follows:

- (a) Gross proceeds from UNICEF card and gift sales were \$12.4 million, or 7.8 per cent less than budget;
- (b) Net proceeds from private sector fund-raising activities were \$9.6 million, or 3.5 per cent lower than the budgeted amount of \$278.0 million;
- (c) Total net proceeds from PSD-related activities (regular resources) were \$5.0 million, or 1.3 per cent lower than budget;
- (d) The total net income after adjustments (regular resources) was \$9.9 million, or 3.3 per cent lower than the budget of \$298.5 million;
- (e) The net consolidated income for both regular resources and other resources was \$574.7 million, or 118.9 per cent higher than the budget of \$483.5 million.