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Private fundraising: financial report and statements for the year ended 31 December 2008

Summary

This document presents the results achieved by UNICEF Private Fundraising and Partnerships (PFP) for the year ended 31 December 2008.

The total net income for regular resources from PFP activities in 2008 was \$360.6 million, \$30.4 million (7.8 per cent) lower than the \$391 million achieved in 2007. The total net income for 2008 includes \$315.9 million from private fund-raising activities, \$42 million from the sale of UNICEF cards and gifts, and a positive exchange rate adjustment of \$19.3 million, less investment fund expenditures of \$16.6 million.

In addition to the income for regular resources noted above, \$452.6 million of earmarked funds were raised for other resources from private fund-raising activities. The net consolidated income from PFP activities for 2008, including both regular and other resources, amounted to \$813.2 million, an increase of \$99.3 million (13.9 per cent) compared with the 2007 net consolidated income of \$713.9 million.

* E/ICEF/2009/16.



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Financial report for the year ended 31 December 2008

A. An overview of the results

1. The total contribution to UNICEF regular resources from Private Fundraising and Partnerships (PFP) activities in 2008 was \$360.6 million. This compares with \$391 million in 2007, a decrease of \$30.4 million (7.8 per cent). The contribution consists of \$315.9 million net operating income from private fund-raising activities, \$42 million net operating income from the sale of UNICEF cards and gifts, a positive exchange rate adjustment of \$19.3 million, less investment fund expenditures of \$16.6 million.
2. Gross proceeds from UNICEF card and gift sales amounted to \$130.1 million in 2008, compared to \$156.2 million in 2007, a decrease of \$26.1 million (16.7 per cent).
3. The net operating income from private fund-raising activities related to regular resources was \$315.9 million in 2008, compared to \$343.3 million in 2007, a decrease of \$27.4 million (8 per cent). In addition, \$452.6 million was raised from private fund-raising activities that were earmarked by donors for other resources, an increase of \$129.7 million (40.2 per cent) compared to the \$322.9 million raised in 2007.
4. The decline in regular resource income was driven by two significant events: (a) the developing economic crisis and corresponding negative result on UNICEF sales and fund-raising activities; and (b) the impact of events on UNICEF fund-raising in Germany.
5. All sales channels, including retail, corporate, key account and volunteer channels, experienced negative trends, exacerbating declines in sales volumes in prior years. Countries reporting material sales declines were Canada, Germany, Italy and Spain. Fundraising conditions for regular resources proved difficult as well, with significant declines reported in Italy, the Republic of Korea, Spain, the United Kingdom and the United States of America, and smaller declines in a number of other countries.
6. The governance and leadership problems experienced in Germany were compounded by negative media coverage that resulted in a substantial decrease in regular pledge donors and reduced regular resource income from private-sector fund-raising in Germany.
7. Robust growth in donations to other resources more than offset the decline in regular resources. This was due to emergency-driven fund-raising campaigns (the Myanmar cyclone, the earthquake in China), growth in project-focused activities (Global AIDS Campaign, Schools for Africa, Inspired Gifts), and continuation of the donor-driven trend towards increased earmarking.

B. Financial statements for the year ended 31 December 2008

8. The three financial statements that follow are supported by explanatory notes, including a summary of significant accounting policies (see paragraphs 10-19).

| STATEMENT I Statement of income and expenditure for the year ended 31 December 2008 <i>(In thousands of United States dollars)</i> | | | | | | | |
|--|-------|------------------|-------|------------------|-------|---------------------------------|--------|
| | Note* | 31 December 2008 | | 31 December 2007 | | Variance Increase/(decrease) | |
| | | | % | | % | | % |
| Gross proceeds — cards and gifts | 3 | 130,092 | 100.0 | 156,222 | 100.0 | (26,130) | (16.7) |
| Less: National Committee retention, commissions and direct expenses at country offices | 4 | 49,445 | 38.0 | 58,553 | 37.5 | (9,108) | (15.6) |
| Net proceeds | | 80,647 | 62.0 | 97,669 | 62.5 | (17,022) | (17.4) |
| Less: Cost of goods delivered | 5 | 27,090 | 20.8 | 29,259 | 18.7 | (2,169) | (7.4) |
| | | 53,557 | 41.2 | 68,410 | 43.8 | (14,853) | (21.7) |
| Less: Operating costs | 6 | 29,992 | 23.1 | 25,392 | 16.3 | 4,600 | 18.1 |
| Less: Provision for uncollectible accounts receivable | 7 | 237 | 0.2 | 2,192 | 1.4 | (1,955) | (89.2) |
| | | 23,328 | 17.9 | 40,826 | 26.1 | (17,498) | (42.9) |
| Add: Other income | 8 | 18,666 | 14.3 | 22,620 | 14.5 | (3,954) | (17.5) |
| Net operating income — cards and gifts | 9 | 41,994 | 32.3 | 63,446 | 40.6 | (21,452) | (33.8) |
| Net operating income — private fund-raising ^{a/} | 10 | 315,861 | | 343,257 | | (27,396) | (8.0) |
| Less: Investment Fund expenditures | 11 | 16,566 | | 19,209 | | (2,643) | (13.8) |
| Total net operating income | 12 | 341,289 | | 387,494 | | (46,205) | (11.9) |
| Exchange rate gain/(loss) | 13 | 19,344 | | 3,522 | | 15,822 | 449.2 |
| Total net income | 14 | 360,633 | | 391,016 | | (30,383) | (7.8) |

* The accompanying notes (see paragraphs 20-37) form an integral part of this statement and should be read in conjunction with it.

a/ Excluding \$452.6 million recognized as other resources, compared to \$322.9 million in 2007. This is shown in the UNICEF financial statements.

Philip O'Brien
Director
(Signed)

Lawrence Picard
Deputy Director, Operations and Finance
(Signed)

STATEMENT II

Statement of assets and liabilities as at 31 December 2008

(In thousands of United States dollars)

| | | As at | As at | |
|--|--------|------------------|------------------|---------------------|
| | Note * | 31 December 2008 | 31 December 2007 | Increase/(decrease) |
| ASSETS | | | | |
| Bank | 15 | 533 | 747 | (214) |
| Accounts receivable | 16 | 364,508 | 393,074 | (28,566) |
| Less: Allowance for uncollectible accounts | | 9,131 | 9,348 | (217) |
| Net accounts receivable | 17 | 355,377 | 383,726 | (28,349) |
| Inventory | 18 | 12,560 | 13,667 | (1,107) |
| Prepaid expenses | 19 | 35 | 35 | 0 |
| Capital assets, net of accumulated depreciation | 20 | 0 | 0 | 0 |
| TOTAL ASSETS | | <u>368,505</u> | <u>398,175</u> | <u>(29,670)</u> |
| LIABILITIES | | | | |
| Accounts payable | 21 | 4,177 | 2,327 | 1,850 |
| UNICEF inter-office account | 22 | 364,328 | 395,848 | (31,520) |
| TOTAL LIABILITIES | | <u>368,505</u> | <u>398,175</u> | <u>(29,670)</u> |

* The accompanying notes (see paragraphs 38-45) 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 results for the year ended 31 December 2008 compared with the approved budget <i>(In thousands of United States dollars)</i> | | | | |
|---|----------------|----------------|---------------------------------|------------|
| | Actual | Budget * | Variance Increase/(decrease) | |
| | | | \$ | % |
| Income | | | | |
| Gross proceeds — cards and gifts | 130,092 | 168,000 | (37,908) | (22.6) |
| Less: National Committees' expenditures | 43,185 | 59,900 | (16,715) | (27.9) |
| Net proceeds | 86,907 | 108,100 | (21,193) | (19.6) |
| Add: Other income | 18,666 | 22,000 | (3,334) | (15.2) |
| Net proceeds — cards and gifts | 105,573 | 130,100 | (24,527) | (18.9) |
| Net proceeds — private fund-raising | 336,686 | 383,100 | (46,414) | (12.1) |
| Total net proceeds (regular resources) | 442,259 | 513,200 | (70,941) | (13.8) |
| Expenditures | | | | |
| Cost of goods delivered | 27,090 | 33,400 | (6,310) | (18.9) |
| Marketing expenditures | 34,801 | 36,500 | (1,699) | (4.7) |
| Support services | 22,513 | 26,600 | (4,087) | (15.4) |
| Investment Fund expenditures | 16,567 | 21,400 | (4,833) | (22.6) |
| Total expenditures | 100,971 | 117,900 | (16,929) | (14.4) |
| Total net operating income before adjustments | 341,288 | 395,300 | (54,012) | (13.7) |
| Adjustments | | | | |
| Exchange rate gain/(loss) | 19,344 | 0 | 19,344 | 0 |
| Total net income after adjustments (regular resources) | 360,632 | 395,300 | (34,668) | (8.8) |
| Add: other resources — private fund-raising** | 452,600 | 351,100 | 101,500 | 28.9 |
| Net consolidated income (regular resources and other resources) | 813,232 | 746,400 | 66,832 | 9.0 |

* In accordance with Executive Board decision, the approved budget reflected is the medium projection (Column II, Table 7 of document E/ICEF/2008/AB/L.3).

** Recorded by UNICEF based on actual remittances received during the year.

C. Notes to the financial statements for the year ended 31 December 2008

Note 1. Objectives and activities

9. With the goal of raising resources and enhancing public and private support for UNICEF programmes, PFP provides strategic direction, technical support and guidance to private 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

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

11. The PFP fiscal year is 1 January to 31 December, pursuant to Executive Board decision 1996/22 C.5 (E/ICEF/1996/12/Rev.1). All but three National Committees for UNICEF (Canada, Japan and the United States) have the same fiscal year as that of UNICEF. The National Committees for Japan and Canada continued to report on a fiscal year covering the period 1 April to 31 March. The United States Fund for UNICEF reported for its fiscal year 1 July to 30 June.

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

13. 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. Assets and liabilities in currencies other than the United States dollar are valued for accounting purposes at the prevailing United Nations rates of exchange at 31 December. 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.

14. In accordance with PFP 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.

15. 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 PFP 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. All publicity and promotion materials relating to future campaign years produced in the current campaign year are shown at standard cost and included in inventory.

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

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

18. Gross proceeds from the sale of UNICEF cards and gifts are accrued on the basis of the provisional Revenue and Expenditure Reports received from sales partners shortly after the year-end. 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 reversed in the following year and actual sales booked upon receipt of the final Revenue and Expenditure Report.

19. Income from private fund-raising activities and related expenses are recorded separately in the PFP 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. Adjustment, if any, takes place in the following year upon receipt of the final Revenue and Expenditure Reports.

Statement I

Note 3. Gross proceeds — cards and gifts

20. Gross proceeds from UNICEF card and gift sales for 2008 amounted to \$130.1 million, compared to \$156.2 million in 2007, a decrease of \$26.1 million (16.7 per cent). While this reduction in proceeds is an outcome of the economic crisis, in line with results reported by competing organizations, the impact on the cards and gifts business, which had already seen a decline in volume of cards of 14 per cent over the past three years, was particularly felt in the corporate card business.

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

21. This item consists of the expenditures recorded by National Committees and other partners, commissions paid to other partners, and direct operating expenses at UNICEF country offices. For 2008, this amounted to \$49.5 million, a decrease of \$9.1 million (15.6 per cent), compared to \$58.6 million in 2007. As overall gross proceeds decreased, National Committee retention, commissions and direct expenses at country offices also decreased. In addition, efforts were made to reduce costs. Direct expenses of UNICEF country offices increased by \$0.3 million (6.8 per cent). A breakdown is given below:

| | <i>(In millions of United States dollars)</i> | | | |
|--|---|-------------|---------------------|---------------|
| | 2008 | 2007 | Increase/(decrease) | |
| | | | \$ | % |
| National Committee retention/commissions | 44.8 | 54.2 | (9.4) | (17.4) |
| Country offices' expenses | 4.7 | 4.4 | 0.3 | 6.8 |
| Total | 49.5 | 58.6 | (9.1) | (15.6) |

Note 5. Cost of goods delivered

22. The cost of goods delivered, freight, duties and taxes, and promotional materials amounted to \$27.1 million, a decrease of \$2.2 million (7.4 per cent), compared to 2007. This was made up of a decrease of \$1.6 million (7.9 per cent) in the cost of goods delivered, a decrease of \$0.1 million (2.0 per cent) in the costs of promotional materials, and a decrease of \$0.5 million (12.8 per cent) in the costs of freight, duties and taxes. Details are presented below:

| | <i>(In millions of United States dollars)</i> | | | |
|---------------------------|---|-------------|----------------------------|--------------|
| | 2008 | 2007 | <i>Increase/(decrease)</i> | |
| | | | \$ | % |
| Cost of goods delivered | 18.7 | 20.3 | (1.6) | (7.9) |
| Freight, duties and taxes | 3.4 | 3.9 | (0.5) | (12.8) |
| Promotional materials | 5.0 | 5.1 | (0.1) | (2.0) |
| Total | 27.1 | 29.3 | (2.2) | (7.4) |

Note 6. Operating costs

23. Operating costs amounted to \$30 million in 2008, an increase of \$4.6 million (18.1 per cent), compared to \$25.4 million in 2007. The costs related to card and gift sales increased by \$1 million (15.4 per cent), compared to the previous year, while operating costs of operations and finance increased by \$3.6 million (19.1 per cent). While the former was due to increases in research and development expenses for marketing, the latter was largely due to increases in allocations related to common services for shared facilities in Geneva and New York following the increase in posts. The expenses are summarized below:

| | <i>(In millions of United States dollars)</i> | | | |
|------------------------|---|-------------|----------------------------|-------------|
| | 2008 | 2007 | <i>Increase/(decrease)</i> | |
| | | | \$ | % |
| Card and gift sales | 7.5 | 6.5 | 1.0 | 15.4 |
| Operations and finance | 22.5 | 18.9 | 3.6 | 19.1 |
| Total | 30.0 | 25.4 | 4.6 | 18.1 |

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

24. The total amount for 2008 amounted to \$0.2 million, a decrease of \$2 million (89.2 per cent), compared to 2007. This is a result of improved monitoring and follow-up of outstanding balances due from National Committees and other partners.

Note 8. Other income

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

(a) *Income from licensed products and royalties.* This 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.* This represents contributions generated through PFP brochures and order forms;

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

26. Other income in 2008 amounted to \$18.7 million, a decrease of \$3.9 million (17.5 per cent), compared with \$22.6 million in 2007. While income from licensed products and royalties (mostly from Hallmark) decreased by \$1.7 million (30.4 per cent), catalogue donations increased by \$1.2 million (30.8 per cent) and miscellaneous income declined by \$3.4 million (26 per cent), compared to 2007. Details are listed below:

| | (In millions of United States dollars) | | | |
|---------------------------------|--|-------------|---------------------|---------------|
| | 2008 | 2007 | Increase/(decrease) | |
| | | | \$ | % |
| Licensed products and royalties | 3.9 | 5.6 | (1.7) | (30.4) |
| Catalogue donations | 5.1 | 3.9 | 1.2 | 30.8 |
| Miscellaneous income | 9.7 | 13.1 | (3.4) | (26.0) |
| Total | 18.7 | 22.6 | (3.9) | (17.5) |

Note 9. Net operating income — cards and gifts

27. For the 2008 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to \$42 million, a decrease of \$21.5 million (33.8 per cent), compared to 2007. As a percentage of gross proceeds, net operating income in 2008 decreased to 32.3 per cent from 40.6 per cent a year earlier.

Note 10. Net operating income — private fund-raising

28. The total net proceeds from private fund-raising activities reported by partners at 31 December 2008 amounted to \$336.7 million for regular resources, a decrease of \$23.1 million (6.4 per cent), compared to 2007. The total net proceeds were net of the amount retained by National Committees. The decline in net proceeds was driven by two significant events: (a) the developing economic crisis and corresponding negative result on UNICEF sales and fund-raising activities; and (b) the impact of events on UNICEF fund-raising in Germany.

29. The net operating income from private fund-raising activities related to regular resources in 2008 amounted to \$315.9 million, a decrease of \$27.4 million (8 per cent), compared to \$343.3 million in 2007.

30. PFP operating expenses for fund-raising increased by \$3.1 million (36.1 per cent), compared to 2007, and were due to increases in marketing and direct operating expenses, including new staff and travel costs.

31. Country office operating expenses grew by \$0.3 million, reflecting the increased investment in staffing to support fund-raising initiatives in new markets.

32. Private fund-raising expenses for 2008 included \$3.4 million, compared to \$2.5 million in 2007, for research and development to develop and test new methods for fund-raising campaigns. The net operating income from private fund-raising activities is summarized below:

| <i>(In millions of United States dollars)</i> | | | | |
|---|--------------|----------------------------|---------------|--------------|
| | | <i>Increase/(decrease)</i> | | |
| | 2008 | 2007 | \$ | % |
| Total net proceeds | 336.7 | 359.8 | (23.1) | (6.4) |
| Less: | | | | |
| Operating expenses | 11.7 | 8.6 | 3.1 | 36.1 |
| Country office expenses | 5.7 | 5.4 | 0.3 | 5.6 |
| Research and development | 3.4 | 2.5 | 0.9 | 36.0 |
| Net operating income | 315.9 | 343.3 | (27.4) | (8.0) |

33. In addition to the net operating income from private fund-raising activities related to regular resources, \$452.6 million was received in 2008 and earmarked for various UNICEF other resources projects. The corresponding amount in 2007 was \$322.9 million; it is shown in a footnote to Statement I in this financial report and included as income in the UNICEF financial statements.

Note 11. Investment Fund expenditures

34. To enable PFP to continue to fulfil its mandate to raise funds through private fund-raising activities and card and gift sales, the Executive Board approved for 2008 a budget of \$21.4 million for Investment Fund expenditures. The Investment Funds aim 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 return. In 2008, the total expenditure for investment funds was \$16.6 million, compared to \$19.2 million in 2007.

Note 12. Total net operating income

35. The total net operating income from private fund-raising activities for regular resources and UNICEF card and gift sales amounted to \$341.3 million, a decrease of \$46.2 million (11.9 per cent) compared to 2007.

Note 13. Exchange rate gain/(loss)

36. The exchange rate adjustment in 2008 amounted to a gain of \$19.3 million, compared to \$3.5 million in 2007. This gain was due to the weakening of the United States dollar against major currencies on PFP receivables not denominated in United States dollars.

Note 14. Total net income

37. After adding the positive exchange rate adjustment, the total net income from UNICEF card and gift sales and private fund-raising activities in 2008 was \$360.6 million, a decrease of \$30.4 million (7.8 per cent), compared to the total net income of \$391 million in 2007.

Statement II**Note 15. Bank**

38. The total bank balance on 31 December 2008 was \$0.5 million, compared to \$0.7 million in the previous year.

Note 16. Accounts receivable

39. 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 2008 was \$364.5 million, a decrease of \$28.6 million (7.3 per cent), compared to the balance as at 31 December 2007. This was due to the decrease in income from sales and fund-raising as a result of the difficult economic conditions worldwide.

Note 17. Net accounts receivable

40. In accordance with PFP accounting policy (see para. 14 above), a provision to cover accounts receivable that are considered doubtful for collection may be established. For 2008, the provision for uncollectible accounts was \$9.1 million, compared to \$9.3 million in 2007. Net accounts receivable after deducting the provision for uncollectible accounts amounted to \$355.4 million.

Note 18. Inventory

41. Inventory as at 31 December 2008 was \$12.6 million, a decrease of \$1.1 million (8 per cent), compared to the balance as at 31 December 2007. This was due to fewer purchases in anticipation of a further downturn in the demand for cards and gifts in the coming year. A comparison is presented below:

| | <i>(In millions of United States dollars)</i> | |
|-----------------------------------|---|-------------|
| | 2008 | 2007 |
| Raw materials and work in process | 3.2 | 3.4 |
| Finished goods | 9.4 | 10.3 |
| Total | 12.6 | 13.7 |

Note 19. Prepaid expenses

42. Prepaid expenses as at 31 December 2008 were \$0.04 million, the same as the previous year, and related to a warehouse rental deposit.

Note 20. Capital assets, net of accumulated depreciation

43. These are stated at cost, less accumulated depreciation, as at 31 December 2008. In accordance with PFP accounting policies, capital assets costing \$0.1 million or more are capitalized and depreciated over their estimated useful life. The warehouse in Secaucus, New Jersey, was closed and equipment with zero book value was disposed of during the past year. The proceeds from the disposal were \$0.01 million. There were no new acquisitions in 2008. See below for a summary of capital assets:

| | <i>(In millions of United States dollars)</i> | |
|---|---|-------------|
| | <i>2008</i> | <i>2007</i> |
| Production machinery | 0.2 | 1.1 |
| Office equipment and leasehold improvements | 1.6 | 1.6 |
| Subtotal | 1.8 | 2.7 |
| Accumulated depreciation | (1.8) | (2.7) |
| Total | 0.0 | 0.0 |

Note 21. Accounts payable

44. Total accounts payable as at 31 December 2008 were \$4.2 million, an increase of \$1.9 million (79.5 per cent), compared with the balance as at 31 December 2007. The increase was due to higher Investment Fund expenditure accruals at the year-end for expenditures already incurred by UNICEF partners but for which claims were not yet settled.

Note 22. UNICEF inter-office account

45. This reflects the net result of transactions between PFP and other UNICEF offices, which amounted to \$364.3 million as at 31 December 2008 and includes monies advanced to PFP as working capital. PFP earnings for each fiscal period are transferred to UNICEF via this account.