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Private fundraising: financial report and statements for the year ended 31 December 2010

Summary

This document presents the financial results achieved by the UNICEF Private Fundraising and Partnerships Division (PFP) for the year ended 31 December 2010. The three financial statements are supported by explanatory notes, including a summary of significant accounting policies.

The total net income from National Committee and country office fundraising and sales activities for the year was \$1,023.2 million, \$248 million (32 per cent) more than the \$775.2 million generated in 2009. The net income comprises \$334.1 million of regular resources — \$317.3 million from private fundraising and \$16.8 million from sales of UNICEF cards and products — and \$689.1 million from fundraising for other resources.

* E/ICEF/2011/13.

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Financial report for the year ended 31 December 2010

A. Overview of the results

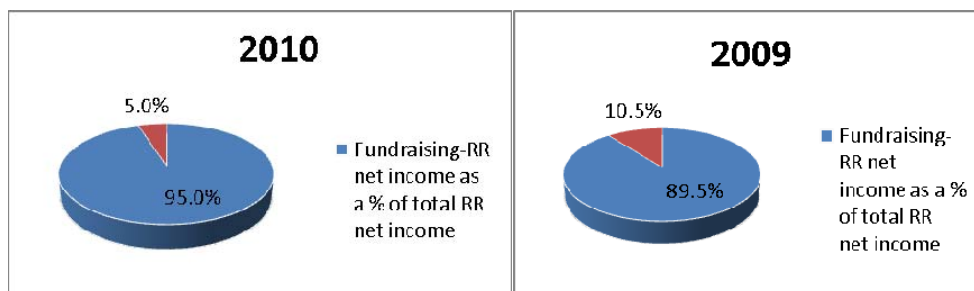
1. The UNICEF Private Fundraising and Partnerships Division (PFP) revenue is generated by the fundraising and sales activities of 36 National Committees and 28 UNICEF country offices. In 2010, 92 per cent of net proceeds were generated by National Committees and 8 per cent by country offices, compared to 90 per cent and 10 per cent respectively, in 2009.

2. **Total net income** for 2010 was \$1,023.2 million, including regular and other resources. This is \$248 million (32 per cent) more than the \$775.2 million generated in 2009. This significant increase is primarily due to the increase in other resources contributions for the Haiti earthquake and Pakistan floods emergencies. The breakdown of total net income for the year is as follows:

(In millions of United States dollars)

	2010	2009
Private fundraising — regular resources	317.3	339.6
Sale of UNICEF cards and products	16.8	39.8
Total regular resources net income	334.1	379.4
Private fundraising — other resources	689.1	395.8
Net income for the period	1 023.2	775.2

3. **Total regular resources net income** decreased from \$379.4 million in 2009 to \$334.1 million in 2010. While the net proceeds from private fundraising for regular resources increased by \$8.5 million to \$393.7 million in 2010, total regular resources decreased. This decrease is due to foreign exchange losses of \$28.8 million (2009: \$16.6 million), a 58 per cent drop in cards and products revenue to \$16.8 million (2009: \$39.8 million), and an exceptional bad debt expense of \$8.8 million (2009: \$1 million). Net income from private fundraising included 95 per cent of total net income for regular resources, compared to 89.5 per cent in 2009.



4. **Total income from private fundraising for other resources** amounted to \$689.1 million for 2010, \$293.3 million (74.1 per cent) more than the \$395.8 million raised in 2009. This increase is explained by the positive response

from donors to the appeals launched after the Haiti earthquake and Pakistan floods emergencies that led to a mobilization of over \$300 million.

5. The global recession continued to have a negative impact on all cards and products sales activities, including retail, corporate, key account, and volunteer channels.

(In millions of United States dollars)

<i>Cards and products sales</i>	<i>2010</i>	<i>%</i>	<i>2009</i>	<i>%</i>	<i>Variance (%) 2010 vs. 2009</i>
Gross proceeds	111.1	100.0	131.9	100.0	-15.8
National Committee sales expenses	33.7	30.3	37.7	28.6	-10.6
Net proceeds	77.4	69.7	94.2	71.4	-17.8
Sales direct expenses	37.2	33.5	35.6	27.0	4.5
Investment funds — sales	1.1	1.0	1.9	1.4	-42.1
Direct contribution from sales	39.1	35.2	56.7	43.0	-31.0

6. **Gross proceeds** declined by \$20.8 million (15.8 per cent), from \$131.9 million in 2009 to \$111.1 million in 2010. North American and European and countries, with the exception of Switzerland, reported material sales declines. Asian countries were less affected by the recession, with growth in sales proceeds in Japan, Republic of Korea and Hong Kong but a decrease in sales in Thailand. Countries in South America had mixed results, with Brazil and Mexico showing a material decrease in sales proceeds and other countries reporting increased sales. The overall contribution from sales decreased by 31 per cent, from \$56.7 million in 2009 to \$39.1 million in 2010. This decrease was primarily due to the reduction in gross proceeds as noted above.

7. The rationalization of PFP cards and products activities continues to progress well, and will be completed in 2011. This initiative has four primary objectives: (a) establish a flexible and more responsive organization better able to adapt to market dynamics; (b) improve the UNICEF 'value chain' and cost/income ratios; (c) create an operating platform that supports entry into new high potential segments; and (d) refocus the organization on strategic leadership functions. In 2010, PFP invested \$4.5 million in this process. These costs are included in 'sales direct expenses' in the table above.

8. **PFP direct expenses** were reduced by \$0.9 million, from \$40.9 million in 2009 to \$40 million in 2010. The decrease is explained by a reduction of \$1.1 million in the cost of goods sold and inventory expenses, a reduction of \$0.3 million in promotion materials, a decrease of \$2.8 million in country office sales and fundraising expenses. This was offset by an increase of \$3.3 million in operations and support expenses, due to one-time expenses linked to the investment in the cards and products rationalization referred to above.

9. To enable PFP to more effectively mobilize resources through fundraising and sales activities, the Executive Board approved a 2010 budget of \$25.6 million for **Investment Fund expenditures**. The objective of the Investment Fund programme is to increase the capacity of National Committees and UNICEF country offices to

build a broader support base for 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 2010, the total expenditure for investment funds was \$25.6 million, compared to \$19.6 million in 2009. Some 92 per cent of the funds were spent on pledge acquisition, 5 per cent was invested in one-off acquisition and 3 per cent was allocated to mixed activities, including legacies. Overall, 75 per cent of the investment funds were allocated to National Committees and 25 per cent to country offices.

10. **Indirect expenses** increased by \$12.6 million (33 per cent) from \$38.1 million in 2009 to \$50.7 million in 2010. The largest contributor to this increase is the bad debt expense of \$8.8 million (\$1 million in 2009) that was a necessary adjustment to the accounts receivable to rectify an error where contributions reported as regular resources to UNICEF by some National Committees were in fact transferred and accounted for as other resources. Other increases were recorded in marketing and fundraising (\$2.3 million), the Director's Office, communication, finance and administration (\$2 million) and National Committee relations (\$0.8 million). This was offset by a decrease of \$0.3 million in the costs of regional support centres.

11. **Net accounts receivable**, after providing for uncollectible accounts, increased from \$379.1 million in 2009 to \$391 million in 2010, due to the strengthening of the Japanese Yen against the United States Dollar.

12. **Total inventory levels** of cards and products increased from \$9.8 million in 2009 to \$10.9 million at 31 December 2010, due to the increase in finished goods inventories, which is consistent with the reduction in sales revenue.

B. Financial statements for the year ended 31 December 2010

13. The three financial statements that follow are supported by explanatory notes in the next section, including a summary of significant accounting policies.

Statement I

Statement of income and expenditure for the year ended 31 December 2010

(In millions of United States dollars)

	Note	Sale of UNICEF cards and products	Private fundraising — regular resources	Total regular resources	Private fundraising — other resources*	Grand total 2010	Grand total 2009	Variance (%)
Operating revenues								
Gross proceeds	2	111.1						
National Committee expenses		33.7						
Net proceeds		77.4	393.7	471.1	689.1	1 160.2	875.2	32.6
Direct expenses								
Cost of goods and inventory overhead		16.6	—	16.6		16.6	17.7	-6.2
Operations and support		11.9	—	11.9		11.9	8.6	38.4
Promotional materials		3.4	—	3.4		3.4	3.7	-8.1
Country office expenses		5.3	2.8	8.1		8.1	10.9	-25.7
Total direct expenses		37.2	2.8	40.0	—	40.0	40.9	-2.2
Investment fund expenditures		1.1	24.5	25.6		25.6	19.6	30.6
Direct contribution from operations		39.1	366.4	405.5	689.1	1 094.6	814.7	34.4
Indirect expenses								
Director's Office, communications, finance and administration	3	9.7	8.9	18.6		18.6	16.6	12.0
Marketing and fundraising	4	6.2	10.5	16.7		16.7	14.4	16.0
National Committee relations		1.2	3.7	4.9		4.9	4.1	19.5
Regional support centres		0.5	1.2	1.7		1.7	2.0	-15.0
Bad debt expense		1.4	7.4	8.8		8.8	1.0	780.0
Total indirect expenses	5	19.0	31.7	50.7	—	50.7	38.1	33.1
Income before non-operating items		20.1	334.7	354.8	689.1	1 043.9	776.6	34.4

	Note	Sale of UNICEF cards and products	Private fundraising — regular resources	Total regular resources	Private fundraising — other resources*	Grand total 2010	Grand total 2009	Variance (%)
Non-operating items								
Other income	6	1.2	6.9	8.1	—	8.1	15.2	-46.7
Foreign exchange losses	7	(4.5)	(24.3)	(28.8)	—	(28.8)	(16.6)	-73.5
Net income for the period	1	16.8	317.3	334.1	689.1	1 023.2	775.2	32.0

Note: The accompanying explanatory notes form an integral part of this statement and should be read in conjunction with it.

* Income from PFP disclosed in the UNICEF Financial Statements excludes other resources from private fundraising, which have been included above in order to provide the overall total revenue generated from private-sector activities.

Statement II**Statement of assets and liabilities as at 31 December 2010**

(In millions of United States dollars)

	<i>Note</i>	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>	<i>Change Increase/(decrease)</i>
Assets				
Bank		0.6	0.4	0.2
Accounts receivable	407.0		388.9	18.1
Less: Allowance for uncollectible accounts	16.0		9.8	6.2
Net accounts receivable		391.0	379.1	11.9
Inventory		10.9	9.8	1.1
Capital assets, net of accumulated depreciation		0	0	0
Total assets		402.5	389.3	13.2
Liabilities				
Accounts payable		5.3	3.1	2.2
UNICEF inter-office account		397.2	386.2	11.0
Total liabilities		402.5	389.3	13.2

Note: The accompanying explanatory notes form an integral part of this statement and should be read in conjunction with it.

Statement III**Statement of actual results for the year ended 31 December 2010
compared with the approved budget**

(In millions of United States dollars)

	Note 8	Actual results	Budget	Variance	
				\$	%
Net proceeds from operating revenues					
Sale of UNICEF cards and products	Para. 24	77.4	96.4	-19.0	-19.7
Private fundraising — regular resources		393.7	383.4	10.3	2.7
Private fundraising — other resources		689.1	400.8	288.3	71.9
Net proceeds	Para. 25	1 160.2	880.6	279.6	31.8
Direct expenses					
Cost of goods and inventory overhead		16.6	22.2	-5.6	-25.2
Operations and support		11.9	11.0	0.9	8.2
Promotional materials		3.4	5.4	-2.0	-37.0
Country office expenses		8.1	9.8	-1.7	-17.3
Total direct expenses	Para. 26	40.0	48.4	-8.4	-17.4
Investment fund expenditures		25.6	25.6	0.0	0.0
Direct contribution from operations		1 094.6	806.6	288.0	35.7
Indirect expenses					
Director's Office, communication, finance and administration		18.6	20.6	-2.0	-9.7
Marketing and fundraising		16.7	21.1	-4.4	-20.9
National Committee relations		4.9	6.1	-1.2	-19.7
Regional Support Centres		1.7	2.7	-1.0	-37.0
Bad debt expense		8.8	1.0	7.8	780.0
Total indirect expenses	Para. 27	50.7	51.5	-0.8	-1.6
Income before non-operating items		1 043.9	755.1	288.8	38.2
Non-operating items					
Other income		8.1	6.3	1.8	28.6
Foreign exchange gains (losses)		-28.8	0.0	-28.8	
Net income for the period	Para. 23	1 023.2	761.4	261.8	34.4

C. Notes to the financial report for the year ended 31 December 2010

Note 1. Summary of significant accounting policies

14. The financial statements are prepared in accordance with the Financial Regulations and Rules and the accompanying UNICEF Special Supplement on Greeting Card Operations.¹ Unless otherwise stated, the accounting policies of PFP are consistent with those of UNICEF.

15. 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 UNICEF of Japan and Canada report on a fiscal year from 1 April to 31 March. The United States Fund for UNICEF reports on a fiscal year from 1 July to 30 June. The figures reported by these National Committees for inclusion in this financial report are apportioned accordingly.

16. In accordance with PFP accounting policy, a provision may be established to cover accounts receivable that are considered doubtful for collection. This provision is shown as a deduction from the accounts receivable in the statement of assets and liabilities. Any related expense incurred during the year is recorded in the statement of income and expenditure.

17. 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 products to zero value at the end of the first sales campaign year, and all other products at the end of the second sales campaign year.

Note 2. Gross proceeds — cards and products

18. Gross proceeds from UNICEF card and products sales include (a) gross proceeds from the sale of cards and products developed by UNICEF; (b) catalogue donations, which are contributions generated through PFP brochures and order forms; (c) royalty income, including all income received from licensed products; and (d) National Committee products, which is income from the sale of products developed by them.

¹ Financial Regulations and Rules of the United Nations Children's Fund (E/ICEF/FINANCIAL RULES/1) and Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

(In millions of United States dollars)

	2010	2009	Increase/(decrease)	
			\$	%
Gross proceeds — cards and products	101.3	119.6	-18.3	-15.3
Catalogue donations	5.2	5.1	0.1	2.0
Royalties	2.0	3.5	-1.5	-42.9
National Committee products	2.4	3.5	-1.1	-31.4
E-greetings	0.2	0.2	0	0
Total	111.1*	131.9	(20.8)	15.8

* The 2010 total of \$111.1 million includes \$9.9 million (\$12.4 million in 2009) of income generated from the Cards and Gifts operation, which is included in “other income” in Note 6 to the UNICEF Financial Statements.

Note 3. Director’s Office, communication, finance and administration expenses

19. The Director’s Office, communication, finance and administration indirect expenses consist of the following:

(In millions of United States dollars)

	2010	2009	Increase/(decrease)	
			\$	%
Director’s Office	1.4	1.2	0.2	16.7
Deputy Director — operations and finance and governance	1.2	1.1	0.1	9.1
Finance and administration	2.9	2.6	0.3	11.5
Communication	1.6	1.4	0.2	14.3
Common services and allocated overheads	11.5	10.3	1.2	11.7
Total	18.6	16.6	2.0	12.0

Note 4. Marketing and fundraising expenses

20. Marketing and fundraising indirect expenses consist of the following:

(In millions of United States dollars)

	2010	2009	Increase/(decrease)	
			\$	%
Marketing and product development	5.1	4.5	0.6	13.3
Fundraising expenses	8.7	7.6	1.1	14.5
Research and development	2.9	2.3	0.6	26.1
Total	16.7	14.4	2.3	16.0

Note 5. Allocated indirect expenses

21. Indirect expenses are allocated to the sales of cards and products and Private Fundraising regular resources, according to the following allocation basis:

(In millions of United States dollars)

	<i>Cards and products sales</i>	<i>Private fundraising regular resources</i>	<i>Total</i>	<i>Allocation basis</i>
Director's Office, communication, finance and administration	9.7	8.9	18.6	Activity
Marketing and fundraising	6.2	10.5	16.7	Activity
National Committee relations	1.2	3.7	4.9	Activity
Regional support centres	0.5	1.2	1.7	Activity
Bad debt expense	1.4	7.4	8.8	Proportional*
Total	19.0	31.7	50.7	

* Based on current year net proceeds (regular resources).

Note 6. Other income

22. Other income consists of the following:

(In millions of United States dollars)

	<i>Cards and products sales</i>	<i>Private fundraising regular resources</i>	<i>Total</i>	<i>Allocation basis</i>
Cash discounts and other miscellaneous income	0.1	—	0.1	Sales
Income from financial operations	0.1	1.7	1.8	Proportional*
Bank interest and other income from National Committees	1.0	5.2	6.2	Proportional*
Total	1.2	6.9	8.1	

* Income from financial operations is allocated proportionally based on current year Investment Funds. Bank interest and other income from National Committees are allocated proportionally, based on current year net proceeds.

Note 7. Foreign exchange losses

23. In 2010, private fundraising experienced total foreign exchange losses of \$28.8 million, compared to a loss of \$16.6 million in 2009. The 2010 loss was primarily due to the devaluation of the Euro against the United States dollar at the time of remittance, compared to the rate as at 31 December 2009, when the income was accrued.

Note 8. Comparison of actual results against approved budget for 2010

24. Net income for 2010 was \$1,023.2 million, compared to the approved budget of \$761.4 million. The positive variance of \$261.8 million (34.4 per cent) was mainly due to an increase in other resources contributions for the Haiti earthquake and Pakistan floods emergencies.

25. Net proceeds from the sale of UNICEF cards and products were \$19 million (19.7 per cent) below budget. As in 2009, consistent with the experience of our competitors, commercial activities were negatively affected by the global recession as companies and consumers cut their discretionary purchasing, in addition to the declining sales volume trend of the past several years.

26. Total net proceeds from all fundraising and sales activities were \$279.6 million (31.8 per cent) over budget. This is attributable to the positive response from our donors to the appeals for the Haiti and Pakistan emergencies, which led to an increase in other resources contributions.

27. Total direct expenses for 2010 at \$40.0 million were \$8.4 million (17.4 per cent) lower than the approved budget. This is due to a combination of factors, including (a) lower cost of goods expenditure, consistent with the decline in sales net proceeds versus budget; (b) reduced spending on promotional materials; and (c) a decrease in country office fundraising expenses, as these costs are now being reallocated to country office budgets where they are recovered directly from fundraising income raised locally.

28. Total indirect expenses of \$50.7 million were \$0.8 million lower than the approved budget of \$51.5 million. The variance is due to a reduction in expenditures in all cost centres, off-set by an increase in expenditure in the bad debt expense. The lower expenditure is mainly due to an underspent research and development budget by Cards and Products due to restructuring, reduced operating expenditure as a result of cost saving initiatives, and vacancies in posts under recruitment.