

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Consolidated Financial Statements and Supplemental Schedules

June 30, 2013

(with summarized comparative information for fiscal 2012)

(With Independent Auditors' Report Thereon)

UNITED STATES FUND FOR UNICEF AND AFFILIATES

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Independent Auditors' Report

The Boards of Directors
United States Fund for UNICEF and Affiliates:

We have audited the accompanying consolidated financial statements of the United States Fund for UNICEF and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Fund for UNICEF and Affiliates as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the 2012 consolidated financial statements of the United States Fund for UNICEF and Affiliate, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 10, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 15, 2013

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2013

(with comparative information as of June 30, 2012)

Assets	2013	2012
Cash and cash equivalents	\$ 36,438,291	33,845,331
Investments (note 2)	42,486,165	34,425,060
Contributions receivable (note 3)	46,095,013	36,399,691
Prepaid expenses and other assets	1,276,846	1,373,013
Investments held for split-interest agreements (note 4)	7,024,188	6,562,888
Deferred bond acquisition costs	978,882	1,016,531
Property and equipment, net (note 6)	37,693,858	38,369,867
Total assets	<u>\$ 171,993,243</u>	<u>151,992,381</u>
Liabilities and Net Assets		
Liabilities:		
Grants payable (note 5)	\$ 29,898,001	30,912,205
Accrued expenses and other liabilities	8,371,096	6,184,341
Liabilities under split-interest agreements (note 4)	3,871,244	3,904,799
Loans payable (note 7)	10,750,000	5,625,000
Bonds payable (note 7)	40,815,000	41,540,000
Total liabilities	<u>93,705,341</u>	<u>88,166,345</u>
Net assets:		
Unrestricted	29,614,247	25,760,438
Temporarily restricted (note 10)	47,049,326	36,466,269
Permanently restricted (note 11)	1,624,329	1,599,329
Total net assets	<u>78,287,902</u>	<u>63,826,036</u>
Total liabilities and net assets	<u>\$ 171,993,243</u>	<u>151,992,381</u>

See accompanying notes to consolidated financial statements.

UNITED STATES FUND FOR UNICEF AND AFFILIATES
Consolidated Statement of Activities
Year ended June 30, 2013
(with summarized comparative information for the year ended June 30, 2012)

	2013			2012
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:				
Public support:				
Contributions:				
Corporate	\$ 11,280,133	3,783,826	—	15,063,959
Major gifts	18,538,480	4,070,787	—	22,609,267
Foundations	88,851,178	18,513,670	—	107,364,848
Nongovernmental organizations (NGO)	1,960,332	8,465,011	—	10,425,343
Direct marketing	32,486,903	1,173	—	32,488,076
Trick-or-treat program	2,096,851	—	—	2,096,851
Internet	17,720,341	13,336	—	17,733,677
Other	7,122,394	39,141	—	7,161,535
Gifts-in-kind	360,980,827	—	—	360,980,827
Special events income, net of expenses of \$1,434,549 in 2013 and \$2,023,167 in 2012	4,349,590	123,011	—	4,472,601
Bequests and legacies	6,224,549	—	25,000	6,249,549
Total public support	551,611,578	35,009,955	25,000	586,646,533
Revenue:				
Greeting cards revenue	3,472,318	—	—	3,472,318
Investment return (note 2)	2,680,199	—	—	2,680,199
Change in value of split-interest agreements	(205,771)	(1,212)	—	(206,983)
Total revenue	5,946,746	(1,212)	—	5,945,534
Net assets released from restrictions	24,425,686	(24,425,686)	—	—
Total public support, revenue, and net assets released from restrictions	581,984,010	10,583,057	25,000	592,592,067
Expenses:				
Program services:				
Grants to UNICEF and other nongovernmental organizations (NGOs) (note 5)	517,600,879	—	—	517,600,879
Public information, education, and program services	8,588,110	—	—	8,588,110
Advocacy	892,409	—	—	892,409
Total program services	527,081,398	—	—	527,081,398
Supporting services:				
Management and general	14,418,483	—	—	14,418,483
Fund-raising expenses	36,630,320	—	—	36,630,320
Total supporting services	51,048,803	—	—	51,048,803
Total expenses	578,130,201	—	—	578,130,201
Increase in net assets	3,853,809	10,583,057	25,000	14,461,866
Net assets:				
Beginning of year	25,760,438	36,466,269	1,599,329	63,826,036
End of year	\$ 29,614,247	47,049,326	1,624,329	78,287,902

See accompanying notes to consolidated financial statements.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2013

(with comparative information for the year ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase in net assets	\$ 14,461,866	9,743,038
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,842,609	1,877,216
Net (appreciation) depreciation in fair value of investments	(1,186,421)	65,429
Change in value of split-interest agreements	(2,402)	55,158
Permanently restricted contributions	(25,000)	(27,000)
Changes in operating assets and liabilities:		
Contributions receivable	(9,695,322)	(1,841,182)
Prepaid expenses and other assets	96,167	(273,268)
Grants payable	(1,014,204)	(3,404,183)
Accrued expenses and other liabilities	2,186,755	1,501,403
Net cash provided by operating activities	<u>6,664,048</u>	<u>7,696,611</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,128,951)	(419,793)
Proceeds from sales of investments	6,021,461	2,642,284
Purchases of investments	<u>(13,357,445)</u>	<u>(11,818,600)</u>
Net cash used in investing activities	<u>(8,464,935)</u>	<u>(9,596,109)</u>
Cash flows from financing activities:		
Proceeds from permanently restricted contributions	25,000	27,000
Proceeds from contributions under split-interest agreements	447,780	685,704
Payments under split-interest agreements	(478,933)	(494,008)
Payment of bonds payable	(725,000)	(690,000)
Proceeds from loans payable	<u>5,125,000</u>	<u>5,625,000</u>
Net cash provided by financing activities	<u>4,393,847</u>	<u>5,153,696</u>
Net increase in cash and cash equivalents	2,592,960	3,254,198
Cash and cash equivalents:		
Beginning of year	<u>33,845,331</u>	<u>30,591,133</u>
End of year	<u>\$ 36,438,291</u>	<u>33,845,331</u>
Cash paid for interest	\$ 2,176,791	2,204,177
Noncash operating activity:		
Gifts-in-kind (revenues)	\$ 360,980,827	353,194,889
Gifts-in-kind (expenses)	360,980,827	353,318,199

See accompanying notes to consolidated financial statements.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2013

(with summarized comparative information for the year ended June 30, 2012)

	Program services				Supporting services			Totals	
	Grants to UNICEF and other NGOs	Public information	Advocacy	Total	Management and general	Fund-raising	Total	2013	2012
Grants to UNICEF and other NGOs	\$ 517,600,879	—	—	517,600,879	—	—	—	517,600,879	433,785,044
Salaries, payroll taxes, and employee benefits	—	4,058,562	690,812	4,749,374	8,601,738	11,437,881	20,039,619	24,788,993	23,286,736
Outside printing and telemarketing	—	612,777	3,455	616,232	165,470	7,487,663	7,653,133	8,269,365	8,244,348
Postage and shipping	—	20,458	846	21,304	37,532	5,766,817	5,804,349	5,825,653	6,617,257
Mailing list rental	—	—	—	—	—	438,548	438,548	438,548	779,081
Consulting and other fees	—	2,250,582	5,145	2,255,727	984,230	6,490,443	7,474,673	9,730,400	7,600,602
Telephone	—	45,601	9,858	55,459	75,988	121,177	197,165	252,624	270,100
Occupancy	—	33,328	114,443	147,771	55,565	347,588	403,153	550,924	606,801
Conferences, conventions, meetings, and travel	—	301,125	25,102	326,227	453,319	1,281,580	1,734,899	2,061,126	2,146,582
Equipment, repairs, and supplies	—	188,071	12,728	200,799	815,591	431,262	1,246,853	1,447,652	1,317,265
Legal and accounting	—	—	—	—	485,023	(26,006)	459,017	459,017	625,679
Insurance	—	63,700	—	63,700	106,204	104,666	210,870	274,570	225,382
Depreciation and amortization	—	197,712	19,163	216,875	486,080	1,139,654	1,625,734	1,842,609	1,877,216
Interest	—	741,337	—	741,337	842,697	830,497	1,673,194	2,414,531	2,265,431
Miscellaneous	—	74,857	10,857	85,714	1,309,046	778,550	2,087,596	2,173,310	2,180,543
Total expenses, year ended June 30, 2013	\$ 517,600,879	8,588,110	892,409	527,081,398	14,418,483	36,630,320	51,048,803	578,130,201	
Total expenses, year ended June 30, 2012	\$ 433,785,044	9,965,582	780,586	444,531,212	14,205,077	33,091,778	47,296,855	—	491,828,067

See accompanying notes to consolidated financial statements.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

(1) Organization and Summary of Significant Accounting Policies

(a) *Principles of Consolidation*

The accompanying consolidated financial statements include the United States Fund for UNICEF (Fund) and its supporting organizations, United States Fund for UNICEF In-Kind Assistance Corporation (USF-IKAC) and Bridge Fund Grant Assistance Corporation (BF-GAC); collectively (USF). The Fund is the sole voting member of USF-IKAC and BF-GAC and elects their boards of directors. There were no transactions for BF-GAC in 2013.

(b) *Nature of Activities*

The Fund is a not-for-profit organization, chartered by the State of New York, organized to support programs through fund-raising, education, and advocacy activities, providing lifesaving medicine, better nutrition, clean water and sanitation, quality basic education, and emergency relief to children, families, and communities in more than 150 countries and territories. As a partner in the global commitment to build a world fit for children, the Fund is working to create a world that is free from poverty, disease, violence, exploitation, and discrimination.

USF-IKAC is a not-for-profit organization, chartered by the State of New York, organized to support the Fund by facilitating the contribution and distribution of in-kind donations to advance the health, education, and welfare of children throughout the world.

BF-GAC is a not-for-profit organization, chartered by the State of New York, to receive contributions and other financial support and give grants to international charitable organizations to be used by such organizations to benefit children throughout the world.

USF-IKAC and BF-GAC operate exclusively for the benefit of and to perform specific functions of the Fund for charitable and educational purposes.

(c) *Financial Statement Presentation*

The consolidated financial statements include certain prior year summarized comparative information, which does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be viewed in conjunction with USF's consolidated financial statements for the year ended June 30, 2012 from which the summarized information was derived.

USF prepares its consolidated financial statements on the accrual basis in accordance with GAAP. Net assets of USF and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that will be met either by actions of USF and/or by the passage of time.

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Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by USF, but permit USF to expend all or part of the income derived therefrom. This income is available to support operations.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, except for those restrictions met in the same year as received, which are reported as unrestricted revenues (\$480 million in fiscal 2013), are reported as net assets released from restrictions. The \$480 million represents \$361 million of gifts-in-kind and \$119 million in cash contributions.

(d) *Cash and Cash Equivalents*

USF considers highly liquid investments with original maturities of three months or less to be cash equivalents, except for such investments purchased by USF's investment managers as part of their investment strategies. Financial instruments that potentially subject USF to concentrations of credit risk consist principally of cash, certificates of deposit, and commercial paper. Cash and cash equivalents in excess of insurable limits aggregated approximately \$36 million and \$33 million at June 30, 2013 and 2012, respectively.

(e) *Investments, Including Investments Held for Split-Interest Agreements*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon values provided by USF's external investment managers or upon quoted market prices. Investments in limited partnerships are reflected at estimated fair values, which, as a practical expedient, are the net asset values as reported by the general partners. The estimated fair value may differ from the values that would have been reported had a ready market for these securities existed. USF reviews and evaluates the values provided by the general partners and agrees with the valuation methods and assumptions used in determining the estimated fair value of the limited partnerships.

Realized and unrealized gains on investments generated by permanently restricted net assets are available for unrestricted use and are recorded as unrestricted revenue.

Investment income is recorded when earned. Realized and unrealized gains and losses are determined on the basis of specific identification.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Because of the level of risk associated with certain investments, it is at least reasonably possible that changes in their values will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

(f) *Property and Equipment, Net*

Property and equipment are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets, or in the case of leasehold improvements, over the lesser of the remaining terms of the leases or the estimated useful lives of the improvements.

(g) *Revenue Recognition*

Contributions through direct mail and other campaigns are recorded as public support when received.

Gifts-in-kind are recorded as public support at their estimated fair value on the date of receipt. Gifts-in-kind received by USF-IKAC are in the form of contributed medical supplies from pharmaceutical companies and other supplies from various companies. Donors provide fair values for donated gifts-in-kind and the USF performs a review and evaluation of the provided fair values by using methods that include reviewing quoted prices for similar pharmaceuticals corroborated by observable market data. USF does not sell donated gifts-in-kind. The inputs used to measure the fair value of gifts-in-kind are considered Level 3 within the fair value hierarchy (note 1(l)).

Additionally, a substantial number of volunteers have donated their time to support the USF's fund-raising and other activities. The value of these contributed services is not included in the consolidated financial statements since they do not meet the criteria for financial statement recognition established under GAAP.

(h) *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting service areas that were benefited.

(i) *Deferred Bond Acquisition Costs*

Costs incurred to obtain long-term debt are deferred and amortized over the life of the debt.

(j) *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) *Income Tax Status*

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and is classified as a publicly supported organization as defined in Section 509(a)(1) of the IRC. USF-IKAC and BF-GAC are also exempt from federal income taxes under Section 501(c)(3) of the IRC, and are classified as publicly supported organizations as defined in

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

Section 509(a)(3) of the IRC. The Fund, USF-IKAC, and the BF-GAC are also exempt from state and local income taxes and qualify for the maximum charitable contribution deduction by donors.

USF recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes has been made as USF has not reported any taxable unrelated business income and any unrelated business income is offset by associated expenditures. USF evaluates, on an annual basis, the effects of any uncertain tax positions on its consolidated financial statements. As of June 30, 2013 and 2012, USF has not identified or provided for any such positions.

(l) Fair Value

Investments, including those held for split-interest agreements, are reported at estimated fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the inputs used to measure fair value, the highest priority is given to observable inputs and lowest priority is given to unobservable inputs. Fair value inputs are categorized within a fair value hierarchy as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs observable or corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The carrying values of USF's grants payable and accrued expenses and other liabilities approximated their fair values at June 30, 2013 and 2012 because of the terms and relatively short maturities of these financial instruments. These estimated values, however, involve unobservable inputs considered to be Level 3 in the fair value hierarchy. The fair value of contributions receivable and bonds payable is discussed in notes 3 and 7, respectively.

(m) Reclassifications

Certain reclassifications of 2012 amounts have been made to conform to the 2013 presentation.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

(2) Investments

The classification of investments by level in the fair value hierarchy as of June 30, 2013 and 2012 is as follows:

2013				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 13,748,807	—	—	13,748,807
Corporate fixed income	—	16,967,527	—	16,967,527
Equity securities:				
U.S. equity	6,430,286	—	—	6,430,286
Non-U.S. equity	2,321,565	—	—	2,321,565
Hedge funds		1,124,300	1,124,300	2,248,600
Other investment		769,380		769,380
	<u>\$ 22,500,658</u>	<u>18,861,207</u>	<u>1,124,300</u>	<u>42,486,165</u>

2012				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 9,046,254	—	—	9,046,254
Corporate fixed income	—	15,721,656	—	15,721,656
Equity securities:				
U.S. equity	5,502,119	—	—	5,502,119
Non-U.S. equity	1,815,585	—	—	1,815,585
Hedge funds	—	1,169,723	1,169,723	2,339,446
	<u>\$ 16,363,958</u>	<u>16,891,379</u>	<u>1,169,723</u>	<u>34,425,060</u>

The following table presents USF's activities for the year ended June 30, 2013 for the above assets classified in Level 3:

Balance at June 30, 2012	\$ 1,169,723
Redemptions	(11,597)
Net depreciation	(33,826)
Balance at June 30, 2013	<u>\$ 1,124,300</u>

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

Return on investments for the years ended June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Dividends and interest, net of fees	\$ 1,493,778	955,545
Appreciation (depreciation) in fair value	<u>1,186,421</u>	<u>(65,429)</u>
Total investment return	<u>\$ 2,680,199</u>	<u>890,116</u>

At June 30, 2013 and 2012, there were two hedge funds. Each may be redeemed quarterly, up to 25% of the balance, and requires a 91-day notice period. The other investment is a fund which may be redeemed bi-monthly and requires a 6-day notice period.

(3) Contributions Receivable

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

Contributions receivable at June 30, 2013 and 2012 consist of unconditional promises to give, due as follows:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 30,278,119	24,579,734
One to five years	<u>16,906,103</u>	<u>12,829,022</u>
	47,184,222	37,408,756
Less:		
Discount to present value (rates ranging from 0.95% to 5.11%)	(321,370)	(399,339)
Allowance for uncollectible pledges	<u>(767,839)</u>	<u>(609,726)</u>
Net contributions receivable	<u>\$ 46,095,013</u>	<u>36,399,691</u>

Included in gross contributions receivable at June 30, 2013 is approximately \$33.2 million due from five donors.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

(with summarized comparative information for fiscal 2012)

(4) Investments Held for Split-Interest Agreements

Split-interest agreements consist principally of charitable gift annuities (CGA), related assets of which total \$6,682,546 and \$6,229,595 at June 30, 2013 and 2012, respectively. Such designated assets exceed the legally mandated reserve. The classification of investments held for split-interest agreements by their level in the fair value hierarchy as of June 30, 2013 and 2012 is as follows:

2013				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 342,231	—	—	342,231
Corporate fixed income	—	3,063,454	—	3,063,454
Other fixed income	—	—	—	—
Equity securities:				
U.S. equity	2,057,742	—	—	2,057,742
Non-U.S. equity	682,375	—	—	682,375
Hedge funds	—	439,193	439,193	878,386
	<u>\$ 3,082,348</u>	<u>3,502,647</u>	<u>439,193</u>	<u>7,024,188</u>

2012				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 366,554	—	—	366,554
Corporate fixed income	—	2,282,512	—	2,282,512
Other fixed income	—	666,479	—	666,479
Equity securities:				
U.S. equity	1,735,649	—	—	1,735,649
Non-U.S. equity	650,040	—	—	650,040
Hedge funds	—	430,827	430,827	861,654
	<u>\$ 2,752,243</u>	<u>3,379,818</u>	<u>430,827</u>	<u>6,562,888</u>

The following table presents USF's activities for the year ended June 30, 2013 for the above assets classified in Level 3:

Balance at June 30, 2012	\$ 430,827
Net appreciation	<u>8,366</u>
Balance at June 30, 2013	<u>\$ 439,193</u>

At June 30, 2013 and 2012, there were two hedge funds. Each may be redeemed quarterly, up to 25% of the balance, and requires a 91-day notice period.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

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Changes in fair value of these split-interest agreements are reflected as changes in net assets in USF's consolidated statement of activities. On an annual basis, the Fund values the liability to the designated beneficiaries based upon actuarial assumptions. The present value of the estimated future payments of \$3,871,244 and \$3,904,799 at June 30, 2013 and 2012, respectively, is calculated using the Internal Revenue Service discount rate and applicable mortality tables.

(5) Grants

The boards of directors of USF and USF-IKAC authorized grants to UNICEF-assisted projects and various nonprofit organizations from funds and in-kind gifts received by USF and USF-IKAC during the years ended June 30, 2013 and 2012. Such grants are to be used by UNICEF and nonprofit organizations solely for those assistance projects approved by the boards of directors to provide life-saving medicine, better nutrition, clean water and sanitation, quality basic education, and emergency relief to children, families, women, and communities in more than 150 countries and territories.

As of June 30, 2013 and 2012, grants payable to UNICEF and NGOs were calculated as follows:

	<u>2013</u>	<u>2012</u>
Grants payable to UNICEF and NGOs – beginning of year	\$ 30,912,205	34,316,388
Add:		
Gifts-in-kind	360,980,827	353,318,199
Greeting cards revenue and support	3,389,951	3,456,465
Grants to UNICEF	148,386,822	73,542,823
Grants to NGOs	4,843,279	3,467,557
Total additions	<u>517,600,879</u>	<u>433,785,044</u>
Less:		
Cash paid to UNICEF	152,554,965	75,437,956
Gifts-in-kind	360,980,827	353,318,199
Cash paid to NGOs	5,079,291	8,433,072
Total deductions	<u>518,615,083</u>	<u>437,189,227</u>
Grants payable to UNICEF and NGOs – end of year	<u>\$ 29,898,001</u>	<u>30,912,205</u>

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

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(6) Property and Equipment, net

Property and equipment at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Office condominium	\$ 41,565,862	41,563,802
Computer equipment and internal use software	4,956,571	3,868,291
Leasehold improvements	307,126	307,126
Furniture and fixtures	2,386,360	2,373,021
Office equipment	418,588	393,315
	<u>49,634,507</u>	<u>48,505,555</u>
Less accumulated depreciation and amortization	<u>(11,940,649)</u>	<u>(10,135,688)</u>
	<u>\$ 37,693,858</u>	<u>38,369,867</u>

(7) Long-Term Debt

(a) Bonds Payable

On June 14, 2007, a private placement of New York City Industrial Development Agency issued Civic Facility Revenue Bonds (Bonds) totaling \$43,510,000 consisting of two series: Series 2007A (Series A) in the amount of \$7,910,000, fixed interest rate 5.05% and Series 2007B (Series B) in the amount of \$35,600,000, fixed interest rate 5.30%. Proceeds of the Bonds, net of issuance costs of \$1,204,778, were used by USF to acquire an Office Condominium (the Facility) and to pay for related interior space construction costs, to purchase furniture and fixtures, and to pay related costs as well as closing costs of the bond issuance (collectively, the Project). The Bonds are not secured by any mortgage lien or security interest in the Facility or any property of USF. The Bonds also have a financial covenant in which USF guarantees to maintain minimum net assets at \$10,000,000.

Series A Bonds require principal payments through November 1, 2018. Series B Bonds require principal payments beginning November 1, 2019 and through November 1, 2038.

The fair value of these Bonds, approximately \$37 million at June 30, 2013, is estimated based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

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(with summarized comparative information for fiscal 2012)

The maturities of the bonds payable subsequent to June 30, 2013 are as follows:

	<u>Amount</u>
Fiscal year ending:	
2014	\$ 765,000
2015	805,000
2016	845,000
2017	885,000
2018	935,000
Thereafter	<u>36,580,000</u>
Total	<u>\$ 40,815,000</u>

Interest expense on bonds payable for the years ended June 30, 2013 and 2012 was \$2,178,638 and \$2,226,865, respectively.

(b) Loans Payable

On December 31, 2011, The USF-IKAC entered into a loan agreement with various philanthropic investors for use with the Revolving Guarantee Bridge Fund (RGBF) program. RGBF is an innovative tool that secures better pricing, faster delivery, and a consistent flow of essential goods for children in the developing world by distributing critical, flexible capital to overcome traditional funding obstacles when purchasing urgently needed supplies that save children's lives. RGBF funds its program activities and grants by obtaining net worth grants and similar contributions. Below market loans, and program-related investments from financial institutions, foundations, and other lenders. The RGBF provides UNICEF's Supply Division with access to U.S. mission investment funding to bridge procurement costs until regular, slower payments become available.

The loan payable balance of \$10,750,000 represents various loans from corporate and individual lenders with interest rates ranging from 1.5% to 2.75% per annum. The loan payable balances range from three (3) to five (5) years from the date of the loan agreement. Interest expense on loans payable for the years ended June 30, 2013 and 2012 was \$235,893 and \$38,566, respectively.

(8) Commitments and Contingencies

A. Leases

The Fund is obligated under noncancelable operating lease agreements for the rental of offices and warehouse space expiring through 2016. Such leases generally contain provisions for increased rentals based upon increases in real estate taxes and operating expenses. Total rent expense was \$550,924 and \$606,800 for the years ended June 30, 2013 and 2012, respectively. In accordance with GAAP, rent expense is recognized on a straight-line basis over the term of the lease. The excess of rent expense accrued on a straight-line basis over rental payments is reported as accrued expenses and other liabilities on the consolidated statement of financial position.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

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Future minimum lease activity is as follows:

	<u>Lease payments</u>	<u>Sublease income</u>	<u>Net lease payments</u>
Fiscal year ending:			
2014	\$ 494,307	(125,976)	368,331
2015	164,545	—	164,545
2016	74,985	—	74,985
Total	<u>\$ 733,837</u>	<u>(125,976)</u>	<u>607,861</u>

B. Guarantee

In December 2012, the USF-IKAC and the USF provided a letter of guarantee to UNICEF over the 2013 – 2016 time frame to support a Long Term Agreement (LTA) for procurement of Oral Polio Vaccine (OPV) by UNICEF from a particular supplier, which will enable UNICEF to save approximately \$10 million over the life of the LTA. USF has agreed to guarantee up to \$16.915 million in specified amounts per calendar year and will be liable for such amounts if UNICEF fails to procure the yearly Planned Purchase, as defined. The annual guarantee amount is segregated into calendar year tranches amounting to \$4.9 million for 2013, \$4.76 million for 2014, \$3.92 million for 2015, and \$3.335 million for 2016.

There are various remedies to reduce any potential guarantee amounts, which can be retroactively applied. For calendar year 2013, based upon year to date purchases, UNICEF expects to purchase the required amounts and, accordingly, no liability has been recorded in the 2013 consolidated statement of financial position.

(9) Retirement Plan

The Fund has a defined contribution retirement plan, under IRC Section 403 (b), which is offered to all of its qualified employees. Employees can contribute a portion of their salary to the plan up to the maximum permitted under the IRC. The Fund will match employee contributions up to 6% of an employee's salary. The employee must complete one year and 1,000 hours of service and must be at least 21 years of age. In addition, the Fund makes a nonmatching contribution of 5% of salary to eligible employees. The Fund's matching and nonmatching contributions totaled \$1,452,000 and \$1,339,000 for the years ended June 30, 2013 and 2012, respectively.

The Fund has a deferred compensation plan under IRC Section 457 (b) in which selected management employees can contribute additional salary up to the maximum permitted by the IRC. The Fund does not match these contributions.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2013

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(10) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Child survival	\$ 25,622,263	17,828,370
Education	5,702,423	4,301,723
Oral Cholera Vaccines	4,896,595	—
Child protection	3,764,075	3,728,699
Other	2,013,602	2,306,490
Underwriting	981,895	1,013,170
Child Health Epidemiology Reference Group	950,308	2,466,147
Global Fellows & Campaign Against Child Trafficking	882,017	1,544,191
Uganda Program	654,134	654,134
HIV/AIDS	460,236	32,502
Global Mercury Emergency Fund	414,896	664,896
Emergencies	390,959	1,216,663
Value of split-interest agreements	136,532	137,744
Other NGO's	97,883	—
ZINC-ORS Program	81,508	81,508
Advocacy	—	490,032
	<u>\$ 47,049,326</u>	<u>36,466,269</u>

(11) Endowment

USF's endowment consists of 18 individual donor-restricted funds. Net assets associated with these permanent endowments are classified and reported based on the existence or absence of donor-imposed restrictions. USF has no board-designated endowment funds.

USF operates in accordance with the New York Prudent Management of Institutional Funds Act (NYPMIFA). In accordance with the accounting guidance associated with the adoption of NYPMIFA, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by USF in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The fair value of assets associated with individual donor-restricted endowment funds has fallen below the Fund's historic dollar value, and such deficiencies are reported in unrestricted net assets.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Notes to Consolidated Financial Statements

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(with summarized comparative information for fiscal 2012)

The following table summarizes USF's endowment by net asset class and changes therein for the years ended June 30, 2013 and 2012:

Description	Unrestricted	Permanently restricted	Total
Net assets at June 30, 2011	\$ (293,588)	1,572,329	1,278,741
Investment return	43,223	—	43,223
Contributions	—	27,000	27,000
Net assets at June 30, 2012	(250,365)	1,599,329	1,348,964
Investment return	125,468	—	125,468
Contributions	—	25,000	25,000
Net assets at June 30, 2013	\$ (124,897)	1,624,329	1,499,432

(12) Subsequent Events

USF considers events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. With respect to the 2013 consolidated financial statements, subsequent events have been evaluated through October 15, 2013, the date such consolidated statements were approved for issuance, and determined that no additional disclosures are required.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Consolidating Schedule of Financial Position

June 30, 2013

Assets	United States Fund for UNICEF	USF-IKAC			Total	Intercompany eliminations	Consolidated total
		Gifts-in-Kind	Bridge Fund	Subtotal			
Cash and cash equivalents	\$ 36,434,478	—	3,813	3,813	36,438,291	—	36,438,291
Investments	27,673,843	—	14,812,322	14,812,322	42,486,165	—	42,486,165
Contributions receivable	46,095,013	—	—	—	46,095,013	—	46,095,013
Prepaid expenses and other assets	1,276,846	—	—	—	1,276,846	—	1,276,846
Due from affiliate	—	106,041	155,000	261,041	261,041	(261,041)	—
Investments held for split-interest agreements	7,024,188	—	—	—	7,024,188	—	7,024,188
Deferred bond acquisition costs	978,882	—	—	—	978,882	—	978,882
Property and equipment, net	37,693,858	—	—	—	37,693,858	—	37,693,858
Total assets	\$ 157,177,108	106,041	14,971,135	15,077,176	172,254,284	(261,041)	171,993,243
Liabilities and Net Assets							
Liabilities:							
Grants payable	\$ 29,898,001	—	—	—	29,898,001	—	29,898,001
Accrued expenses and other liabilities	8,251,325	—	119,771	119,771	8,371,096	—	8,371,096
Liabilities under split-interest agreements	3,871,244	—	—	—	3,871,244	—	3,871,244
Due to affiliate	261,041	—	—	—	261,041	(261,041)	—
Loans payable	—	—	10,750,000	10,750,000	10,750,000	—	10,750,000
Bonds payable	40,815,000	—	—	—	40,815,000	—	40,815,000
Total liabilities	83,096,611	—	10,869,771	10,869,771	93,966,382	(261,041)	93,705,341
Net assets:							
Unrestricted	25,406,842	106,041	4,101,364	4,207,405	29,614,247	—	29,614,247
Temporarily restricted	47,049,326	—	—	—	47,049,326	—	47,049,326
Permanently restricted	1,624,329	—	—	—	1,624,329	—	1,624,329
Total net assets	74,080,497	106,041	4,101,364	4,207,405	78,287,902	—	78,287,902
Total liabilities and net assets	\$ 157,177,108	106,041	14,971,135	15,077,176	172,254,284	(261,041)	171,993,243

See accompanying independent auditors' report.

UNITED STATES FUND FOR UNICEF AND AFFILIATES

Consolidating Schedule of Activities

Year ended June 30, 2013

	United States Fund for UNICEF	Gifts-in-Kind	USF-IKAC Bridge Fund	Subtotal	Total	Intercompany eliminations	Consolidated total
Public support and revenue:							
Public support:							
Contributions:							
Corporate	\$ 15,063,959	—	—	—	15,063,959	—	15,063,959
Major gifts	22,609,267	—	—	—	22,609,267	—	22,609,267
Foundations	107,364,848	—	—	—	107,364,848	—	107,364,848
Nongovernment organizations (NGO)	10,425,343	—	—	—	10,425,343	—	10,425,343
Direct marketing	32,488,076	—	—	—	32,488,076	—	32,488,076
Trick-or-treat program	2,096,851	—	—	—	2,096,851	—	2,096,851
Internet	17,733,677	—	—	—	17,733,677	—	17,733,677
Other	1,161,535	245,000	7,340,000	7,585,000	8,746,535	(1,585,000)	7,161,535
Gifts-in-kind	85,886,326	275,094,501	—	275,094,501	360,980,827	—	360,980,827
Special events income	4,472,601	—	—	—	4,472,601	—	4,472,601
Bequests and legacies	6,249,549	—	—	—	6,249,549	—	6,249,549
Total public support	305,552,032	275,339,501	7,340,000	282,679,501	588,231,533	(1,585,000)	586,646,533
Revenue:							
Greeting cards revenue (net)	3,472,318	—	—	—	3,472,318	—	3,472,318
Investment return	2,599,111	—	81,088	81,088	2,680,199	—	2,680,199
Change in value of split-interest agreements	(206,983)	—	—	—	(206,983)	—	(206,983)
Total revenue	5,864,446	—	81,088	81,088	5,945,534	—	5,945,534
Total public support and revenue	311,416,478	275,339,501	7,421,088	282,760,589	594,177,067	(1,585,000)	592,592,067
Expenses:							
Program services:							
Grants to UNICEF and other NGOs	236,506,378	275,094,501	6,000,000	281,094,501	517,600,879	—	517,600,879
Grant to affiliate	1,585,000	—	—	—	1,585,000	(1,585,000)	—
Public information, education, and program services	8,256,407	—	331,703	331,703	8,588,110	—	8,588,110
Advocacy	892,409	—	—	—	892,409	—	892,409
Total program services	247,240,194	275,094,501	6,331,703	281,426,204	528,666,398	(1,585,000)	527,081,398
Supporting services:							
Management and general	14,353,483	23,000	42,000	65,000	14,418,483	—	14,418,483
Fund-raising expenses	36,361,130	222,000	47,190	269,190	36,630,320	—	36,630,320
Total supporting services	50,714,613	245,000	89,190	334,190	51,048,803	—	51,048,803
Total expenses	297,954,807	275,339,501	6,420,893	281,760,394	579,715,201	(1,585,000)	578,130,201
Increase in net assets	13,461,671	—	1,000,195	1,000,195	14,461,866	—	14,461,866
Net assets:							
Beginning of year	60,618,826	106,041	3,101,169	3,207,210	63,826,036	—	63,826,036
End of year	\$ 74,080,497	106,041	4,101,364	4,207,405	78,287,902	—	78,287,902

See accompanying independent auditors' report.