

## **Finance Report from Secretary General**

### **August 2022**

#### **2021 Result**

Key reasons for the difference from the budget are highlighted below.

Finance/accounting costs were €12,000 higher than budgeted due to unbudgeted audit costs, an unexpected German VAT inspection and costs of submitting UK accounts.

Foreign currency gains and losses – This is always an unpredictable figure that I try to explain each year. It relates to differences in valuations between GBP and Euro. Our accounting software operates in GBP but we convert it to Euros for reporting to AIPH so the number depends on the exchange rate at the moment the conversion is made. In reality this is not money lost and in other years we may benefit as the rate goes the other way.

Additional unbudgeted expenditures were approved by the Board in Spring 2021. Specifically, these were to commission Mongoose to conduct the review to establish a valuation for the proposed Global Partnerships (€36,000) and to contract Timothy Blatch as consultant for the Green City Awards (additional spend of €6,000 in Green City budget).

Membership fee – Due to the pandemic we lost a number of Affiliate Members, as reported at the last General Meeting. These were mainly companies dependent on participation in Expos. Also, we did not charge the expected fee for the Flower Auction Group members due to lack of activity in that group in 2021.

Spring Meeting and Annual Congress 2021 – overall we made a profit of €20,529 on these online events.

FCI – there was a significant shortfall in advertising income although we managed to partially offset this with cost savings. This is still the challenge of recovering from the pandemic. Some key accounts pulled out and in particular we lost income from exhibitions. The situation is more optimistic for 2022 but it remains a challenging sales environment. Overall FCI cost us about €60,000 in 2021. Work is ongoing to reach the point of cost recovery.

Financial guarantee – we did not approve any A1 or B Expos in 2021 and therefore the expected €40,000 did not materialise in these accounts.

Jury costs – These were not incurred due to the Yangzhou Expo jury functioning online only and the change in dates of Expo 2021 Hatay to 2022.

Bad debts – we cleared out unpaid Affiliate membership fees from the accounts

Miscellaneous – includes recruitment costs.

#### **2022 Predicted Outcome**

2022 was due to be an important year for income and building our reserves with an anticipated €951,500 from license fees and the gate fee income from Floriade. However, Floriade is expecting to achieve ticket sales that are significantly below expectations and, as a result, we are predicting to receive €240,000 less than anticipated.

We will also receive €50,000 less from Financial Guarantees retained, due to not approving an A1 Expo, but on the other hand we can move €100,000 from the Balance Sheet to the

P&L as the time limit for Lodz to make use of their Financial Guarantee expires. The prediction also includes €40,000 from the retained part of the Malatya guarantee.

On the expenditure side it includes a substantial spend under 'Expenses Marketing & Exhibitions'. This relates to the agency fees for running a sales campaign to attract Global Partners. Currently there is no budgeted income from this activity although of course that is the aim, hopefully from 2023 onwards.

The increase in costs for Green City is accompanied by a bigger increase in revenue. This is due to funding secured from Expo 2023 Qatar, who are supporting the new round of Green City webinars. Within this prediction it also includes costs associated with the planned AIPH World Green City Awards ceremony which will take place in Jeju, South Korea on 14<sup>th</sup> October, alongside the IUCN Leaders Forum. Work is underway, jointly with IUCN, to secure sponsorship funding for this gala dinner event to which the winning cities will be invited.

It is good to see that both the AIPH Spring Meeting in Dubai and IGOTY 2022 both demonstrated revenues above costs and made an unexpected contribution to the P&L. In particular, this was due to the strong levels of sponsorship secured for the Dubai Spring Meeting.

### **Budget 2023**

The 2023 Budget has been developed to at least breakeven but we will also work to target a more significant surplus to contribute to meeting the AIPH reserves target.

Key income/expenditure areas:

Green City Committee – We are giving particular focus to raising sponsorship funding for the AIPH World Green City Awards 2024. For this we are making use of sponsorship agency, Reg & Co that is also working on the Global Partnerships project for Expos. The budget does not include any of this anticipated income. What is included is income from Expo 2023 Doha Qatar who will be funding the following Green City activities that will take place in 2023 – Green City webinars, Green City Conference, Research Symposium. The associated costs for these are included in 'Expenses Green City'.

Marketing Committee – There is an estimated income of €165,000 to be generated by the Global Partnerships programme. This is linked to a cost estimate of €150,000 which will fund sales activity by sponsorship agency Reg & Co and consultant Max Pipino.

FCI – incomes have gradually increased again following the dip during COVID. Alongside a reduction in costs FCI is budgeted to more than cover its costs.

Exhibitions License Fees – Income is made up of the following contracted payments:

- Final Kahramanmaras payment      €175,000
- Izmir first payment                      €127,500
- Final Chengdu payment                €132,000
- First UdonThani payment              €127,500

Income from anticipated or not yet approved Expos is not included. However, work is underway to secure another Expo in 2026 which would also generate income in 2023.

Plant Health – the plan is to resume the plant health work commenced in 2021 and deferred from 2022.

### **Long Term Forecast**

The key numbers to check on this are the Expo licence fee incomes. Based on Expos expected in the coming years incomes from this are expected as follows:

2024 € 451,500

2025 € 569,250

2026 € 321,750

These numbers do not include the Expos that are yet to apply (except Malatya) and be approved during this period.

Even with these coming in though it is still necessary to increase revenues as new Expos also bring more costs. Other commercial projects, such as Global Partnerships and sponsorships remain important areas for development.

PRIVATE & CONFIDENTIAL

# International Association of Horticultural Producers

Registration # 546.558.178

## Finance Report

8 September 2022

### **Lighthouse Accounting Services Limited**

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## 2. INTRODUCTION

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*Lighthouse Accounting Services Limited* (LAS) had provided financial consultancy, bookkeeping and accounting services to AIPH since August 2019.

This report provides an update on progress made since last year and thoughts and recommendations for the coming year.

2021 results (P&L and Balance Sheet) have been prepared by LAS.

## 3. EXECUTIVE SUMMARY

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As AIPH's international business grows its financial operations are becoming more complex. The current investment in financial operations supports that growth.

Process improvements and greater financial automation implemented in 2020-21, have led to improved financial records and greater visibility during the year. This allows the Secretary General, on behalf of the Association, to be more reactive to changes in budget and cashflow. This is leading to more predictable financial performance, although it is proving challenging to build reserves.

In 2022 there are three issues that we feel warrant members' attention:

- Issue:* In 2019-20 AIPH found it increasingly difficult to operate without a local presence where the Association's operational management is based. AIPH UK Limited, a 100% owned subsidiary, was established in October 2019.

*Resolution:* AIPH UK Limited completed its second year of trading and filed statutory accounts and a tax return in the UK (tax payable Euro c.5,000). This allowed AIPH to continue its global service delivery with minimum interruption from a UK operation with staff also in The Netherlands and France.
- Issue:* Last year we reported that a technical issue meant AIPH was owed a six-figure sum by the UK VAT authorities.

*Resolution:* This has been resolved and AIPH received a full tax refund.
- Issue:* Budget shortfall and building reserves. The pandemic and a lack of new Expo bookings has led to a budget shortfall this year. This may put cashflow pressure on the Association in 2024. It has also set back plans for the Association to build its reserves as a cushion against global events like the pandemic.

*Resolution:* AIPH operates a long business cycle (up to six years). The Association should continue to budget small annual surpluses, while taking a longer-term view of investment into its Expo product.

Issues 1 and 2 are resolved. Issue 3 remains a focus for the future.

## 4. ASSURANCE REVIEW

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To maintain appropriate independence, an assurance review on AIPH's 2021 accounts (P&L and Balance Sheet) is being carried out by Jonathan Toop, FCCA. Jonathan is a Chartered Certified Accountant and is authorized to perform audit and assurance work.

An assurance review is an independent check of the results reported to members to assess the financial statements at a high level. During an assurance review a qualified accountant reviews your accounts and investigates any areas of concern. An assurance review is not a statutory audit.

The assurance review is in progress and a copy of the report will be provided at the meeting.

## 5. RISK

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The Risk Register is reviewed annually at Board.

The additional focus on risk helps the board identify opportunities to mitigate risk.

## 6. SYSTEMS

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AIPH uses Xero to manage its bookkeeping, VAT returns and payroll. LAS is a Xero silver partner. These processes and systems are now established and working well.

We often test and use new technology to increase automation and improve efficiency.

## 7. FINANCIAL CONTROLS

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Supplier, tax and payroll payment approvals are made by LAS with approval of the Secretary General. We use technology to screen for duplicate invoices and payments thus minimizing errors.

Payment approval is recorded in Xero. We also use digital signatures to record authorization of larger payments, especially payroll.

## 8. REVENUE

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AIPH loses c3-8% cash on bank charges where members or customers pay net of bank charges. International bank payments can also be hard to match for reconciliation. It would improve cash, credit control and financial operations if all invoices were paid using automated methods.

We recommend that AIPH makes all invoices under Euro 2,500 payable by online payment. This would include all membership invoices being paid online by credit or debit card, or PayPal.

## 9. CREDIT CONTROL

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Unpaid invoices are reviewed periodically by LAS and the Secretary General.

In February 2021, the new AIPH website automated the purchase of International Statistical Yearbooks and requires payment before delivery. This has improved administration and reduced bad debts for the yearbook.

Several 2021 membership subscriptions remain outstanding and these memberships will be reviewed by the Board.

## 10. PURCHASES, CREDITORS AND PAYMENTS

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We operate a good system for supplier payments with no instances of duplicate or overpayment since we implemented new controls at the beginning of 2020.

Accordingly, we remain of the view that it is not necessary to implement purchase orders while the Association remains its current size.

## 11. MANAGEMENT ACCOUNTS & BOOKKEEPING

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Bookkeeping is kept up to date each month and management accounts are reported to the Secretary General every financial quarter, with a comparison to budget.

## 12. CASH FLOW

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LAS maintains a rolling quarterly cash flow forecast to assist the Secretary General and the Board with financial planning.

## 13. VAT

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The Association is registered for VAT in Germany, The Netherlands, the UK and Dubai. The Association employs the assistance of two specialist firms of accountants to assist with its overseas VAT obligations.

In 2020-21 The Association was behind with its UK VAT returns and at one point was owed approximately £250,000. That situation was corrected in 2022 and the Association received a full tax refund.

It is recommended that the Association deregisters for VAT in Dubai.

## 14. PAYROLL

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AIPH operates payrolls in The Netherlands, France and the UK. The French and Dutch payrolls are carried out by accountancy firms in those countries. The UK payroll is operated by LAS. As far as we are aware, all payroll compliance and payments are up to date in all three jurisdictions.

## 15. STATUTORY REPORTING

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The financial year-end is 31 December.

The Association has statutory reporting obligations in Belgium and the UK.

2021 results have been sent to the Association's Belgian advisers *SBB Accountants & Adviseurs* for statutory filing.

AIPH UK Limited has filed 2021 statutory reports in the UK.

## 16. RECOMMENDATIONS

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Recommendations and items for consideration from last year's report are summarized here:

- 1) CREDIT CONTROL
  - a) Write off 2019 and 2020 membership debts based on member's meeting decisions; RESOLVED
- 2) VAT
  - a) File overdue UK VAT returns and secure tax repayment; RESOLVED
- 3) BALANCE SHEET
  - a) Create a Balance Sheet forecast; not progressed

Recommendations and items for consideration for the coming year are summarized here:

- 4) DUBAI VAT
  - a) Deregister for VAT in Dubai
- 5) GOVERNANCE
  - a) Update the list of Directors at Crossroads Bank in Belgium
- 6) BALANCE SHEET
  - a) Create a Balance Sheet forecast.