

ROYAL AIR FORCE MUSEUM

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2004**

Registered Charity No. 244708

ROYAL AIR FORCE MUSEUM

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ROYAL AIR FORCE MUSEUM

ADMINISTRATIVE INFORMATION

ADDRESS OF THE CHARITY Royal Air Force Museum
Grahame Park Way
Hendon
London
NW9 5LL

Registered Charity Number 244708

NAMES AND ADDRESSES OF OTHER RELEVANT ORGANISATIONS:

AUDITOR Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

ACCOUNTANTS Hillier Hopkins LLP
Chartered Accountants
St. Martin's House
31-35 Clarendon Road
Watford
Herts WD17 1JF

SOLICITORS Mishcon De Reya
21 Southampton Row
London
WC1B 5HS

BANKERS Barclays Bank Plc
Eagle Point
1 Capability Green
Luton
LU1 3US

ROYAL AIR FORCE MUSEUM

FOREWORD

INTRODUCTION

The consolidated accounts for the Royal Air Force Museum are presented for the financial year ended 31 March 2004. The Group comprises the main charity and its subsidiary undertakings, Royal Air Force Museum Enterprises Ltd and The Royal Air Force Museum Investments Limited. The accounts are prepared in accordance with a direction given by the Secretary of State for Defence under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales.

The Royal Air Force Museum is a charity registered with the Charity Commission (registration no 244708). The governing document of the body is the Trust deed of 26 August 1965 as amended; the Museum's Trustees are incorporated as a body.

HISTORY OF THE MUSEUM

The Museum was originally founded in 1963 to collect, preserve and display all forms of material recording the history of the Royal Flying Corps, the Royal Naval Air Service, the Royal Air Force and aviation generally. The Museum is the only national museum concerned solely with aviation. The many aspects covered include the military and civil, the artistic and scientific, and the industrial and political. The emphasis is naturally on the uniquely great achievements, in peace and war, of the Royal Air Force.

The Museum now has a unique range of aircraft and major archive, library, film and photographic collections related to air history. The Museum has been under constant development since 1972. Separate buildings have been built to house the Battle of Britain exhibits and the Bomber Command exhibits, both of which are in essence special exhibitions of the main Museum, but dealing in depth with two important areas of history. On 17th December 2003, two new buildings were opened by His Royal Highness The Prince Philip, Duke of Edinburgh; the Landmark Building, Milestones of Flight and the Grahame White Factory. The Landmark Building displays a 100-year history of powered flight in context with the history of the Royal Air Force the major world events. The Grahame White Factory provides a separate exhibition of early aircraft. A branch was established at Cosford and the Royal Air Force Museum Cosford is now an important museum in its own right. While the majority of the Royal Air Force Museum Cosford's contents are military it also contains this country's definitive collection of airliners, from the immediate post-war days up to the present. Cosford also contains the finest collection in the world of early German rocketry and, notably, the experimental work of Werner von Braun. Further items from the Museum's Reserve collection created the initial display for the Manchester Air and Space Museum, which is now administered by the Manchester Museum of Science and Industry. The Michael Beetham Conservation Centre is situated in its own purpose-built premises provided by the MOD and leased to the Museum at RAF Cosford. The Reserve Collection Storage and Research Centre is located at RAF Stafford.

STATUTORY BACKGROUND

The Royal Air Force Museum was designated a Grant-in-Aided body by Statutory Instrument No.422 (the Armed Forces Museums [Designation of Institutions] Order 1984) laid before Parliament on 26th March, 1984 under Sections 30 and 31 of Schedule 2 to the National Heritage Act 1983.

TRUSTEES

The Royal Air Force Museum is governed by a Board of Trustees under the chairmanship of Air Chief Marshal Sir Richard Johns GCB CBE LVO FRAeS. The Museum is a registered charity within the meaning of the Charities Act 1993, which places on Trustees the responsibility for the effective and economical management of the Trust and the stewardship and care of the collections.

Trustees are appointed to the Board in strict accordance with the guidance laid down by the Office of the Commissioner for Public Appointments. This procedure includes the obtaining of nominations from a variety of sources, including advertising and liaison with the Public Appointments Unit, the vetting of nominations by a panel normally comprising the Chairman of Trustees, a senior civil servant from the sponsoring Department (MOD) and an independent member, followed by interview. The sponsoring department within the MOD, Personnel and Training Command, is closely involved in all stages of the selection process and Trustees are appointed by the Secretary of State for Defence. Trustees are normally appointed for a period of three years and, at the discretion of the Board, and in consultation with the MOD sponsor, may be reappointed for a second term.

ROYAL AIR FORCE MUSEUM

The following people served as the Museum's Trustees during 2003-2004.

Chairman	Air Chief Marshal Sir Richard Johns GCB CBE LVO FRAeS (Appt'd 19.2.01)	Non-Executive Director Royal Air Force Museum Enterprises Ltd
Trustees	The Rt Hon Baroness Blatch CBE (Re-appt'd 25.5.03) Sir Neil Cossons OBE (Retired 5.7.04) Lord Clarke of Hampstead CBE KSG (Appt'd 13.9.01) Air Vice-Marshal David Crwys-Williams CB FCIS FCIM RAF (Retd) (Appt'd 13.9.01) Mr Michael H Dale CBE (Appt'd 6.11.02) Mr L Antony Edwards BSc MBA CEng FRAeS (Re-appt'd 25.8.03) Lord Evans of Watford (Appt'd 6.11.02)	Chairman Remuneration Committee Member Remuneration Committee Member Remuneration Committee Chairman Finance Committee President RAFM American Foundation Chairman Fundraising Committee Non-Executive Director Royal Air Force Museum Enterprises Ltd Member Audit Committee Chairman Audit Committee Member Remuneration Committee Member Finance Committee Member Development Committee Chairman Development Committee
	Sir Richard Evans CBE (Retired 12.9.04) Sir Gerald Hosker KCB QC FRSA (Appt'd 6.7.01)	
	Sir Roger Jackling KCB CBE (Appt'd 6.11.02) His Excellency Air Marshal I D Macfadyen CB OBE FRAeS RAF (Retd) (Re-appt'd 4.5.02) The Rt Hon Sir Geoffrey Pattie (Retired 5.7.04) Dr Judith Rowbotham (Retired 12.9.04) Mr Alastair Stewart (Resigned 14.4.04) Mr David Young (Re-appt'd 4.5.02)	

Co-opted member of Audit Committee – Sir John Blelloch KCB

Director General and Accounting Officer – Dr Michael A Fopp MA FMA FRAeS

VISION AND MISSION

The Museum's Vision is:-

To be the World's best Air Force Museum

The Museum's Mission:-

The Museum exists to educate and inform present and future generations about:

- **The history and traditions of the Royal Air Force**
- **Air Power and Defence**
- **Aviation links with the Royal Air Force**

And to promote the Royal Air Force

STRATEGIC OBJECTIVES

These objectives, in close partnership with the Royal Air Force, the Museum's core sponsor, serve to support the core curatorial and education work of the Museum under a secure financial framework, whilst seeking to expand and develop the Museum in the future.

1. To collect objects relating to the history and traditions of the Royal Air Force, the history of air power and their links with aviation.
2. To preserve and manage the collections.
3. To provide access to the collections.
4. To educate users about the past, present and future of the Royal Air Force, air power and their links with aviation.
5. To promote the Museum.
6. To support the Royal Air Force Strategic and Management Plans.
7. To maximise plural funding.
8. To use resources efficiently.
9. To increase the number of users of the Museum.
10. To develop the Museum.

ROYAL AIR FORCE MUSEUM

REVIEW OF THE YEAR

This has been a momentous year for the Museum, which has seen the completion of three elements of its forward development plan and a major step towards a fourth. The Landmark *Milestones of Flight* building was opened by HRH Prince Philip on 17 December 2003, on time and under budget, and brought a significant increase in visitor numbers. The relocated Grahame-White Factory building opened the same day and provides a fitting home for the Museum's collection of early aircraft. Our expanded and improved interactive gallery, re-titled *Aeronauts-interactive*, opened earlier in the year and has proved even more popular than the original. Plans to develop the Cosford site took a major step forward with the submission of bids for funding to create a groundbreaking exhibition on the Cold War, which will enable the last of the Museum's aircraft to be brought under cover.

The focus of the past year's work was the completion of the *Milestones of Flight* exhibition, which marked the centenary of the Wright Brothers' first powered controlled flight. All departments of the Museum were involved in the preparations, so some impact on other operations was inevitable, but generally service levels were sustained until the period immediately preceding the opening. The Museum closed for ten days (8-17 December) to enable effort to be concentrated on refurbishing the older parts of the Museum.

The inclusion of information "kiosks" in *Milestones* presented the opportunity to provide visitors with much more detailed information about the aircraft on display. The kiosk content included details of the units which operated the aircraft types, the people who designed, flew and maintained the aircraft, and comments about the designs, using texts, photographs, film and sound from the collections. Additionally, to set the displays throughout the Museum in context, a 100-year *Timeline* of events in the history of the Royal Air Force was created along the length of the new *Milestones* Hall.

Acquisitions during the year included a Gazelle helicopter, a Tornado GR1, and a 63ft Pinnacle. We were also pleased to be presented with a Hawker Hunter FRMk10 by the Royal Omani Air Force for external display. However, the Museum failed in its bid to acquire a Concorde from British Airways to join the loaned-in collection of British Airways aircraft at Cosford. Other acquisitions included the papers of the late eminent aviation historian Jack Bruce, formerly Keeper of the RAF Museum, and a fine selection of material of ACM Sir Christopher Foxley-Norris, donated by his widow.

In addition to providing and supporting research to inform *Milestones of Flight* the Department of Research & Information Services (DoRIS) met the needs of more than 6800 users who made their inquiries by phone, post and e-mail. A welcome development was the establishment of a relationship with a group of volunteers from the National Association of Decorative and Fine Arts Societies, (NADFAS) who are carrying out elementary conservation work.

DoRIS staff prepared three exhibitions of facsimile documents: the first marked the 60th anniversary of the Dams raid, whilst another illustrated the life of RAF Prisoners of War in Northern Europe, complementing the *Long March* statue which was donated by the Royal Air Forces ex-Prisoners of War Association. The final exhibition was created to mark the centenary of the birth of Amy Johnson, using letters, photographs and documents from her extensive archive.

The Art Gallery was closed to the general public from January 2004, encouraging circulation through the Shop following the opening of *Milestones of Flight*, and paving the way for the upgrading of the Conference Entrance. The photographic sales service was suspended pending the selection and training of a replacement member of staff.

The transfer of the medal collection inventory to the Collection Management System (CMS) was completed. The transfer of the inventory of the badge collection commenced.

The RAFM Thesaurus of Aircraft Names, a joint project with the Museums Documentation Association for the benefit of aviation museums worldwide, has been submitted for publication. The Museum's emergency plan has been produced, and a table-top disaster exercise to prove the procedures and emergency equipment caches is planned.

On 31 March 2004 a total of 182,477 records were on the electronic database, representing an estimated 60% of the accessioned collections and an increase of nearly 9% since 31 March 2003. The substantial unaccessioned collection awaits its due turn for assessment.

Aircraft conservation work was focussed on the aircraft earmarked for *Milestones of Flight*, particularly those which were to be suspended and which would therefore become less easily accessed in future.

The Design Group was used extensively to support fund-raising initiatives, producing imaginative proposals to excite potential sponsors of areas within the Museum. Key successes were the costed proposals for the Air Traffic Control area which successfully targeted Serco Ltd, who then generously funded the ATC exhibit, and a scheme to show how Boeing Helicopters could support coverage of the Chinook helicopter. The Design Group also devised plans for installing new motion-simulators and both Cosford and Hendon and contributed to the design process for Cosford's *Cold War* development contract and grant submissions.

The extended interactive centre, comprising 17 new interactive experiments and a 96-seat indoor picnic area/school lunch room, opened and immediately attracted a large amount of interest. Efforts, including local advertising and outreach to recruit volunteer Explainers, both to ensure the safety of users and to add value to the experience, were not rewarded with sustained success.

Having identified the need to bring access and learning to the heart of the Museum's operations, a specialist post at director level to develop the Education Service and the Museum generally was funded from December 2003, although a suitable candidate was not identified until later.

ROYAL AIR FORCE MUSEUM

Negotiations between the Museum and the Centre for Contemporary British History, based in the University of London, culminated in the signing of an agreement by which both parties will collaborate in research projects using the Museum's collections.

A day of formal training at Hendon for each intake of initial recruits at RAF Halton, started in May and has been universally well-received by RAF staff and trainees alike. The programme combines exercises, presentations, and exploration and has been hailed as a vast improvement on class-room based education in historical subjects.

RESULTS FOR THE YEAR ENDED 31 MARCH 2004

Total incoming resources for the Group in 2003-04 amounted to £13,052,085 (2002-03 £11,518,332). Total resources expended amounted to £9,542,614 (2002-03 £8,642,928). After adjustment for notional charges and other recognised gains less losses totalling £6,478,871 (2002-03 £1,630,419), the net movement in funds for the year was an increase of £9,988,342 (2002-03 £4,505,823).

CHANGES IN FIXED ASSETS

Movements in fixed assets are shown in note 6 to the accounts.

RESERVES POLICY

The Trustees continually monitor the level of the Charity's reserves, defined for the purposes of this policy as the amounts shown as 'Investments' and 'Net Current Assets' in the accounts of the Charity, and which are attributable to unrestricted funds. As at 31 March 2004, the level of the Museum's reserves stood at £2,406,430 (31 March 2003 £245,525). The amount and term of the investment of the reserves are based on the Trustees' opinion of the immediate and future needs of the Museum by identifying the requirements for continuing operations and setting aside sufficient funds to meet the medium and long-term development and expansion plans.

INVESTMENT POLICY

The Trustees continually monitor levels of the Charity's funds expendable at their discretion. Available funds are currently invested in long-term deposits in the bank to maximise the level of return but with minimum risk.

The amounts and terms of the investment are based on the Trustees' opinion of the immediate and future needs of the Museum by analysing the requirements of continuing operations and setting aside sufficient sums to fund medium to long-term development, expansion and maintenance not funded by MOD.

FUTURE DEVELOPMENTS

Significant future changes in the Museum's activities include, in the short-term:-

- i. The third development at Hendon, for which an application to the HLF will be made, is to re-house and enlarge the archives and research facility.
- ii. Work will continue by the Fundraising Committee to raise funds to complete the development of the Hendon environs.
- iii. The local development agencies in the West Midlands are supportive of the Museum's development proposal at Cosford. The MOD, the HLF and the Government Office for the West Midlands have committed funds for this project and the decision by the ERDF is expected in 2004.
- iv. The Museum will be presenting its findings of the Strategic Review to the Standing Committee of the Air Force Board in the Autumn of 2004 in anticipation of its application for additional grant-in-aid
- v. The Museum has secured a new 35 Year lease for its Cosford site thus resolving the issues surrounding the provision of the Michael Beetham Conservation Centre and the long term security of tenure.

VISITOR NUMBERS

The total number of visitors during 2003/04 was 442,595, compared with 412,899 for 2002/03, an increase of 7%.

In addition the Museum's website received 898,602 visits during the year, in comparison with 397,228 for the previous year; an increase of 126%.

PAYMENT OF CREDITORS

The Museum's policy, in accordance with the Government-wide standard on the payment of creditors, is to settle all undisputed bills within 30 days or in accordance with the supplier's terms of business. The Museum's actual payment performance during the year was an average of 33 days or in accordance with suppliers' terms (2002/03: 27 days).

ROYAL AIR FORCE MUSEUM

POLICY ON THE EMPLOYMENT OF DISABLED PERSONS

The Museum is committed to managing staff solely on the basis of actual performance in the job and considering new applicants wholly on the basis of ability to do the job and is seeking ways to encourage applications from people with disabilities. The Museum has an Equal Opportunities Policy and continues to monitor staff and applicants' disability status, as well as their age, ethnic background and marital status.

CONSULTATION WITH EMPLOYEES

Senior management communicates with their staff through periodic briefings, departmental monthly reviews, union representatives, a Health and Safety committee as well as departmental meetings, annual personal performance reviews, annual personal career counselling meetings, informal meetings and internal memoranda.

POST BALANCE SHEET EVENTS

As disclosed more fully in Note 20, agreement has been reached with the Ministry of Defence on a new lease for the whole of the Cosford site.

AUDITORS

The accounts are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003 and there was no non-audit work carried out during the year.

Dr. Michael A. Fopp

Signed:

Dr. Michael A. Fopp

Director General

Royal Air Force Museum

13 September 2004

Date:

Sir Richard Johns

Signed:

ACM Sir Richard Johns

on behalf of the Board of Trustees

13 September 2004

Date:

ROYAL AIR FORCE MUSEUM

STATEMENT OF BOARD OF TRUSTEES' AND DIRECTOR GENERAL'S RESPONSIBILITIES

Under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales, the Board of Trustees is required to prepare financial statements for each financial year which give a true and fair view of the Royal Air Force Museum's financial activities and of its financial position at the end of the year.

In preparing financial statements giving a true and fair view, the Board of Trustees is required to:

- a. observe any accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the charity will continue in operation.

Under law applicable to charities in England and Wales, the Board of Trustees is responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the charity and which enable the Board to ensure that the financial statements comply with applicable law. The Board is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Permanent Secretary of the Ministry of Defence has appointed the senior full time official, the Director General, as the Accounting Officer for the Royal Air Force Museum. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of expenditure from Grant-in-Aid provided by Parliament and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting'.

ROYAL AIR FORCE MUSEUM

STATEMENT ON INTERNAL CONTROL FOR THE YEAR ENDING 31ST MARCH 2004

1. Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Royal Air Force Museum's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting, and for ensuring compliance with the requirements of the Royal Air Force Museum's Financial Memorandum as agreed with the MOD.

On behalf of the board of Trustees of the Royal Air Force Museum, I am responsible for confirming that a sound system of internal control is maintained within the Museum and that the major risks to which the Museum is exposed, as identified by the Trustees, have been reviewed and systems have been established to mitigate those risks.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Air Force Museum's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Royal Air Force Museum for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts in accordance with Treasury guidance.

3. Capacity to handle risk

The Audit Committee of the Board of Trustees reviews the Risk Register annually and reports its findings to the full Board. Members of the Audit Committee are aware of their responsibilities set out in the Audit Committee Handbook published in October 2003.

4. The risk and control framework

The Museum has established a risk management strategy that is owned by the Board of Trustees through its Audit Committee. This Risk Register documents, defines terms, and sets out the perceived risks and the attitude of the Museum to each one. Individual risks are assigned to an identified person or post holder and show actions and review dates

5. Review of effectiveness

We have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the internal audit function (described below), and the executive managers within the Museum who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Internal audit is contracted out to Daly, Hoggett and Co, Chartered Accountants, who operate to standards defined in the Government Internal Audit Manual. The work of the internal auditors is informed by an analysis of the risks to which the Museum is exposed, and annual audit plans are based on this analysis. We approve a programme of work and are provided with a report on internal audit activity at the Museum annually. This report includes an independent opinion on the adequacy and effectiveness of the Museum's internal controls.

In addition the Board of Trustees receives regular reports from its Finance and Audit Committees. It is also able to question the Director General, other senior staff and its reporting accountants at meetings of the Board. By these actions the Board is satisfied that the systems of internal controls in place at the Museum are effective.

In our view, the information received was sufficient to enable us to review and confirm the effectiveness of the Royal Air Force Museum's system of internal control in accordance with Treasury guidance and recommendations.

Sir Richard Johns

Signed.....

ACM Sir Richard Johns GCB CBE LVO FRAeS

On behalf of the Board of Trustees

13 September 2004

Date.....

Dr Michael A Fopp

Signed.....

Dr Michael A Fopp MA FMA FRAeS

Accounting Officer

13 September 2004

Date.....

ROYAL AIR FORCE MUSEUM

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND THE AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I have audited the financial statements on pages 11 to 28 under the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These financial statements have been prepared in the form directed by the Secretary of State for Defence and approved by the Treasury; they have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 15 to 17.

RESPECTIVE RESPONSIBILITIES OF THE BOARD OF TRUSTEES, THE DIRECTOR GENERAL AND THE AUDITOR

As described on page 7, the Board of Trustees and the Director General, as Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). The Board of Trustees and the Director General are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute, and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993 and directions made by the Secretary of State for Defence thereunder, and whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Museum has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 8 reflects the Museum's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Museum's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Trustees and the Director General in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Royal Air Force Museum's and the group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

ROYAL AIR FORCE MUSEUM

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND THE AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

- continued -

OPINION

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Royal Air Force Museum and the group as at 31 March 2004 and of the incoming resources and application of resources of the group for the year then ended and have been properly prepared in accordance with the Charities Act 1993, and the directions made by the Secretary of State for Defence; and
- in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

J Bourn

John Bourn
Comptroller and Auditor General

National Audit Office
157-197, Buckingham Palace Road,
Victoria, London,
SW1W 9SP

Date: 14 October 2004

ROYAL AIR FORCE MUSEUM

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31ST MARCH 2004

	Notes	<u>Restricted Funds</u>		<u>Other Funds</u> 2004 £	<u>Total Funds</u> 2004 £	<u>Total Funds</u> 2003 £
		<u>Unrestricted</u>	<u>Grant in Aid</u>			
		Funds 2004 £	Funds 2004 £			
Incoming resources						
Grant in Aid (Operating)		-	6,483,510	-	6,483,510	5,695,584
Grant in Aid (Purchase of exhibits)		-	109,000	-	109,000	109,000
Grant in Aid (Development)		-	198,000	-	198,000	253,000
Other grants and donations	3a	3,424,142	-	-	3,424,142	568,410
Special events		1,339	-	-	1,339	18,481
Other income		145,178	-	25,955	171,133	94,587
HLF Grant	3b	-	-	924,801	924,801	3,374,766
Activities for Generating Funds :						
Commercial trading operations	4b	1,688,711	-	-	1,688,711	1,299,658
Investment income and interest		45,873	5,576	-	51,449	104,846
Total incoming resources		5,305,243	6,796,086	950,756	13,052,085	11,518,332
Less cost of Generating Funds:						
Commercial trading operations	4b	1,555,105	-	-	1,555,105	1,117,990
Fund raising and publicity	16	92,683	328,602	-	421,285	370,145
Total cost of generating funds		1,647,788	328,602	-	1,976,390	1,488,135
Net incoming resources available for charity application		3,657,455	6,467,484	950,756	11,075,695	10,030,197
Resources expended						
Charitable Expenditure :						
Costs of activities in furtherance of Charity's objectives						
Purchase of exhibits		-	19,097	-	19,097	4,088
Direct charity costs	16	1,492,700	4,035,820	-	5,528,520	4,848,270
Depreciation	6	-	744,472	-	744,472	525,100
Loss on revaluation		-	1,657	-	1,657	12,914
Management and admin of the charity						
Management and administration	16	95,599	91,850	-	187,449	163,271
Notional cost of capital		-	1,085,029	-	1,085,029	1,601,150
Total resources expended		1,588,299	5,977,925	-	7,566,224	7,154,793
Net outgoing resources before reversal of notional costs						
		2,069,156	489,559	950,756	3,509,471	2,875,403
Reversal of notional cost of capital		-	1,085,029	-	1,085,029	1,601,150
Net (outgoing)/incoming resources for the year		2,069,156	1,574,588	950,756	4,594,500	4,476,553

ROYAL AIR FORCE MUSEUM

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

Net (outgoing)/incoming resources for the year		2,069,156	1,574,588	950,756	4,594,500	4,476,553
Gains and losses on revaluations of fixed assets for the charity's own use	6	-	5,402,120	-	5,402,120	34,813
Gains and losses on revaluations and disposals of investment assets	9	(8,278)	-	-	(8,278)	(5,543)
Net movement in funds		<u>2,060,878</u>	<u>6,976,708</u>	<u>950,756</u>	<u>9,988,342</u>	<u>4,505,823</u>
Funds b/fwd at 1st April 2003		466,118	27,512,484	5,429,087	33,407,689	30,901,866
Prior year adjustment		-	-	-	-	(2,000,000)
Funds b/fwd at 1st April 2003 as restated		<u>466,118</u>	<u>27,512,484</u>	<u>5,429,087</u>	<u>33,407,689</u>	<u>28,901,866</u>
Funds c/fwd at 31st March 2004		<u>2,526,996</u>	<u>34,489,192</u>	<u>6,379,843</u>	<u>43,396,031</u>	<u>33,407,689</u>

All of the Group's activities are classed as continuing. All recognised gains and losses are included above.

ROYAL AIR FORCE MUSEUM

CONSOLIDATED BALANCE SHEET 31ST MARCH 2004

	<u>Notes</u>	<u>Group</u> 2004 £	<u>Group</u> 2003 £	<u>Charity</u> 2004 £	<u>Charity</u> 2003 £
Fixed assets					
Tangible assets	6	41,703,097	31,677,727	41,491,170	31,457,134
Investments	4a	-	-	100,002	100,000
		41,703,097	31,677,727	41,591,172	31,557,134
Current assets					
Stocks	7	134,620	92,697	-	-
Debtors	8	857,801	978,974	945,086	1,107,102
Investments	9	2,751	11,546	2,751	11,546
Cash at bank	10	1,924,257	1,713,552	1,712,210	1,567,441
		2,919,429	2,796,769	2,660,047	2,686,089
Creditors					
Amounts falling due within one year	11	(1,135,134)	(1,021,237)	(908,426)	(870,773)
NET CURRENT ASSETS		1,784,295	1,775,532	1,751,621	1,815,316
TOTAL ASSETS LESS CURRENT LIABILITIES		43,487,392	33,453,259	43,342,793	33,372,450
Creditors					
Amounts falling due after more than one year	12	(91,361)	(45,570)	(9,832)	(20,706)
		43,396,031	33,407,689	43,332,961	33,351,744
Reserves	15/17				
Unrestricted funds		2,526,996	466,118	2,463,926	410,173
Grant in Aid Operating account		33,931,030	27,049,801	33,931,030	27,049,801
Grant in Aid exhibits reserve		558,162	462,683	558,162	462,683
Other restricted funds		6,379,843	5,429,087	6,379,843	5,429,087
		43,396,031	33,407,689	43,332,961	33,351,744

Approved by the Board of Trustees on 13 September 2004 and signed on its behalf by

Sir Richard Johns

.....
Sir Richard Johns - Chairman

Dr Michael A Fopp

.....
Dr M. A. Fopp – Director General

ROYAL AIR FORCE MUSEUM

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2004

Reconciliation of net incoming resources to net cash flow from operating activities

	<u>Unrestricted</u>		<u>Restricted Funds</u>		<u>Total Funds</u> 2004 £	<u>Total Funds</u> 2003 £
	<u>Funds</u>	<u>Grant in Aid</u>	<u>Funds</u>	<u>Other Funds</u>		
	2004 £	2004 £	2004 £	2004 £		
Net Incoming Resources	2,069,156	1,574,588	950,756	4,594,500	4,476,554	
Interest receivable	(45,873)	(5,576)	-	(51,449)	(104,507)	
Interest payable	10,977	-	-	10,977	5,443	
Dividends received	-	-	-	-	(340)	
Depreciation of tangible assets	76,239	744,472	-	820,711	575,031	
Loss on revaluation of tangible fixed assets	-	1,657	-	1,657	12,914	
(Profit)/loss on disposal of assets	(11,893)	-	-	(11,893)	-	
(Increase) / decrease in stocks	(41,923)	-	-	(41,923)	(8,267)	
(Increase) / decrease in debtors	(6,940)	154,068	(25,955)	121,173	(609,470)	
(Decrease) / increase in creditors	32,442	(145,053)	-	(112,611)	11,035	
Net cash flow from operating activities	2,082,185	2,324,156	924,801	5,331,142	4,358,393	

CASH FLOW STATEMENT

Net cash flow from operating activities	2,082,185	2,324,156	924,801	5,331,142	4,358,393
Returns on investments and servicing of finance					
Bank interest received	45,873	5,576	-	51,449	104,507
Finance charges paid	(10,977)	-	-	(10,977)	(5,443)
Dividends received	-	-	-	-	340
Capital expenditure					
Purchase of tangible fixed assets	(1,936,981)	(2,368,276)	(1,006,796)	(5,312,053)	(5,844,495)
Proceeds from disposal of tangible fixed assets	12,700	-	-	12,700	-
Management of liquid resources					
Purchase of current asset investments	(2,215)	-	-	(2,215)	(323)
Proceeds from disposal of current asset investments	2,732	-	-	2,732	262
Financing					
Capital element of finance lease rentals	(48,531)	-	-	(48,531)	(36,698)
(Decrease)/increase in cash in the period	144,786	(38,544)	(81,995)	24,247	(1,423,457)

The cash flow statement should be read together with note 13, which reconciles the net cash flow to the movement in net funds, and note 14, which analyses the changes in net funds.

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention as modified by the revaluation of fixed assets.

The financial statements comply with the Statement of Recommended Practice: Accounting and Reporting by Charities ('SORP 2000') and with the Accounts Direction issued by HM Treasury (pages 29 to 32). The comparative figures comply with SORP 2000.

BASIS OF CONSOLIDATION

Consolidated financial statements have been prepared in respect of the charity and its wholly owned subsidiaries, Royal Air Force Museum Enterprises Ltd and The Royal Air Force Museum Investments Limited. The Consolidated Statement of Financial Activities includes the results of Royal Air Force Museum Enterprises Ltd on a line by line basis. A separate Statement of Financial Activities for the charity itself is not presented as the charity has taken advantage of the exemptions afforded by paragraph 304 of SORP 2000. The Consolidated Balance Sheet includes the net assets of Royal Air Force Museum Enterprises Ltd and The Royal Air Force Museum Investments Limited on a line by line basis.

The financial statements of Royal Air Force Museum Enterprises Ltd used in consolidation are those for the year to 31st March, 2004.

The Royal Air Force Museum Investments Limited was dormant during the period.

RECOGNITION OF INCOMING RESOURCES

Grants are credited to incoming resources on the earlier date of when they are received or when they are receivable, unless they relate to a specified future period, in which case, they are deferred. Voluntary income and donations are accounted for as they are received. Earned income is accounted for as it is receivable. Donations in kind are recognised at their fair value, with an equivalent charge made to resources expended.

RESOURCES EXPENDED

Resources expended are included in the statement of financial activities on an accruals basis, inclusive of any irrecoverable VAT.

Fundraising expenditure comprises costs incurred in inducing individuals and organisations to contribute financially to the Museum's work. This includes advertising costs and the costs of staging special events.

Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

COMMERCIAL TRADING ACTIVITIES

Income from commercial activities is included in the period in which the group is entitled to receipt.

NOTIONAL COSTS

In accordance with Treasury guidelines, a notional cost of capital, calculated at 3.5% on the average Grant in Aid funds during the year, is charged in arriving at Total Resources Expended. The charge is reversed in arriving at the Net Movement in Funds. The Museum is fully insured via commercial providers and so does not charge notional insurance.

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

1. ACCOUNTING POLICIES - continued

RESTRICTED AND UNRESTRICTED FUNDS

Restricted funds are to be used for specified purposes as laid down by the donor. Expenditure which meets these criteria is identified to the fund, together with a fair allocation of overhead costs. Unrestricted funds are donations or other incoming resources received or generated for the charity's general purposes.

TANGIBLE FIXED ASSETS

The charity's tangible fixed assets are capitalised at historic cost on acquisition, and revalued annually using indices calculated by the Ministry of Defence. Depreciation is provided at rates calculated to write off the value of each asset over its expected useful life, as follows:

Freehold buildings	over 30 to 50 years
Leasehold property	over the lease term
Fixtures, fittings and equipment	3 to 5 years straight line
Plant and machinery	5 years straight line
Motor vehicles	4 years straight line
Donated Assets & additions to the Collection	NIL

Assets in the course of construction are not depreciated or revalued until brought into use.

EXHIBITION COSTS AND COLLECTION ASSETS

Long term exhibition equipment is capitalised as a fixed asset. Temporary exhibition costs are written off as resources expended in the year they are incurred.

In accordance with Statement of Recommended Practice (SORP) 2000, collection assets acquired after 1st April 2001 with a cost in excess of £500 have been capitalised. These assets are not revalued or depreciated. Collection assets acquired before 1st April 2001 have not been capitalised because reliable cost information is not readily available.

INVESTMENTS

Investments held as fixed assets are stated at cost less provision for permanent diminution in value. Those held as current assets are stated at their market value.

Dividends are brought into account in the Statement of Financial Activities when received.

LEASING

Assets held under finance leases, where the lease terms give rights approximating to ownership, are capitalised with an equivalent liability recognised under creditors due within one and after one year as appropriate. Rentals payable under operating leases are charged to resources expended as they are incurred.

STOCK

Stock is valued at the lower of cost and net realisable value. Specific provision is made for obsolete and slow moving items.

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

1. ACCOUNTING POLICIES - continued

PENSIONS

Pensions benefits for 54 members of staff are provided through the Civil Service pensions arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). Under the new arrangements, new entrants after 1 October 2002 were not able to join the existing PCSPS, which has been renamed "classic" and has become a closed scheme. Existing members of the PCSPS were given the option of remaining within "classic"; electing to transfer to "premium", the new defined benefits scheme; or choosing "classic plus", whereby they transferred to "premium" but only in respect of service after 1 October 2002.

(a) Classic Scheme

Benefits accrue at the rate of $1/80^{\text{th}}$ of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of $1/60^{\text{th}}$ of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of $3/80^{\text{th}}$ of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of $3/8^{\text{th}}$ the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The RAF Museum recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future pension benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the RAF Museum recognises the contributions payable for the year.

The Museum has made arrangements with Legal & General to provide benefits to employees not covered through the Civil Service pension arrangements. Under this scheme the employee may choose their level of contribution into a stakeholders pension product; but the employer is not obliged and is not currently contributing any particular sum, although the Museum would like to do so if sufficient funds were available. Members may retire at any time between the ages of 50 and 75 and use the accumulated funds to purchase a pension. Members may also choose to take up to 25% as a lump sum.

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

2. TAXATION

All of the charity's income is applied for charitable purposes and therefore the charity is exempt from Corporation Tax. The Corporation Tax liability of the trading subsidiary for the year ended 31st March 2004 was £Nil (2003: £Nil).

3a. OTHER GRANTS AND DONATIONS

	<u>Un-restricted</u>	<u>Grant in Aid</u>		<u>Other restricted</u>	<u>Total</u>	<u>Total</u>
	<u>Fund</u>	<u>Operating</u>		<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
	2004	2004		2004	2004	2003
	£	£		£	£	£
Bomber Command Association	10,000	-		-	10,000	-
Society of Friends of the RAF Museum	12,000	-		-	12,000	12,000
Other	3,402,142	-		-	3,402,142	556,410
	3,424,142	-		-	3,424,142	568,410

3b. HLF GRANTS FOR HENDON DEVELOPMENT

	2004	2003
	£	£
Other grants and donations	924,801	3,374,766
	924,801	3,374,766

4a. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The investment of £100,002 (2003: £100,000) of which £100,000 represents the charity's interest in 100% of the issued share capital of Royal Air Force Museum Enterprises Ltd which is incorporated in England and Wales and operates souvenir shops and other trading activities at Hendon and Cosford. The company's aggregate capital and reserves were as follows:

	2004	2003
	£	£
The assets and liabilities of the subsidiary were:		
Fixed assets	211,927	220,593
Current assets	414,020	299,221
Creditors: amounts falling due within one year	(381,348)	(339,005)
Creditors: amounts falling due after more than one year	(81,529)	(24,864)
	163,070	155,945
	2004	2003
At 1st April, 2003	155,945	115,593
Profit/(Loss) retained in subsidiary	7,125	40,352
At 31st March, 2004	163,070	155,945

A summary of the company's trading results is shown overleaf. Audited accounts will be filed with the Registrar of Companies.

The £2 represents the charity's interest on 100% of the issued share capital of The Royal Air Force Investments Limited, a dormant company registered in England and Wales.

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

4b. INCOME FROM TRADING COMPANY

The Consolidated Statement of Financial Activities includes the profit of the trading subsidiary, as follows:

Royal Air Force Museum Enterprises Ltd

	2004	2003
	£	£
Turnover	1,688,711	1,299,658
Cost of sales and administrative expenses	(1,547,704)	(1,117,990)
	141,007	181,668
Interest receivable	3,616	4,526
Interest paid	(7,401)	-
	137,222	186,194
Net profit	137,222	186,194
Charitable contribution under Deed of Covenant	(130,097)	(145,842)
	7,125	40,352

5. STAFF COSTS AND NUMBERS

	Grant in Aid			Total	Total
	Un-restricted	Operating	Other restricted		
	Fund	Funds	Funds		
	2004	2004	2004	2004	2003
	£	£	£	£	£
Salaries and wages	1,322,948	1,606,193	-	2,929,141	2,812,501
Temporary agency staff	162,495	-	-	162,495	157,857
Social security costs	140,948	132,513	-	273,461	224,652
Pension costs	-	180,286	-	180,286	203,035
	1,626,391	1,918,992	-	3,545,383	3,398,045

The above costs exclude the trading subsidiary.

Note (a)

“Salary” includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Note (b)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the RAF Museum is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

5. STAFF COSTS AND NUMBERS - continued

For 2003/04, employers' contributions of £180,286 were payable to the PCSPS (2002/03 £203,035) at one of four rates in the range of 12 to 18.5% of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

No trustees received any remuneration. Two Trustees received £815 in reimbursed expenses during the year (£1,163 in 2002/03).

The number of employees, excluding the Director General, whose remuneration was over £50,000 per annum (including benefits but excluding pension contributions) was as follows.

Employees with remuneration in the range:	2004 No.	2003 No.
£50,000 to £59,999	5	2
£100,000 to £109,999 (includes bonuses awarded under the terms of an employment contract)	-	1

Dr Michael A Fopp, MA, FMA, FRAeS

Age	56	55
Salary	£76,224	£75,152
Taxable benefits (company car received from the trading subsidiary)	£9,958	£10,917
Real increase in pension at 60 (in £2,500 bands)	0-£2,500	0-£2,500
Total accrued pension at 31st March 2004 (in £5,000 bands)	£15,000 - £20,000	£10,000 - £15,000

Although the RAF Museum has attempted to provide full disclosure for each relevant member's Cash Equivalent Transfer Value as at 31st March 2004, the Museum has been unable to complete this exercise for the 2003-04 accounts. Where full disclosure has not been possible this year, steps have been taken to ensure that the information will be ready for the 2004-05 accounts.

The average number of monthly staff by division was as follows:	2004 No.	2003 No.
Curatorial	53	50
Business Development	9	7
Operations	90	81
Other	3	3
	155	141

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

6a. TANGIBLE FIXED ASSETS - GROUP

	<u>Freehold property</u> £	<u>Short Leasehold Property</u> £	<u>Fixtures, Fittings & Equipment</u> £	<u>Plant, Machinery & Vehicles</u> £	<u>Assets in the course of construction</u> £	<u>Purchase of exhibits</u> £	<u>Total</u> £
Cost or valuation							
At 1st April, 2003	23,240,106	2,167,242	1,877,106	770,163	6,028,127	198,459	34,281,203
Additions	3,624,411	1,778	1,124,285	80,822	84,978	530,151	5,446,425
Transfer	5,687,656	-	340,471	-	(6,028,127)	-	-
Disposals	-	-	(1,284,820)	(484,728)	-	-	(1,769,548)
Revaluations	4,447,827	89,679	(243)	1,930	-	-	4,539,193
At 31st March, 2004	37,000,000	2,258,699	2,056,799	368,187	84,978	728,610	42,497,273
Depreciation							
At 1st April, 2003	350,577	43,345	1,611,558	597,996	-	-	2,603,476
Charged in the year	516,970	46,256	201,865	55,620	-	-	820,711
Disposals	-	-	(1,284,820)	(483,921)	-	-	(1,768,741)
Revaluations	(867,547)	3,527	863	1,887	-	-	(861,270)
At 31st March, 2004	-	93,128	529,466	171,582	-	-	794,176
Net Book Values							
At 31st March, 2004	37,000,000	2,165,571	1,527,333	196,605	84,978	728,610	41,703,097
At 31st March, 2003	22,889,529	2,123,897	265,548	172,167	6,028,127	198,459	31,677,727

6b. TANGIBLE FIXED ASSETS - CHARITY

	<u>Freehold property</u> £	<u>Short Leasehold Property</u> £	<u>Fixtures, Fittings & Equipment</u> £	<u>Plant, Machinery & Vehicles</u> £	<u>Assets in the course of construction</u> £	<u>Purchase of exhibits</u> £	<u>Total</u> £
Cost or valuation							
At 1st April, 2003	23,240,106	2,167,242	1,566,244	484,047	6,028,127	198,459	33,684,225
Additions	3,624,411	1,778	1,110,786	25,941	84,978	530,151	5,378,045
Transfer	5,687,656	-	340,471	-	(6,028,127)	-	-
Disposals	-	-	(1,284,820)	(441,345)	-	-	(1,726,165)
Revaluations	4,447,827	89,679	(243)	1,930	-	-	4,539,193
At 31st March, 2004	37,000,000	2,258,699	1,732,438	70,573	84,978	728,610	41,875,298
Depreciation							
At 1st April, 2003	350,577	43,345	1,391,310	441,859	-	-	2,227,091
Charged in the year	516,970	46,256	160,951	20,295	-	-	744,472
Disposals	-	-	(1,284,820)	(441,345)	-	-	(1,726,165)
Revaluations	(867,547)	3,527	863	1,887	-	-	(861,270)
At 31st March, 2004	-	93,128	268,304	22,696	-	-	384,128
Net Book Values							
At 31st March, 2004	37,000,000	2,165,571	1,464,134	47,877	84,978	728,610	41,491,170
At 31st March, 2003	22,889,529	2,123,897	174,934	42,188	6,028,127	198,459	31,457,134

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

6. TANGIBLE FIXED ASSETS - continued

Group tangible fixed assets at 31st March, 2004 include the tangible fixed assets of Royal Air Force Museum Enterprises Ltd, with a net book value of £211,927 (2003: £220,593). While the Museum is required to follow H.M.Treasury's guidance and therefore revalues its tangible fixed assets annually, the trading company is not subject to Treasury guidance and does not revalue its fixed assets. Additional depreciation is provided in respect of the revaluation and this is charged to Statement of Financial Activity.

The Museum's freehold property was professionally revalued as at 31 March 2004. The revaluation was carried out by Gerald Eve, Chartered Surveyors and Property Consultants, in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual. Freehold property, which comprises the RAF Museum site, Hendon, was valued on the basis of depreciation replacement cost.

During the year the Milestones building, formerly included in assets in the course of construction amounting to £6,028,127, was completed and transferred to the respective categories of freehold property £5,687,656, and fixtures, fittings and equipment £340,471.

Group fixtures, fittings and equipment include equipment with a net book value of £139,206 (2003: £73,072) held by the group under finance leases. The depreciation charge relating to finance leased equipment was £51,729 (2003: £30,139). Group plant and machinery includes motor vehicles with a net book value of £42,543 (2003: £8,833) held by the group under finance leases. The depreciation charge relating to finance leased motor vehicles was £1,529 (2003: £5,730).

Charity fixtures, fittings and equipment include equipment with a net book value of £11,408 (2003: £22,587) held by the charity under finance leases. The depreciation charge relating to finance leased equipment was £11,408 (2003: £11,459). Charity plant and machinery includes motor vehicles with a net book value of £nil (2003: £4,923) held by the group under finance leases. The depreciation charge relating to finance leased motor vehicles was £nil (2003: £2,379).

7. STOCKS

	<u>Group</u>		<u>Charity</u>	
	2004	2003	2004	2003
	£	£	£	£
Goods for resale	134,620	92,697	-	-

8. DEBTORS

	<u>Group</u>		<u>Charity</u>	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	116,775	51,582	65,651	8,608
Amounts due from subsidiary	-	-	24,541	42,699
Other debtors	137,047	326,051	136,027	318,855
Prepayments and accrued income	603,979	601,341	588,770	591,098
Charitable Deed of Covenant	-	-	130,097	145,842
	857,801	978,974	945,086	1,107,102

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

9. INVESTMENTS - GROUP AND CHARITY

	2004	2003
	£	£
Quoted investments:		
Market value on 1st April, 2003	11,546	17,028
Additions	2,215	323
Disposal of investments	(2,732)	(262)
Realised loss on disposal	(8,800)	(3,659)
Net unrealised investment gains / (losses)	522	(1,884)
Market value at 31st March, 2004	2,751	11,546
Historical cost at 31st March, 2004	2,229	13,431

10. CASH AT BANK AND IN HAND

	<u>Group</u>		<u>Charity</u>	
	2004	2003	2004	2003
	£	£	£	£
Unrestricted funds	1,292,637	1,147,853	1,080,590	1,001,742
Grant in Aid funds	375,623	227,707	375,623	227,707
Restricted Fund - Purchase Grant	255,997	337,992	255,997	337,992
	1,924,257	1,713,552	1,712,210	1,567,441

11. CREDITORS - Amounts falling due within one year

	<u>Group</u>		<u>Charity</u>	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts (see also note 10)	186,460	-	186,460	-
Obligations under finance leases	65,488	25,438	10,874	14,628
Trade creditors	398,656	622,277	322,453	548,662
Taxation and social security	77,861	39,208	69,552	34,206
Other creditors	25,549	892	3,800	563
Accruals and deferred income	381,120	333,422	315,287	272,714
	1,135,134	1,021,237	908,426	870,773

Obligations under finance leases are secured on the underlying assets.

12. CREDITORS - Amounts falling due after more than one year

	<u>Group</u>		<u>Charity</u>	
	2004	2003	2004	2003
	£	£	£	£
Obligation under finance leases	91,361	45,570	9,832	20,706
	91,361	45,570	9,832	20,706

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

13. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<u>Unrestricted</u>	<u>Restricted Funds</u>		<u>Total Funds</u>
	<u>Funds</u>	<u>Grant in Aid</u>	<u>Other Funds</u>	
	£	£	£	£
(Decrease)/increase in cash in period	144,786	(38,544)	(81,995)	24,247
Cash outflow from decrease in financing	48,531	-	-	48,531
Cash inflow from sale of liquid resources	(517)	-	-	(517)
Change in net funds resulting from cash flow	192,800	(38,544)	(81,995)	72,261
Increase in financing in the period	(134,372)	-	-	(134,372)
Change in market value of liquid resources	(8,278)	-	-	(8,278)
	50,150	(38,544)	(81,995)	(70,389)
Net funds at 1st April, 2003	1,088,391	227,707	337,992	1,654,090
Net funds at 31st March, 2004	1,138,541	189,163	255,997	1,583,701

14. ANALYSIS OF NET FUNDS

	<u>1st April</u>	<u>Cash flow</u>	<u>Other</u>	<u>31st March</u>
	<u>2003</u>			<u>changes</u>
	£	£	£	£
Cash at bank and in hand	1,713,552	210,705	-	1,924,257
Overdrafts	-	(186,460)	-	(186,460)
Obligations under finance leases within 1 year	(25,438)	48,531	(88,581)	(65,488)
Obligations under finance leases after 1 year	(45,570)	-	(45,791)	(91,361)
Current asset investments	11,546	(517)	(8,278)	2,751
	1,654,090	72,259	(142,650)	1,583,699

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

15. MOVEMENT OF FUNDS

	<u>Grant in Aid</u>				<u>Total Funds</u> 2004 £	<u>Total Funds</u> 2003 £
	<u>Unrestricted</u> <u>Funds</u> 2004 £	<u>Operating</u> <u>Funds</u> 2004 £	<u>Purchase</u> <u>Grant Funds</u> 2004 £	<u>Other Restricted</u> <u>Funds</u> 2004 £		
Incoming resources						
Grant in Aid	-	6,681,510	109,000	-	6,790,510	6,057,584
Other grants and donations	3,424,142	-	-	-	3,424,142	568,410
Admissions	-	-	-	-	-	-
Special events	1,339	-	-	-	1,339	18,481
Public telephones	393	-	-	-	393	563
Interest on deposits	45,873	-	5,576	-	51,449	104,506
Visual arts	4,684	-	-	-	4,684	7,574
Other income	140,101	-	-	25,955	166,056	86,450
ERDF and Lottery Funds	-	-	-	924,801	924,801	3,374,766
Dividends Received	-	-	-	-	-	340
Commercial trading operations	1,688,711	-	-	-	1,688,711	1,299,658
Total incoming resources	5,305,243	6,681,510	114,576	950,756	13,052,085	11,518,332
Resources expended						
Staff costs (notes 5 and 16)	1,626,391	1,918,992	-	-	3,545,383	3,398,045
Purchase of exhibits	-	-	19,097	-	19,097	4,088
Other operating costs (note 16)	54,591	2,537,280	-	-	2,591,871	1,983,641
Depreciation	-	744,472	-	-	744,472	525,100
Loss on revaluation of fixed assets	-	1,657	-	-	1,657	12,914
Commercial trading operation	1,555,105	-	-	-	1,555,105	1,117,990
Total resources expended	3,236,087	5,202,401	19,097	-	8,457,585	7,041,778
Net (outgoing)/incoming resources for the year	2,069,156	1,479,109	95,479	950,756	4,594,500	4,476,554
Gains and losses on revaluations of fixed assets	-	5,402,120	-	-	5,402,120	34,812
Gains and losses on revaluations and disposals of investments	(8,278)	-	-	-	(8,278)	(5,543)
Net movement in funds for the year	2,060,878	6,881,229	95,479	950,756	9,988,342	4,505,823
Funds b/fwd at 1st April 2003	466,118	27,049,801	462,683	5,429,087	33,407,689	28,901,866
Funds c/fwd at 31st March 2004	2,526,996	33,931,030	558,162	6,379,843	43,396,031	33,407,689

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

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16. OTHER OPERATING COSTS

	<u>Management and Admin</u> 2004 £	<u>Direct Charity costs</u> 2004 £	<u>Fund raising & Publicity</u> 2004 £	<u>Total</u> 2004 £	<u>Total</u> 2003 £
Staff costs (note 5)	105,298	3,325,569	114,516	3,545,383	3,398,045
Rent, electricity and water	-	630,994	-	630,994	568,976
Insurance	-	49,753	-	49,753	34,587
Stationery, printing and postage	5,942	39,610	2,753	48,305	45,464
Travel and subsistence	-	80,214	5,280	85,494	72,083
Staff recruitment, welfare and training	61,303	31,580	-	92,883	59,976
Office equipment	1,098	58,317	1,586	61,001	71,561
Motor expenses	-	8,002	-	8,002	8,054
Finance charges	-	3,576	-	3,576	5,443
Museum maintenance	-	499,131	-	499,131	449,064
Curatorial	-	271,229	-	271,229	233,890
Cleaning	-	155,777	-	155,777	38,170
Collections management project	-	789	-	789	3,972
Planning and development	-	219,889	19,121	239,010	9,524
Advertising and publicity	-	-	263,149	263,149	223,225
Telephone	2,420	82,472	4,751	89,643	74,233
Audit, accounting and legal fees	11,388	28,874	10,129	50,391	61,421
Sundry expenses	-	42,744	-	42,744	23,998
	187,449	5,528,520	421,285	6,137,254	5,381,686

Operating costs include the following:

	<u>National Audit Office</u> £	<u>Other Accountants</u> £	<u>Total</u> 2004 £	<u>Total</u> 2003 £
Auditors' remuneration				
for audit services	5,450	13,000	18,450	20,574
for other services	-	24,814	24,814	24,402
Total	5,450	37,814	43,264	44,976
Hire of equipment			29,426	43,825

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

17. ANALYSIS OF GROUP NET ASSETS BETWEEN FUNDS

	<u>Grant in Aid</u>				<u>Total funds</u> 2004 £	<u>Total funds</u> 2003 £
	<u>Un-restricted</u> <u>funds</u>	<u>Operating</u> <u>funds</u>	<u>Purchase</u> <u>Grant funds</u>	<u>Other restricted</u> <u>funds</u>		
	2004 £	2004 £	2004 £	2004 £		
Tangible fixed assets	211,927	34,882,717	728,610	5,879,843	41,703,097	31,677,727
Cash at bank and in hand	1,292,637	375,623	255,997	-	1,924,257	1,713,552
Other net current assets	1,113,793	(1,327,310)	(426,445)	500,000	(139,962)	61,980
Total assets less current liabilities	2,618,357	33,931,030	558,162	6,379,843	43,487,392	33,453,259
Creditors due after one year	(91,361)	-	-	-	(91,361)	(45,570)
Net assets	2,526,996	33,931,030	558,162	6,379,843	43,396,031	33,407,689

18. COMMITMENTS

	<u>Group</u> 2004	<u>Charity</u> 2004
Lease commitments:		
Net Obligations under finance leases payable:		
Within one year	65,488	10,874
Between one and five years	91,361	9,832
	156,849	20,706
Gross obligations under finance leases:		
Within one year	75,271	12,286
Between one and five years	96,419	10,239
Total gross obligations	171,690	22,525
Finance charges and interest allocated to future accounting periods	(14,841)	(1,819)
	156,849	20,706

Net obligations under finance lease contracts are secured by fixed charges on the assets concerned.

At 31st March 2004, the museum had annual commitments under non-cancellable operating leases as follows:

	<u>Group and charity</u>	
	2004	2003
Operating leases expiring:		
Plant and machinery:		
within one year	940	-
in the second to fifth years	4,453	3,654
Land and Buildings:		
after five years	351,750	351,750

As reported in note 20, a new 35 year lease for the Cosford site is being finalised to replace the existing lease and to include the Michael Beetham Conservation Centre. Under the terms of the proposed lease, there will be no liability for increased rental until 1 April 2004. The amount included in commitments as at 31 March 2004 is the rental payable under the existing lease.

ROYAL AIR FORCE MUSEUM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2004

- continued -

19. RELATED PARTIES

Related parties with which the Museum had transactions during the year or balances at the year end were as follows:

Royal Air Force Museum Enterprises Ltd

The relationship of the Museum to the company is disclosed in note 4, and the balances due from the company at the year end are disclosed in note 8.

The Royal Air Force Museum Investments Limited

The company was formed to hold, on behalf of the Trustees, the assets of the charity and thus minimise the administrative burden whenever a change in Trustees takes place. At the year end, no such transfers have been made and thus the company was recorded as dormant with the Registrar of Companies.

Royal Air Force Cosford Air Show

Museum staff are involved in the Cosford Air Show. The Museum has traditionally received a share of the proceeds after expenses, however there was no distribution of proceeds during the year (2003: £nil).

Ministry of Defence

The Royal Air Force Museum is a Non-Departmental Public Body, sponsored by the Ministry of Defence (the MOD). The MOD is regarded as the related party. Grant in Aid funding from the MOD is separately disclosed in the Statement of Financial Activities.

The Society of Friends of the Royal Air Force Museum, Hendon

The Friends are a separate charity dedicated to supporting the activities of the Museum.

Aerospace Society

The Aerospace Society operates along similar lines to the Society of Friends at Hendon and supports the activities of the Museum at its site at Cosford.

Bomber Command Association

The Bomber Command Association is a separate charity, which provides funds for the work of the Museum.

Royal Air Force Museum American Foundation Inc.

The American Foundation was incorporated in the United States of America on the 2nd January 2002 and was granted exempt status from federal income tax under section 501 (a) of the Internal Revenue Codes on the 31st May 2002. This is a separate organisation that was established to raise funds to support the work of the Museum.

20. POST BALANCE SHEET EVENT

Subsequent to the Balance Sheet date, agreement has been reached with the Ministry of Defence on a new lease for the whole of the Cosford site to replace the existing lease. The replacement lease is currently being signed and will be effective from 1st April 2004. It is a 35 year full repairing lease with a market rate rent that will be fully supported by additional Grant in Aid.

ROYAL AIR FORCE MUSEUM

ANNEX 'A'

ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR DEFENCE, WITH THE APPROVAL OF THE TREASURY

1. The Royal Air Force Museum (the Museum) shall prepare accounts for the financial year ended 31st March, 1998 and subsequent financial years comprising:
 - a. a foreword;
 - b. a statement of financial activities;
 - c. a balance sheet;
 - d. a cash flow statement; and
 - e. notes to the accounts, including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. If the Museum has subsidiary undertakings, the statements referred to in paragraph 1 shall be prepared on a consolidated basis. In addition, there shall be a balance sheet in respect of the Museum alone, with relevant notes. When preparing the consolidated accounts, the Board of Trustees shall observe all relevant guidance issued by the Treasury and the Ministry of Defence.
3. The accounts shall give a true and fair view of the incoming resources and application of resources during the financial year and the state of the Museum's affairs at the end of the financial year.
4. Subject to this requirement, the accounts shall be prepared in accordance with:
 - a. the Charities Act 1993, The Charities (Accounts and Reports) Regulations 1995 and the Statement of Recommended Practice (SORP) 'Accounting by Charities' ('the Charities SORP');
 - b. generally accepted accounting practices in the United Kingdom (UK GAAP);
 - c. the disclosure and accounting requirements contained in 'The Fees and Charges Guide' (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury may issue from time to time in respect of accounts, which are required to give a true and fair view;
 - d. the accounting and disclosure requirements given in 'Government Accounting' and in 'Executive NDPBs: Annual Reports and Accounts Guidance', as amended or augmented from time to time;in so far as these are appropriate to the Museum and in force for the financial year for which the accounts are to be prepared.
5. Clarification of the application of the accounting and disclosure requirements of the Charities Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
6. The SOFA and the balance sheet(s) shall be prepared under the historical cost convention, modified as follows:
 - a. by the inclusion of:
 - i. fixed assets at their value to the business by reference to current costs; and
 - ii. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

ROYAL AIR FORCE MUSEUM

ANNEX 'A'

ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR DEFENCE, WITH THE APPROVAL OF THE TREASURY

- continued -

- b. articles forming part of the Museum's Collections, whether held as exhibits or part of the Reserve Collection shall not be capitalised, but held at nil/nominal value and the costs of all new articles for the Collections shall be charged to expenditure in the year of acquisition.
7. This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Secretary of State of Defence.

.....

Date:

ROYAL AIR FORCE MUSEUM

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE CHARITIES ACT AND ACCOUNTING STANDARDS

CHARITIES ACT

1. When preparing its statement of financial activities the Museum shall include under 'Resources Expended' a heading relating to the inclusion of notional charges for insurance (if applicable) and cost of capital, and shall include an additional heading 'Adjustment for the notional costs of capital' after 'Net Incoming Resources before Transfers'.
2. When preparing its balance sheet the Museum shall have regard to the balance sheet format prescribed in the Charities SORP, save that the balance sheet totals shall be struck at 'Total assets less current liabilities'
3. The foreword shall be signed by the Accounting Officer of the Museum and the balance sheet shall be signed by the Chairman of the Museum's Trustees on behalf of the Board and the Accounting Officer of the Museum and dated. The Accounting Officer shall initial all the other pages of the financial statements.

ACCOUNTING STANDARDS

4. The Museum is not required to include a note showing historical profits and losses as described in FRS 3.
5. The Financial Reporting Standard for Smaller Entities (FRSSE) should not be adopted unless specifically approved by the Treasury.

ROYAL AIR FORCE MUSEUM

SCHEDULE 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The foreword shall, inter alia:
 - a. state that the accounts have been prepared in accordance with the direction given by the Secretary of State for Defence with the approval of H.M. Treasury; and
 - b. include a brief history of the Museum and its statutory background.
2. The notes to the accounts shall include details of the key corporate financial targets set by the Secretary of State together with an indication of the performance achieved.