

**ROYAL AIR FORCE MUSEUM**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003**

Registered Charity No. 244708

# ROYAL AIR FORCE MUSEUM

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## CONTENTS

	Page
Administrative Information	1
Foreword	2 - 5
Statement of Board of Trustees' and Director General's Responsibilities	6
Statement on Internal Control	7
Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	8 - 9
Consolidated Statement of Financial Activities	10 - 11
Consolidated Balance Sheet	12
Consolidated Cash Flow Statement	13
Notes to the Financial Statements	14 - 28
Accounts Direction, Schedule 1 and 2	29 - 32

# ROYAL AIR FORCE MUSEUM

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## 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:

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

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

**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

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## FOREWORD

### INTRODUCTION

The consolidated accounts for the Royal Air Force Museum are presented for the financial year ended 31 March 2003. The Group comprises the main charity and its subsidiary undertaking, Royal Air Force Museum Enterprises 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 Hall and the Bomber Command Hall, both of which are in essence special exhibitions of the main Museum, but dealing in depth with two important areas of history. 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 on land adjacent to other buildings 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 26<sup>th</sup> 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. Prospective Trustees are normally interviewed by a panel of the Trustee body. 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

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The following people served as the Museum's Trustees during 2002-2003.

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 John Belloch KCB (Retired 19.4.02) Sir Neil Cossons OBE (Appt'd 6.7.01) Lord Clarke of Hampstead CBE KSG (Appt'd 13.9.01) Air Vice-Marshal David Crwys-Williams (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 Co-opted member of Audit Committee Member Remuneration Committee Member Remuneration Committee Chairman Finance Committee President RAFM American Foundation Chairman Fundraising Committee
	Sir Richard Evans CBE (Re-appt'd 13.9.01) Mr Victor Gauntlett CRAeS (Appt'd 13.9.01, Deceased)	Non-Executive Director Royal Air Force Museum Enterprises Ltd Member Audit Committee
	Sir Gerald Hosker KCB QC (Appt'd 6.7.01)	Former Chairman of Fundraising Committee Chairman Audit Committee Member Remuneration Committee Member Finance Committee
	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) Professor R J Overy MA PhD FRHists (Resigned 19.3.03) The Rt Hon Sir Geoffrey Pattie (Appt'd 6.7.01) Dr Judith Rowbotham (Appt'd 13.9.01) Mr Alastair Stewart (Appt'd 13.9.01) Mr David Young (Re-appt'd 4.5.02)	Member Development Committee Member Development Committee Member Fundraising Committee Member Education Committee Member Fundraising Committee Chairman Development Committee

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

Finally, the Trustees are sad to report the untimely death of Mr Victor Gauntlett. Mr Gauntlett had a distinguished business career (in the oil and automotive industries) and brought to the Board of Trustees an infectious enthusiasm that will be greatly missed. During his time in office, Mr Gauntlett was appointed the Chairman of the Board's Fundraising Committee and was instrumental in raising the profile of the Museum with a number of organisations and the subsequent substantial donations to the Museum.

## 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**

# ROYAL AIR FORCE MUSEUM

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## STRATEGIC OBJECTIVES

The Museum carried out a thorough review to define its objectives and established a new set based around the Museum's core functions and finances. 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.

## RESULTS FOR THE YEAR ENDED 31 MARCH 2003

Total incoming resources for the Group in 2002-03 amounted to £11,518,332 (2001-02 £8,750,724). Total resources expended amounted to £8,642,928 (2001-02 £8,133,050). After adjustment for notional charges and other recognised gains and losses totalling £1,630,419 (2001-02 (£327,294)), the net movement in funds for the year was an increase of £4,505,823 (2001-02 £290,380).

## 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 2003, the level of the Museum's reserves stood at £245,525 (31 March 2002 £884,933). 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 enable 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 enable 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. Completion of the Milestones of Flight, Landmark Building and its opening on 17 December 2003.
- ii. The Grahame-White Factory will also be opened on 17 December thus providing the public with a unique series of exhibitions with many aircraft situated in buildings of their era.
- iii. Completion of the new interactive gallery, Aeronauts. This will provide an enhanced and exciting gallery for all to learn and understand the science and technology behind flight.
- iv. The third development at Hendon, which is likely to be sponsored by the HLF, is to re-house and enlarge the archives and research facility. An application for funding will be made during 2003/04.
- v. Work will continue by the Fundraising Committee to raise funds to complete the development of the Hendon environs.
- vi. A major opportunity to develop the Museum at Cosford has been presented. The local development agencies, ERDF and HLF, have all given a positive indication that funds to construct

# ROYAL AIR FORCE MUSEUM

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a large exhibition centre will be available. This project will enable all the Museum's aircraft to be protected from the weather and create a unique exhibition interpreting the Cold War. The MOD have also been presented with this project and an application for additional grant-in-aid has been made.

- vii. During the year, the Museum, facilitated by KPMG, undertook an analysis review of all its activities. The final report was accepted by Trustees at their meeting in May 2003. This Strategic Review specifically addressed activities by the Museum that because of limited financial resources could not be undertaken or which could not be completed within a reasonable timescale. The main outcome of this review highlighted the shortfall in curatorial resources sufficient to correct these issues. The implications of the Review have been discussed with the Museum's sponsor and an application for additional grant-in-aid can be made.
- viii. The Museum is currently in negotiation with MOD concerning the Leasehold arrangements at Cosford. It is anticipated that the new lease will be for an extended period and an extended area, thus resolving the issues surrounding the provision of the Michael Beetham Conservation Centre.

## VISITOR NUMBERS

The total number of visitors during 2002/03 was 412,899, compared with 353,499 for 2001/02.

In addition the Museum's website received 397,228 visits during the year.

## 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 27 days or in accordance with suppliers' terms (2001/02 an average of 25 days).

## 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 continued 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

There have been no post balance sheet events up to and including the date of signature of these accounts, which might affect the reader's understanding of the financial statements.

## 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.

Signed: .....  
**Dr. Michael A. Fopp**  
Director General  
Royal Air Force Museum

Signed: .....  
**ACM Sir Richard Johns**  
on behalf of the Board of Trustees

Date: .....

Date: .....

# ROYAL AIR FORCE MUSEUM

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## 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

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## STATEMENT ON INTERNAL CONTROL FOR THE YEAR ENDING 31<sup>ST</sup> MARCH 2003

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 as set by the Board of Trustees, 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.

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.

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 2003 and up to the date of approval of the annual report and accounts. The Museum believes its systems, policies, procedures and accounting practices accord with Treasury guidance.

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. The Audit Committee of the Board of Trustees will review the Risk Register annually and report its findings to the full Board.

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 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.

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.

Signed.....  
**ACM Sir Richard Johns GCB CBE LVO FRAeS**  
On behalf of the Board of Trustees

Signed.....  
**Dr Michael A Fopp MA FMA FRAeS**  
Accounting Officer

Date.....

Date.....

# ROYAL AIR FORCE MUSEUM

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

I have audited the financial statements on pages 10 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 14 to 17.

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

As described on page 6, 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 review whether the statement on page 7 reflects the Museum's compliance with Treasury's guidance "Corporate governance: 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.

## **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

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## 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 2003 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.

John Bourn  
Comptroller and Auditor General

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

## ROYAL AIR FORCE MUSEUM

### CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

	Notes	<u>Restricted Funds</u>			Total <u>Funds</u> 2003	Total <u>Funds</u> 2002 (as restated) £
		Unrestricted <u>Funds</u> 2003	Grant in Aid <u>Funds</u> 2003	Other <u>Funds</u> 2003		
		£	£	£	£	£
<b>Incoming resources</b>						
Grant in Aid (Operating)		-	5,695,584	-	5,695,584	5,168,973
Grant in Aid (Purchase of Exhibits)		-	109,000	-	109,000	109,000
Grant in Aid (Development)		-	253,000	-	253,000	759,000
Other grants and donations	3a	568,410	-	-	568,410	631,159
Admissions		-	-	-	-	334,212
Special events		18,481	-	-	18,481	51,083
Other income		69,264	-	25,323	94,587	60,428
HLF Grant	3b	-	-	3,374,766	3,374,766	393,143
Activities for Generating Funds:						
Commercial trading operations	4b	1,299,658	-	-	1,299,658	1,166,902
Investment income and interest		93,881	10,965	-	104,846	76,824
<b>Total incoming resources</b>		<u>2,049,694</u>	<u>6,068,549</u>	<u>3,400,089</u>	<u>11,518,332</u>	<u>8,750,724</u>
Less Cost of Generating Funds:						
Commercial trading operations	4b	1,117,990	-	-	1,117,990	1,071,946
Fund raising and publicity	16	81,432	288,713	-	370,145	303,583
Total cost of generating funds		<u>1,199,422</u>	<u>288,713</u>	<u>-</u>	<u>1,488,135</u>	<u>1,375,529</u>
<b>Net incoming resources available for charity application</b>		<u>850,272</u>	<u>5,779,836</u>	<u>3,400,089</u>	<u>10,030,197</u>	<u>7,375,195</u>
<b>Resources expended</b>						
Charitable Expenditure:						
Costs of activities in furtherance of Charity's objects						
Purchase of exhibits		-	4,088	-	4,088	14,297
Direct charity costs	16	1,309,033	3,539,237	-	4,848,270	4,396,739
Depreciation	6	-	525,100	-	525,100	630,967
Permanent diminution in value of tangible fixed assets		-	12,914	-	12,914	4,402
Management and administration of the charity						
Management and administration	16	83,268	80,003	-	163,271	177,590
Notional cost of capital		-	1,601,150	-	1,601,150	1,533,526
<b>Total resources expended</b>		<u>1,392,301</u>	<u>5,762,492</u>	<u>-</u>	<u>7,154,793</u>	<u>6,757,521</u>
Net (outgoing)/incoming resources before reversal of notional costs		(542,029)	17,344	3,400,089	2,875,404	617,674
Reversal of notional cost of capital		-	1,601,150	-	1,601,150	1,533,526
<b>Net (outgoing)/incoming resources for the year</b>		<u>(542,029)</u>	<u>1,618,494</u>	<u>3,400,089</u>	<u>4,476,554</u>	<u>2,151,200</u>

Prior year figures have been restated for the reasons explained in note 6 on page 21.

## ROYAL AIR FORCE MUSEUM

### CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

<b>Net (outgoing)/incoming resources for the year</b>		(542,029)	1,618,494	3,400,089	4,476,554	2,151,200
<b>Gains and losses on revaluations of fixed assets for the charity's own use</b>	6	-	34,812	-	34,812	(1,856,889)
<b>Gains and losses on revaluations and disposals of investment assets</b>	9	(5,543)	-	-	(5,543)	(3,931)
<b>Net movement in funds</b>		(547,572)	1,653,306	3,400,089	4,505,823	290,380
<b>Fund balances brought forward at 1<sup>st</sup> April, 2002 as previously reported</b>		1,013,690	25,859,178	4,028,998	30,901,866	28,611,486
Prior year adjustment	15	-	-	(2,000,000)	(2,000,000)	-
<b>Fund balances brought forward at 1<sup>st</sup> April, 2002 as restated</b>		1,013,690	25,859,178	2,028,998	28,901,866	28,611,486
<b>Fund balances carried forward at 31<sup>st</sup> March, 2003</b>		<u>466,118</u>	<u>27,512,484</u>	<u>5,429,087</u>	<u>33,407,689</u>	<u>28,901,866</u>

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

Prior year figures have been restated for the reasons explained in note 6 on page 21.

# ROYAL AIR FORCE MUSEUM

## CONSOLIDATED BALANCE SHEET 31<sup>ST</sup> MARCH 2003

	<u>Notes</u>	<u>Group 2003</u> £	<u>Group 2002</u> (as restated) £	<u>Charity 2003</u> £	<u>Charity 2002</u> (as restated) £
<b>Fixed Assets</b>					
Tangible Assets	6	31,677,727	26,386,365	31,457,134	26,257,609
Investments	4a	-	-	100,000	100,000
		31,677,727	26,386,365	31,557,134	26,357,609
<b>Current Assets</b>					
Stocks	7	92,697	84,430	-	-
Debtors	8	978,974	369,504	1,107,102	456,381
Investments	9	11,546	17,028	11,546	17,028
Cash at bank and in hand	10	1,713,552	3,137,009	1,567,441	2,989,067
		2,796,769	3,607,971	2,686,089	3,462,476
<b>Creditors</b>					
Amounts falling due within one year	11	(1,021,237)	(1,021,461)	(870,773)	(898,476)
<b>NET CURRENT ASSETS</b>		1,775,532	2,586,510	1,815,316	2,564,000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		33,453,259	28,972,875	33,372,450	28,921,609
<b>Creditors</b>					
Amounts falling due after More than one year	12	(45,570)	(71,009)	(20,706)	(35,335)
		33,407,689	28,901,866	33,351,744	28,886,274
<b>Reserves</b>					
	15/17				
Unrestricted funds		466,118	1,013,690	410,173	998,098
Grant in Aid operating account		27,049,801	25,512,372	27,049,801	25,512,372
Grant in Aid exhibits reserve		462,683	346,806	462,683	346,806
Other restricted funds		5,429,087	2,028,998	5,429,087	2,028,998
		33,407,689	28,901,866	33,351,744	28,886,274

Approved by the Board of Trustees on

and signed on its behalf by

.....  
Sir Richard Johns - Chairman

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

Prior year figures have been restated for the reasons explained in note 6 on page 21.

# ROYAL AIR FORCE MUSEUM

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

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

	Un- Restricted <u>Fund</u> 2003	<u>Restricted Funds</u>		Total <u>Funds</u> 2003	Total <u>Funds</u> 2002  (as restated) £
		Grant in Aid <u>Funds</u> 2003	Other <u>Funds</u> 2003		
<b>Net incoming resources</b>	(542,029)	1,618,494	3,400,089	4,476,554	2,151,200
Interest receivable	(93,541)	(10,965)	-	(104,506)	(75,818)
Interest payable	5,443	-	-	5,443	2,191
Dividends received	(340)	-	-	(340)	(1,006)
Depreciation of tangible assets	49,931	525,100	-	575,031	674,348
Loss on revaluation of tangible fixed assets	-	12,914	-	12,914	4,402
(Increase)/decrease in stocks	(8,267)	-	-	(8,267)	(11,472)
(Increase)/decrease in debtors	13,238	(597,385)	(25,323)	(609,470)	(93,543)
(Decrease)/increase in creditors	29,760	(18,725)	-	11,035	(115,793)
<b>Net cash flow from operating activities</b>	<u>(545,805)</u>	<u>1,529,433</u>	<u>3,374,766</u>	<u>4,358,394</u>	<u>2,534,509</u>

### CASH FLOW STATEMENT

<b>Net cash flow from operating activities</b>	<u>(545,805)</u>	<u>1,529,433</u>	<u>3,374,766</u>	<u>4,358,394</u>	<u>2,534,509</u>
<b>Returns on investments and servicing of finance</b>					
Bank interest received	93,541	10,965	-	104,506	75,818
Finance charges paid	(5,443)	-	-	(5,443)	(2,191)
Dividends received	340	-	-	340	1,006
<b>Capital expenditure</b>					
Purchase of tangible fixed assets	(886,704)	(1,583,025)	(3,374,766)	(5,844,495)	(1,498,395)
Proceeds on disposal of investments	262	-	-	262	125,281
Purchase of investments	(323)	-	-	(323)	-
<b>Financing</b>					
Capital element of finance lease rentals	(36,698)	-	-	(36,698)	(6,631)
<b>(Decrease)/increase in cash in the period</b>	<u>(1,380,830)</u>	<u>(42,627)</u>	<u>-</u>	<u>(1,423,457)</u>	<u>1,229,397</u>

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.

Prior year figures have been restated for the reasons explained in note 6 on page 21.

# ROYAL AIR FORCE MUSEUM

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

### 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 subsidiary, Royal Air Force Museum Enterprises Limited. The Consolidated Statement of Financial Activities includes the results of Royal Air Force Museum Enterprises Limited 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 Limited on a line by line basis.

The financial statements of Royal Air Force Museum Enterprises Limited used in consolidation are those for the year to 31<sup>st</sup> March, 2003.

#### **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 6% 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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- 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 1<sup>st</sup> April 2001 with a cost in excess of £500 have been capitalised. These assets are not revalued or depreciated. Collection assets acquired before 1<sup>st</sup> 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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- 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.

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

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.

### 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 31<sup>st</sup> March, 2003 was £Nil (2002: £Nil).

### 3a. OTHER GRANTS AND DONATIONS

	Un- Restricted <u>Fund</u> 2003 £	Grant in Aid Operating <u>Funds</u> 2003 £	Other Restricted <u>Funds</u> 2003 £	Total <u>Funds</u> 2003 £	Total <u>Funds</u> 2002 £
Bomber Command Association	-	-	-	-	20,000
Society of Friends of the RAF Museum	12,000	-	-	12,000	20,000
Other	556,410	-	-	556,410	591,159
	568,410	-	-	568,410	631,159

Prior year figures have been restated for the reasons explained in note 6 on page 21.

### 3b. HLF GRANTS FOR HENDON DEVELOPMENT

	2003 £	2002 £
Other grants and donations	3,374,766	393,143
	3,374,766	393,143

### 4a. INVESTMENT IN SUBSIDIARY UNDERTAKING

The investment of £100,000 (2002: £100,000) in the charity's balance sheet represents 100% of the issued share capital of Royal Air Force Museum Enterprises Limited 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:

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

	2003 £	2002 £
The assets and liabilities of the subsidiary were:		
Fixed assets	220,593	128,757
Current assets	299,221	306,023
Creditors: amounts falling due within 1 year	(339,005)	(283,513)
Creditors: amounts due after more than 1 year	(24,864)	(35,674)
	<u>155,945</u>	<u>115,593</u>

	2003 £	2002 £
At 1 <sup>st</sup> April, 2002	115,593	117,251
Profit/(Loss) retained in subsidiary	40,352	(1,658)
At 31 <sup>st</sup> March, 2003	<u>155,945</u>	<u>115,593</u>

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

#### 4b. INCOME FROM TRADING SUBSIDIARY

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

	2003 £	2002 £
<b>Royal Air Force Museum Enterprises Limited</b>		
<b>Turnover</b>	1,299,658	1,166,902
Cost of sales and other expenses	(1,117,990)	(1,071,946)
	181,668	94,956
Interest receivable	4,526	6,974
<b>Net profit</b>	186,194	101,930
Charitable contribution under Deed of Covenant	(145,842)	(103,588)
<b>Surplus/(Deficit) in subsidiary</b>	<u>40,352</u>	<u>(1,658)</u>

#### 5. STAFF COSTS AND NUMBERS

	Un- Restricted <u>Fund</u> 2003 £	Grant in Aid Operating <u>Funds</u> 2003 £	Other Restricted <u>Funds</u> 2003 £	Total <u>Funds</u> 2003 £	Total <u>Funds</u> 2002 £
Staff costs were as follows:					
Salaries and wages (note (a))	1,358,175	1,612,183	-	2,970,358	2,588,729
Social Security costs	106,871	117,781	-	224,652	202,603
Pension costs (note (b))	-	203,035	-	203,035	210,357
	<u>1,465,046</u>	<u>1,932,999</u>	-	<u>3,398,045</u>	<u>3,001,689</u>

The above costs exclude the trading subsidiary.

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

### 5. STAFF COSTS AND NUMBERS – continued

#### 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 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2002/03, employers’ contributions of £203,035 were payable to the PCSPS (2001/02 £210,357) 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. The Trustees received £1,163 in reimbursed expenses during the year (£687 in 2001/02).

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.

	2003	2002
	No.	No
Employees with remuneration in the range:		
£50,000 to £59,999	2	-
£100,000 to £109,999 (includes bonuses awarded under the terms of employment contract)	1	-

Dr Michael A Fopp, MA, FMA, FRAeS

Age	55	54
Salary	£75,152	£74,746
Taxable benefits (received from the trading subsidiary)	£10,917	£7,798
Real increase in pension at 60 (in £2,500 bands)	0-£2,500	0-£2,500
Total accrued pension at 60 at 31 <sup>st</sup> March 2003 (in £5,000 bands)	£10,000- £15,000	£10,000- £15,000

	2003	2002
	No.	No.
The average monthly number of staff by division was as follows:		
Curatorial	50	50
Business Development	7	7
Operations	81	73
Other	3	3
	141	133

## ROYAL AIR FORCE MUSEUM

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

#### 6. TANGIBLE FIXED ASSETS - GROUP

	Freehold Property £	Short Leasehold Property £	Fixtures, Fittings & Equipment £	Plant, Machinery & Vehicles £	Assets in the Course of Construction £	Purchase of Exhibits £	Total £
Cost or valuation							
At 1 <sup>st</sup> April, 2002	23,200,000	2,100,000	1,799,803	612,968	661,512	71,500	28,445,783
Additions	42,412	32,273	120,380	155,856	5,366,615	126,959	5,844,495
Disposals	-	-	(19,026)	-	-	-	(19,026)
Revaluations	(2,306)	34,969	(24,052)	1,339	-	-	9,950
At 31 <sup>st</sup> March, 2003	23,240,106	2,167,242	1,877,105	770,163	6,028,127	198,459	34,281,202
Depreciation							
At 1 <sup>st</sup> April, 2002	-	-	1,499,520	559,898	-	-	2,059,418
Charged in the year	350,577	43,345	143,110	37,999	-	-	575,031
Disposals	-	-	(19,026)	-	-	-	(19,026)
Revaluations	-	-	(12,047)	99	-	-	(11,948)
At 31 <sup>st</sup> March, 2003	350,577	43,345	1,611,557	597,996	-	-	2,603,475
Net book value							
At 31 <sup>st</sup> March, 2003	22,889,529	2,123,897	265,548	172,167	6,028,127	198,459	31,677,727
At 31 <sup>st</sup> March, 2002	23,200,000	2,100,000	300,283	53,070	661,512	71,500	26,386,365

#### 6. TANGIBLE FIXED ASSETS - CHARITY

	Freehold Property £	Short Leasehold Property £	Fixtures, Fittings & Equipment £	Plant, Machinery & Vehicles £	Assets in the Course of Construction £	Purchase of Exhibits £	Total £
Cost or valuation							
At 1 <sup>st</sup> April, 2002	23,200,000	2,100,000	1,502,710	454,852	661,512	71,500	27,990,574
Additions	42,412	32,273	106,612	27,856	5,366,615	126,959	5,702,727
Disposals	-	-	(19,026)	-	-	-	(19,026)
Revaluations	(2,306)	34,969	(24,052)	1,339	-	-	9,950
At 31 <sup>st</sup> March, 2003	23,240,106	2,167,242	1,566,244	484,047	6,028,127	198,459	33,684,225
Depreciation							
At 1 <sup>st</sup> April, 2002	-	-	1,312,130	420,835	-	-	1,732,965
Charged in the year	350,577	43,345	110,253	20,925	-	-	525,100
Disposals	-	-	(19,026)	-	-	-	(19,026)
Revaluations	-	-	(12,047)	99	-	-	(11,948)
At 31 <sup>st</sup> March, 2003	350,577	43,345	1,391,310	441,859	-	-	2,227,091
Net book value							
At 31 <sup>st</sup> March, 2003	22,889,529	2,123,897	174,934	42,188	6,028,127	198,459	31,457,134
At 31 <sup>st</sup> March, 2002	23,200,000	2,100,000	190,580	34,017	661,512	71,500	26,257,609

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

### 6. TANGIBLE FIXED ASSETS – continued

Group tangible fixed assets at 31<sup>st</sup> March, 2003 include the tangible fixed assets of Royal Air Force Museum Enterprises Limited, with a net book value of £220,593 (2002: £128,757). 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 and short leasehold property was professionally revalued as at 31 March 2002. The revaluations were carried out by GeraldEve, 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 and short leasehold property on the basis of existing use value.

The Michael Beetham Conservation Centre was handed over for the Museum's use by the MoD on 18 October 2001. At that time, although revised leasehold arrangements had not been fully agreed with the MoD, the building was considered to be a donated fixed asset and was therefore capitalised and recorded as an addition of £2 million to the Museum's property assets. Subsequent to this, discussions with the MoD have progressed and a revised lease is due to be signed shortly. Under the terms of the proposed new lease, the building will not be donated but a full market rental will be payable. A prior period adjustment has therefore been made in the 2002-03 accounts to correct the accounting treatment for this property by removing the capitalised asset of £2 million, and donated income of £2 million. As stated in note 18, no backdated rental will be payable for the period prior to 31 March 2003.

Group fixtures, fittings and equipment include equipment with a net book value of £73,072 (2002: £164,424) held by the group under finance leases. The depreciation charge relating to finance leased equipment was £30,139 (2002: £58,764). Group plant and machinery includes motor vehicles with a net book value of £8,833 (2002: £14,894) held by the group under finance leases. The depreciation charge relating to finance leased motor vehicles was £5,730 (2002: £5,895).

Charity fixtures, fittings and equipment include equipment with a net book value of £22,587 (2002: £89,704) held by the charity under finance leases. The depreciation charge relating to finance leased equipment was £11,459 (2002: £40,380). Charity plant and machinery includes motor vehicles with a net book value of £4,923 (2002: £7,633) held by the group under finance leases. The depreciation charge relating to finance leased motor vehicles was £2,379 (2002: £2,544).

	<u>Group</u>		<u>Charity</u>	
	2003	2002	2003	2002
	£	£	£	£
<b>7. STOCKS</b>				
Goods for resale	92,697	84,430	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>Group</u>		<u>Charity</u>	
	2003	2002	2003	2002
	£	£	£	£
<b>8. DEBTORS</b>				
Trade debtors	51,582	76,647	8,608	7,469
Amounts due from subsidiary undertaking	-	-	42,699	56,940
Other debtors	326,051	90,254	318,855	90,254
Prepayments and accrued income	601,341	202,603	591,098	198,130
Charitable Deed of Covenant	-	-	145,842	103,588
	<u>978,974</u>	<u>369,504</u>	<u>1,107,102</u>	<u>456,381</u>

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

	2003 £	2002 £
<b>9. INVESTMENTS - GROUP AND CHARITY</b>		
Quoted Investments :		
Market value on 1 <sup>st</sup> April 2002	17,028	146,240
Addition to investments	323	-
Disposal of investments	(262)	(125,281)
Realised loss on disposal	(3,659)	(4,776)
Net unrealised investment (losses) / gains	(1,884)	845
Market value at 31 <sup>st</sup> March, 2003	11,546	17,028
Historical cost at 31 <sup>st</sup> March, 2003	13,431	24,770

	Group		Charity	
	2003 £	2002 £	2003 £	2002 £
<b>10. CASH AT BANK AND IN HAND</b>				
Unrestricted funds	1,147,853	2,528,683	1,001,742	2,380,741
Grant in Aid funds	227,707	338,090	227,707	338,090
Restricted Fund – Purchase Grant	337,992	270,236	337,992	270,236
	1,713,552	3,137,009	1,567,441	2,989,067

	Group		Charity	
	2003 £	2002 £	2003 £	2002 £
<b>11. CREDITORS - Amounts falling due within one year</b>				
Obligations under finance leases	25,438	36,697	14,628	23,606
Trade creditors	622,277	255,898	548,662	206,854
Taxation and Social Security	39,208	55,939	34,206	32,990
Other creditors	892	3,184	563	925
Accruals and deferred income	333,422	669,743	272,714	634,101
	1,021,237	1,021,461	870,773	898,476

Obligations under finance leases are secured on the underlying assets.

	Group		Charity	
	2003 £	2002 £	2003 £	2002 £
<b>12. CREDITORS - Amounts falling due after more than one year</b>				
Obligations under finance leases: in first and second years	45,570	71,009	20,706	35,335

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

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

	Unrestricted <u>Funds</u> £	<u>Restricted Funds</u>		Total <u>Funds</u> £
		Grant in <u>Aid</u> £	Other <u>Funds</u> £	
(Decrease)/increase in cash in the period	(1,380,830)	(42,627)	-	(1,423,457)
Cash outflow from decrease in financing	36,698	-	-	36,698
Change in net funds resulting from cash Flow	(1,344,132)	(42,627)	-	(1,386,759)
Increase in financing in the period	-	-	-	-
	(1,344,132)	(42,627)	-	(1,386,759)
<b>Net funds at 1<sup>st</sup> April, 2002</b>	<u>2,420,977</u>	<u>608,326</u>	-	<u>3,029,303</u>
<b>Net Funds at 31<sup>st</sup> March, 2003</b>	<u>1,076,845</u>	<u>565,699</u>	-	<u>1,642,544</u>

### 14. ANALYSIS OF NET FUNDS

	1 <sup>st</sup> April <u>2002</u> £	Cash <u>Flow</u> £	Other <u>Changes</u> £	31 <sup>st</sup> March <u>2003</u> £
Cash at bank and inhand	3,137,009	(1,423,457)	-	1,713,552
Obligations under finance leases within 1 year	(36,697)	36,698	(25,439)	(25,438)
Obligations under finance leases after 1 year	(71,009)	-	25,439	(45,570)
	<u>3,029,303</u>	<u>(1,386,759)</u>	-	<u>1,642,544</u>

### 15. MOVEMENT OF FUNDS

	Un- restricted <u>funds</u> £	Operating <u>fund</u> £	<u>Grant in Aid</u>		Total funds <u>2003</u> £	Total funds <u>2002</u> £
			Purchase Grant <u>funds</u> £	Other restricted <u>funds</u> £		
<b>Incoming Resources</b>						
Grant in Aid	-	5,948,584	109,000	-	6,057,584	6,036,973
Other grants and donations	568,410	-	-	-	568,410	655,864
Admissions	-	-	-	-	-	334,212
Special events	18,481	-	-	-	18,481	51,083
Public telephones	563	-	-	-	563	649
Research and information	-	-	-	-	-	-
Interest on deposits	93,541	-	10,965	-	104,506	75,818
Visual arts	7,574	-	-	-	7,574	9,006
Other income	61,127	-	-	25,323	86,450	26,069
ERDF and Lottery funds	-	-	-	3,374,766	3,374,766	393,143
Dividends received	340	-	-	-	340	1,005
Commercial trading operation	1,299,658	-	-	-	1,299,658	1,166,902
<b>Total incoming resources</b>	<u>2,049,694</u>	<u>5,948,584</u>	<u>119,965</u>	<u>3,400,089</u>	<u>11,518,332</u>	<u>8,750,724</u>

## ROYAL AIR FORCE MUSEUM

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

15. **MOVEMENT OF FUNDS - continued**

<b>Resources expended</b>						
Staff costs (notes 5 and 16)	1,465,046	1,932,999	-	-	3,398,045	3,001,689
Purchase of exhibits	-	-	4,088	-	4,088	14,297
Other operating costs (note 16)	8,687	1,974,954	-	-	1,983,641	1,876,223
Depreciation	-	525,100	-	-	525,100	630,967
Loss on revaluation of fixed assets	-	12,914	-	-	12,914	4,402
Commercial trading operation	1,117,990	-	-	-	1,117,990	1,071,946
	<u>1,117,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,117,990</u>	<u>1,071,946</u>
<b>Total resources expended</b>	<b>2,591,723</b>	<b>4,445,967</b>	<b>4,088</b>	<b>-</b>	<b>7,041,778</b>	<b>6,599,524</b>
	<u>2,591,723</u>	<u>4,445,967</u>	<u>4,088</u>	<u>-</u>	<u>7,041,778</u>	<u>6,599,524</u>
<b>Net (outgoing)/incoming resources</b>						
	(542,029)	1,502,617	115,877	3,400,089	4,476,554	2,151,200
Gains and losses on revaluations of fixed assets	-	34,812	-	-	34,812	(1,856,889)
Gains and losses on revaluations and Disposals of investments	(5,543)	-	-	-	(5,543)	(3,931)
	<u>(5,543)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,543)</u>	<u>(3,931)</u>
<b>Net movement in funds for the year</b>	<b>(547,572)</b>	<b>1,537,429</b>	<b>115,877</b>	<b>3,400,089</b>	<b>4,505,823</b>	<b>290,380</b>
	<u>(547,572)</u>	<u>1,537,429</u>	<u>115,877</u>	<u>3,400,089</u>	<u>4,505,823</u>	<u>290,380</u>
<b>Balances b/fwd as previously stated</b>	1,013,690	25,512,372	346,806	4,028,998	30,901,866	28,611,486
Prior year adjustment	-	-	-	(2,000,000)	(2,000,000)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-</u>
<b>Balances b/fwd as restated</b>	1,013,690	25,512,372	346,806	2,028,998	28,901,866	28,611,486
	<u>1,013,690</u>	<u>25,512,372</u>	<u>346,806</u>	<u>2,028,998</u>	<u>28,901,866</u>	<u>28,611,486</u>
<b>Balances c/ fwd</b>	466,118	27,049,801	462,683	5,429,087	33,407,689	28,901,866
	<u>466,118</u>	<u>27,049,801</u>	<u>462,683</u>	<u>5,429,087</u>	<u>33,407,689</u>	<u>28,901,866</u>

Prior year figures have been restated for the reasons explained in note 6 on page 21.

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

### 16. OTHER OPERATING COSTS

	Management and <u>admin</u> £	Direct charity <u>costs</u> £	Fund raising & <u>publicity</u> £	Total <u>2003</u> £	Total <u>2002</u> £
Staff costs (note 5)	100,922	3,187,366	109,757	3,398,045	3,001,689
Rent, electricity and water	-	568,976	-	568,976	537,613
Insurance	-	34,587	-	34,587	37,314
Stationery, printing and postage	5,592	37,281	2,591	45,464	30,691
Travel and subsistence	-	56,415	15,668	72,083	45,789
Staff recruitment, welfare and training	39,584	20,392	-	59,976	107,273
Office equipment	1,288	68,412	1,861	71,561	61,046
Motor expenses	-	8,054	-	8,054	7,643
Finance charges	-	5,443	-	5,443	2,191
Museum maintenance	-	449,064	-	449,064	534,288
Curatorial	-	233,890	-	233,890	132,935
Cleaning	-	38,170	-	38,170	29,584
Collections management project	-	3,972	-	3,972	1,196
Planning and development	-	8,762	762	9,524	3,628
Advertising and publicity	-	-	223,225	223,225	185,181
Telephone	2,004	68,294	3,935	74,233	63,880
Audit, accounting and legal fees	13,881	35,194	12,346	61,421	71,815
Sundry expenses	-	23,998	-	23,998	24,156
	<u>163,271</u>	<u>4,848,270</u>	<u>370,145</u>	<u>5,381,686</u>	<u>4,877,912</u>

Operating costs include the following:

	<u>National Audit Office</u> £	<u>Other Account- ants</u> £	Total <u>2003</u> £	Total <u>2002</u> £
Auditors' remuneration:				
for audit services	5,100	15,474	20,574	17,017
for other services	-	24,402	24,402	37,610
Total	<u>5,100</u>	<u>39,876</u>	<u>44,976</u>	<u>54,627</u>
Hire of equipment			<u>43,825</u>	<u>48,872</u>

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

### 17. ANALYSIS OF GROUP NET ASSETS BETWEEN FUNDS

	<u>Grant in Aid</u>					
	Un- restricted <u>funds</u>	Operating <u>fund</u>	Purchase Grant <u>funds</u>	Other restricted <u>funds</u>	Total funds <u>2003</u>	Total funds <u>2002</u>
	£	£	£	£	£	£
Tangible fixed assets	220,593	27,883,909	198,459	3,374,766	31,677,727	26,386,365
Cash at bank and in hand	1,147,853	227,707	337,992	-	1,713,552	3,137,009
Other net current assets	(856,758)	(1,061,815)	(73,768)	2,054,321	61,980	(550,499)
<b>Total assets less current liabilities</b>	<b>511,688</b>	<b>27,049,801</b>	<b>462,683</b>	<b>5,429,087</b>	<b>33,453,259</b>	<b>28,972,875</b>
Creditors due after one year	(45,570)	-	-	-	(45,570)	(71,009)
<b>Net assets</b>	<b>466,118</b>	<b>27,049,801</b>	<b>462,683</b>	<b>5,429,087</b>	<b>33,407,689</b>	<b>28,901,866</b>

### 18. COMMITMENTS

	<u>Group</u> 2003 £	<u>Charity</u> 2003 £
<b>Lease commitments:</b>		
<b>Net Obligations under finance leases payable:</b>		
Within one year	25,438	14,628
Between one and five years	45,570	20,706
	<u>71,008</u>	<u>35,334</u>
<b>Gross obligations under finance leases:</b>		
Within one year	30,171	17,058
Between one and five years	50,366	22,525
Total gross obligations	80,537	39,583
Finance charges and interest allocated to future accounting periods	(9,529)	(4,249)
	<u>71,008</u>	<u>35,334</u>

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

At 31<sup>st</sup> March 2003, the Museum had annual commitments under non-cancellable operating leases as follows:

	<u>Group and Charity</u>	
	2003 £	2002 £
<b>Operating leases expiring:</b>		
Plant and machinery:		
in the second to fifth years	3,654	25,000
Land and buildings:		
after five years	351,750	351,750
	<u>355,404</u>	<u>376,750</u>

As reported in note 6 on page 21, 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 2003 is the rental payable under the existing lease.

# ROYAL AIR FORCE MUSEUM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

### 18. COMMITMENTS - continued

#### Capital commitments: authorised and contracted.

The Museum has entered into a contract to construct the Landmark Building, "Milestone of Flight". The total contract sum is £7.23m, of which £6,039,071 had been spent by the year end.

#### Capital commitments: authorised but not contracted

There are no material capital commitments authorised but not contracted.

#### Other commitments

The Museum's total other commitments, the amounts paid to date and the outstanding commitments at 31<sup>st</sup> March, 2003 are set out below. All payments under these contracts are charged to the Grant in Aid Exhibits fund as incurred.

	Total Contract <u>Sum</u> £	Incurred to 31 <sup>st</sup> March <u>2003</u> £	Outstanding commitments £
FE2b replica construction	176,802	155,100	21,702
	<u>176,802</u>	<u>155,100</u>	<u>21,702</u>

### 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.

#### 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 (2002: £38,507).

#### 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.

#### 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 2<sup>nd</sup> January 2002 and was granted exempt status from federal income tax under section 501 (a) of the Internal Revenue Codes on the 31<sup>st</sup> May 2002. This is a separate organisation that was established to raise funds to support the work of the Museum.

# ROYAL AIR FORCE MUSEUM

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2003

- continued -

### 20. CONTINGENT LIABILITIES

The construction of the Landmark Building was almost complete by the 31<sup>st</sup> March 2003. The contractors have lodged an initial claim for additional costs of £300,000. This is allegedly due to changes in specification and delays in providing information to the contractors. This claim is disputed by the Museum.

# ROYAL AIR FORCE MUSEUM

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## 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 31<sup>st</sup> 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 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

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## 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

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## 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

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## 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.