

Presented pursuant to section 3(3) of the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003

Royal Air Force Museum Accounts 2005-2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 15 NOVEMBER 2006

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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

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

Foreword

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 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; and
- 10 to develop the Museum.

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 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.

Review of the year

This year the Museum has experienced several challenges and achieved a number of successes. As was reported last year, our operating, non-designated Grant-in-Aid (GIA) was reduced significantly. The management and staff tried to ensure that the public services were least affected by these cuts, but inevitably, the Museum could not employ sufficient staff to open all the buildings to the public all of the time. Many visitors were disappointed and for the first time in many years, the number of complaints increased. Many other areas of the Museum's operations were also affected as the level of flexibility within the Museum's discretionary budget is small. An improvement in the situation is unlikely in the short term and both management and Trustees feel hampered in their ability to undertake core activities and provide appropriate access to the collections. As with most national museums and galleries, visitor numbers have fallen as Museums compete with a number of other leisure activities. Despite these problems, the Museum has made great progress in the development of the new 'National Cold War Exhibition' at Cosford; a development which, by its nature and physical size, will be impressive and an heritage asset for the nation.

Structure, governance and management

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 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 representing the Trustees and an independent member sponsored by the MOD. 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. Trustees receive induction training under the direction of the Director General and are encouraged to familiarise themselves with Museum's operations through work in sub-committee where they are supported by the Divisional Directors.

The current Deed of Trust dated 26 August 1965 (as amended), under which the Museum operates, contains clauses and procedures which are now out of date and do not correctly describe the current practices in use by the Royal Air Force Museum or other national institutions. The Trustees and management have therefore, with the help of the Charity Commission, sought to incorporate modern and best practices for the Museum within a new Deed of Trust. This will be considered for adoption by the Trustees during the course of the next financial year.

The following people served as the Museum's Trustees or co-opted members of Committees during 2005-2006.

Chairman

Air Chief Marshal Sir Richard Johns GCB CBE LVO FRAeS
(re-appointed 6 December 2003)

Non-Executive Director Royal Air Force
Museum Enterprises Ltd and Royal Air Force
Museum Investments Ltd

Trustees

Ms Carole Blackshaw BA FRAeS MBAC
(appointed 29 September 2004)

The Rt Hon Baroness Blatch CBE
(deceased 31 May 2005)

Viscount Chelsea (appointed 15 December 2004)

Member Fund Raising Committee

Mr Brendan Connor (appointed 24 August 2005)

Lord Clarke of Hampstead CBE KSG
(re-appointed 12 September 2004)

Air Vice-Marshal David Crwys-Williams CB FCIPD FIMgt
RAF (retired) (re-appointed 12 September 2004)

Mr Michael H Dale CBE (re-appointed 5 November 2005)

Air Chief Marshall Sir John Day KCB OBE
(appointed 29 September 2004)

Mr L Antony Edwards BSc MBA CEng FRAeS
(re-appointed 25 August 2003)

Lord Evans of Watford (re-appointed 5 November 2005)

Sir Gerald Hosker KCB QC
(re-appointed 6 July 2004)

Sir Roger Jackling KCB CBE
(re-appointed 5 November 2005)

Ms Jane Middleton MSc FCCA MRAeS
(appointed 29 September 2004)

Air Marshal I D Macfadyen CB OBE FRAeS RAF (Retd)
(Retired 3 May 2005)

Sir Peter Rigby DL D.Univ
(appointed 24 August 2005)

Dr Judith Rowbotham FRHistS
(Retired 3 September 2004)

Mr Malcolm White OBE FRAeS
(appointed 29 September 2004)

Mr David Young (Retired 3 May 2005)

Member Development Committee

Member Remuneration Committee

Chairman Finance Committee and Non-Executive
Director of Royal Air Force Museum Investments
Ltd and Royal Air Force Museum Investments Ltd

President RAFM American Foundation

Chairman Development Committee

Chairman Fundraising Committee

Non-Executive Director Royal Air Force
Museum Enterprises Ltd
Member Audit Committee

Chairman Audit Committee

Member Remuneration Committee

Non-Executive Director Royal Air Force Museum
Investments Ltd

Member Finance Committee

Non-Executive Director Royal Air Force Museum
Investments Ltd

Chairman Education and Research Committee

Member Finance Committee

Co-opted Member Development Committee

Member Fundraising Committee

Co-opted Member Education and Research
Committee

Member Fundraising Committee

Director General and Accounting Officer

Dr Michael A Fopp MA FMA FRAeS

Managing Director Royal Air Force Museum
Enterprises Limited

Director Royal Air Force Museum Investments Ltd

The Trustees have established a number of sub-committees for specific purposes and for the efficient method of conducting business. These sub-committees are

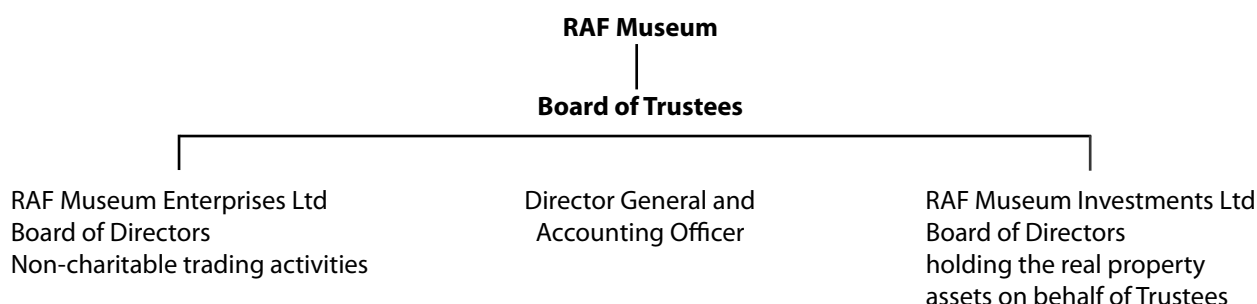
- Audit;
- Finance;
- Development;
- Fund Raising;
- Education and Research; and
- Remuneration.

All these committees derive their responsibilities from the directions given to them by the Board, government guidelines and the best practices of management within the heritage sector. The terms of reference of each of

these committees have been approved by the full board and, where practical, Trustees do not sit on more than two sub-committees.

The recommendations of sub-committees and decisions by the full board are made with the knowledge and information supplied by the Director General (who is also the Accounting Officer) to whom day-to-day responsibility is delegated. Matters of policy and strategy are always made by the Trustees. The Trustees have established two subsidiary companies, the shares of which are held by, or on behalf of, Trustees although the decisions taken by these companies are their responsibility alone. The Board of the Royal Air Force Museum Enterprises Ltd, whose activities include non-charitable business, includes a number of impartial and independent non-executive directors.

The Structure of the Museum can be shown as



The Museum has a comprehensive risk register to support its management of risk. It was reviewed in December 2004 by the Internal Auditors, Daly Hoggett and Co and the 2005-2006 internal audit examined the lack of management resilience in the senior management team and the handling of cash. A number of recommendations have subsequently been implemented.

Senior Management Team

The following are the members of the Senior Management Team during the year

Dr Michael A Fopp MA FMA FRAeS	Director General
Stuart Garman FCIS	Director of Finance and Museum Secretary
Simon Greenish BSc	Director – Collections Division (resigned 19 February 2006)
Keith Ifould CBE AFC FRAeS MIL	Director – Business Development Division
John Kitchen MA Mst	Director – Operations Division
Mrs Joanna Ruddock BA (Hons) PGDip (Museum Studies)	Director – Access and Learning (Resigned 31 May 2005)
Peter Elliott BSc MA RMSA MCLIP	Senior Keeper
Mrs Sue Fitzsimmons Cert. Ed. DPSE	Head of Access and Learning
John Francis OBE MSc FRAeS FInstAM FInstTT	General Manager, Cosford

Objectives and activities; achievements and performance

Education

The Head of Access and Learning is based at Cosford and the focus of her work has been to develop the learning opportunities arising from the Cold War Development (scheduled to open in early 2007).

The Museum has continued its more well-established history and science programmes for schools and a total of 25,357 pupils from 587 schools visited the Museum's two principal sites during the year. Additional educational activities were provided during school holidays at both sites and the Museum has worked in collaboration with the Scout Association on the introduction of worksheets for Scout and Cub Scouts.

In July 2005 the Museum supported the Living Museum in St James Park to mark the 60th Anniversary of the end of the Second World War. It is estimated that 85,000 visitors attended the Living Museum which was adversely affected by the terrorist attacks in London on 7 July. The Museum display featured a 'Spitfire Scramble' scene which received much favourable comment.

Access and exhibitions

The curatorial effort, and particularly the intellectual component, focused on preparation for the opening of the National Cold War Exhibition at Cosford in early 2007, although a permanent exhibition about the Princess Mary's Royal Air Force Nursing Service opened in the Bomber Hall, London in October 2005.

During the year preparatory work commenced on the Boeing Chinook display (London) and the Museum participated in the Archives Awareness Campaign with a temporary exhibition in the Milestones of Flight building.

The development of the Museum's on-line web browser 'Navigator' was launched in March 2006 giving on-line access to thousands of items from the collection in a form that can be interrogated by the public via the internet.

The Trustees are currently in negotiation with the adjoining developer of the Museum's London site to transfer, at no cost to the Museum, the Grahame White Offices and Watchtower. These buildings are the remaining historical buildings that comprised the original aircraft factory built in the early 1900s.

Visitor numbers

The total number of visitors during 2005-2006 was 408,089 compared with 456,654 for the previous year, a decrease of approximately 11 per cent. These figures exclude the Cosford Air Show attendance and visitors to the Living Museum in London referred to above. The fall in the number of visitors reflects the national trend. However, visitors through the Museum's website rose to 1,765,133 an increase of almost 70 per cent for the same period.

Information and public services

During the year members of the Curatorial Division answered over 6,500 enquiries from individuals and organisations in this country and overseas, a slight decrease on the previous year. 639 researchers visited the Reading Room in London compared to 572 in 2004-2005.

Collection and management of heritage assets

Notable acquisitions during the year included

- Papers, trophies and memorabilia of the racing and test pilot Alex Henshaw.
- General Dynamics F-111F.
- Sunbeam Arab aero engine, the world's only known example.
- *Night Raid, 1917* by C R Nevinson.
- Stained Glass cartoons for the first memorial window to aviators killed in accidents in Great Britain – Charles Rolls and Cecil Grace by Karl Parsons.
- A substantial collection of RAF uniform badges compiled by Miss Margaret Nobbs.
- Medals and papers of Air Vice Marshal Harold Bird-Wilson.
- Medals and decorations of Air Commandant Philippa Frances Marshall, WAAF/WRAF.
- Medals and log books of Wing Commander Geoffrey Page.
- Audio-cassette of the recollections of Flight Captain Alison King, former Air Transport Auxiliary (ATA) ferry pilot.
- Models of Cold War aircraft and missiles used in radar echoing trials
- Revd WH Bulloch's collection of photographs of First World War aircraft.
- Operational photographs of Sarawak, 1964, taken during the Indonesian Confrontation.
- Records of Malcolm Clubs, an organisation providing recreational facilities for all ranks.
- Manuscript conductor's copy of the RAF March Past in its original form entitled *Adastral I*. The copy dated August 13 1918, pre-dates the first known performance of the march.

These and other donated assets received during the year amounted to £429,871 and are included within the total additions to Exhibits for the year amounting to £663,948, as shown in Note 9a.

At the end of March 2006 a total of 209,000 records were on the electronic database, representing an estimated 66 per cent of the accessioned collection and an increase of 11,652 records over the year. An infestation of moths detected in the clothing store at the Stafford site was successfully treated at a cost of £30,000 in an operation which required the temporary redeployment of staff from Cosford and London.

The RAF Museum is a registered national museum with the Museums, Libraries and Archives Council (MLA). The MLA has introduced a revised set of minimum standards for museums and galleries in the United Kingdom, a scheme which is endorsed by a range of organisations including the Department for Culture, Media and Sport, local government associations, and the Heritage Lottery Fund. The main benefit of the Scheme is public recognition that a museum meets approved standards in certain key areas of museum management, collection care and public services.

Financial review

Statement of financial activities

It is reported elsewhere that the Museum suffered a cut in its Operating, non-designated Grant in Aid. The management attempted to continue to operate without affecting the public services or the momentum of the Cosford development. This led to inevitable tensions as many other and equally important Museum activities suffered. This situation is likely to continue in the short term. A number of severe savings measures have been considered by Trustees, some of which have already been implemented. The MOD, through the Museum's sponsor body, RAF PTC Command, have recognised the importance of the Cosford development and provided the 2nd tranche of capital funding for the project and is committed to provide additional operating funds in the future.

Income: The Museum received £7.104m of Grant in Aid (2005: £7.027 million) of which £500,000 represented the second half of the MOD's support for the Cosford Development. Other income included donations and legacies and part of the support funds from the other five funding partners for Cosford. The income generated by the trading company on non-charitable activities was £1,632,876 (2005: £1.874 million). Total Incoming Resources amounted to £14,305,007 (2005: £14,737,138) (Note 18).

Resources expended: The total of Resources expended amounted to £9,820,576 (2005: £9,598,441) (Note 18). The majority of costs, including the costs of salaries, are in respect of charitable activities.

After adjustment for notional charges and other recognised gains and losses totalling £2,406,071 (2005: £2,857,249), the net movement in funds for the year was an increase of £5,594,145 (2005: £6,756,666).

Balance sheet

The most significant movements during the year relate to the continued building programme for the Cosford development. This project is nearly two thirds complete and will be finished during 2006-2007. The funds expended to date will be transferred to Short Leasehold Property within Royal Air Force Museum Investments Ltd.

A strict regime of cost control was operated throughout the year and thus the level of Creditors at the year end has reduced considerably. Net Current Assets have fallen, and will continue to fall, until the funds set aside for the Cosford development have been used.

The value of the net assets have increased during the year, and now stand at £55,746,845 at the year-end.

Income and costs of generating funds

The Museum's fundraising focus during 2005-2006 remained to support the Cold War Development at Cosford. There is a Trustees commitment to raise £1,000,000 for this purpose.

In September 2005 the Museum and the Air League held a banquet to celebrate the 65th Anniversary of the Battle of Britain attended by 85 veterans and approximately 800 guests. Over £100,000 was raised and half of this will be received by the Museum in the financial year 2006-2007.

A specific donation of £100,000 was also received from Alex Henshaw (see notable acquisitions) for the construction of a replica Cape-configured Mew Gull aircraft. The same donor has also given £20,000 per annum (for five years) to underwrite a curatorial post in the Department of Research and Information Services.

Trading Company

Any non-charitable activities are undertaken by RAF Museum Enterprises Ltd, a wholly owned subsidiary of the Trustees. The company produced income of £1,632,876 and the associated costs of trading were £1,602,513. During the year, a number of Museum staff and other resources were utilised in furtherance of those activities resulting in a cross charge amounting to £251,015 being paid to the Museum. A donation of £73,062 in respect of covenanted profit is included within Debtors (Note 11) and will be made to the Museum during the next financial year.

Donations

During the year, a total of £765,158 was received by way of general donations to the work of the Museum. These were given by members of the public, legacies and amounts provided by companies associated with the aerospace industry. The Museum also received a number of heritage assets valued at £436,371.

Grants

The Cosford development commenced in November 2004 and construction started very soon thereafter. The HLF, ERDF, Advantage West Midlands, Brignorth District Council and Ministry of Defence provided £4,866,596 during the year as their proportion towards this project.

Friends of the RAF Museum, the Bomber Command Association and Cosford Air Show

Sums of £12,463, £10,000 and £32,690 respectively were received from these three independent but supporting activities.

RAF Museum American Foundation

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

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 2006, and under the new SORP guidance and analysis of funds, the level of the Museum's reserves fell and stood at £2,573,454, (2005: £2,735,315). This deficit is supported by other restricted funds within the charity. The amount and term of the investment of all 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. Given the reduction in income and the capital development project, the Trustees are unable to set aside any funds for the long term needs of the Museum.

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 38 days (2005: 29 days).

Investment policy

The Trustees continually monitor levels of all the Charity's funds. Available funds are currently invested in term deposits 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 sums to support medium to long-term development, expansion and maintenance not funded by MOD.

Remuneration report

It is a requirement of the Treasury's Financial Reporting Manual (FReM) that the Museum discloses the remuneration package of the Accounting Officer each year.

The current employment contracts of some members of the Senior Management Team make no reference to any obligation, implicit or otherwise, to have details of their remuneration put into public domain.

As a responsible employer the Museum respects that it is not in a position to require individuals to consent to the disclosure of their remuneration details without any agreed basis or contractual grounds upon which to do so. The Museum has however introduced contracts of employment for new Senior Managers which include a requirement for them to give their consent to the disclosure of this information. In addition, the Museum has, with the support of the Trustees, begun discussions with the other Senior Managers about amending their contracts of employment in order to be able to comply with any requirement of the FReM about the disclosure of remuneration information in the future.

Future plans

The majority of the Museum's efforts will be concentrated on a new national exhibition at Cosford. The theme of this development is the Cold War and the displays, and the building itself depicts the tension that existed between East and West between the end of World War II until the fall of the Berlin Wall.

During the year, the Museum at both sites will continue its public events for veterans, Battle of Britain Day, summer and school holiday activities. These form a vital part of the Museum's activities from year to year and cater for old and young alike.

Once again the Museum is co-hosting a celebration, an anniversary dinner with the Air League. On 15 September, a dinner will be held at the Museum to celebrate the outright win of the Schneider Trophy by the RAF High Speed Flight in 1931. The profits will also again be shared between the two organisations.

Last year we also reported on the development of Operation Aviation; a simulated mission to deliver emergency aid, this will develop teamwork and planning skills. The programme is developing well, and with the aid of Service personnel taking an important part in the technical development, it is intended to make this training/education programme available in the next financial year.

During the year, the Trustees and management will be updating the Strategic Review produced in 2003. The Museum has succeeded in a number of areas contained within the 10 Objectives, but not performed so well in others. With the cut in operating non-designated Grant-in-Aid, diverting resources will be extremely challenging; nevertheless the Trustees and management wish to take full benefit from the new requirements of SORP 2005 and attach some Key Performance Indicators and targets to the majority of functions of the organisation.

The Museum is also very aware that there has been mounting criticism because of the closures of some of the buildings and exhibitions at Hendon – mainly because of the lack of security staff. Alternative shift patterns are currently being developed that will, it is hoped, provide access to all buildings at least some of the time during each day.

The brand licensing programme mentioned in last year's review has created a great deal of interest, but the funds received to date have not yet matched the sums given in advance during 2004-2005. Nevertheless, the major retail activity is due to commence in autumn 2006, after which further income is expected.

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; and
- 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'.

Dr Michael A Fopp
Director General
Royal Air Force Museum

19 September 2006

ACM Sir Richard Johns
on behalf of the Board of Trustees

19 September 2006

Statement on Internal Control

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.

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 2006 and up to the date of approval of the annual report and accounts in accordance with Treasury guidance.

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.

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.

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.

So far as I, as Accounting Officer of the Museum and as we, as its Trustees, are aware

- a there is no relevant audit information of which the Museum's auditors are unaware; and
- b we have taken all the steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that the Museum's auditors are aware of that information

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

19 September 2006

Dr Michael A Fopp MA FMA FRAeS
Accounting Officer

19 September 2006

The Certificate and Report of the Comptroller and the Auditor General to the Houses of Parliament

I have audited the financial statements of the Royal Air Force Museum for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Board of Trustees, the Director General and the Auditor

The Board of Trustees and the Director, as Accounting Officer, are responsible for preparing the Trustees' Report and the financial statements in accordance with the Charities Act 1993 and directions made thereunder and for ensuring the regularity of financial transactions funded by Parliamentary grant (Grant in Aid). These responsibilities are set out in the Statement of Board of Trustees' and the Director's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State for Defence. I also report 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 to you if, in my opinion, the Trustees' Report is not consistent with the financial statements, if the Royal Air Force Museum has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 12 and 13 reflects the entity's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Trustees' and Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Royal Air Force Museum's corporate governance procedures or its risk and control procedures.

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. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board of Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 and the part of the Remuneration Report to be audited.

Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State for Defence, of the state of the Royal Air Force Museum's and the group's affairs as at 31 March 2006 and of the incoming resources and application of resources of the group for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State for Defence; and
- in all material respects the expenditure, income and resources funded by Parliament 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

10 November 2006

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

Consolidated Statement of Financial Activities for the year ended 31 March 2006

	Notes	Unrestricted funds 2006 £	Grant in Aid funds 2006 £	Other funds 2006 £	Total funds 2006 £	Restated ¹ Total funds 2005 £
Incoming resources from generated funds						
Grant in Aid (Operating)		0	6,495,192	0	6,495,192	6,417,895
Grant in Aid (Purchase of exhibits)		0	109,000	0	109,000	109,000
Grant in Aid (Development)		0	500,000	0	500,000	500,000
Other grants and donations	3a	765,158	0	0	765,158	917,098
Special events		235,164	0	0	235,164	64,196
Other income		55,685	0	1,819,318	1,875,003	3,289,448
HLF grant	3b	0	0	2,547,278	2,547,278	1,484,282
<i>Activities for generating funds</i>						
Commercial trading operations	4b	1,632,876	0	0	1,632,876	1,873,564
Investment income and interest		70,273	75,063	0	145,336	81,655
Total incoming resources		<u>2,759,156</u>	<u>7,179,255</u>	<u>4,366,596</u>	<u>14,305,007</u>	<u>14,737,138</u>
Resources expended						
<i>Costs of generating funds</i>						
Fund raising and publicity	5	101,875	361,192	0	463,067	428,118
Commercial trading operations	4b	1,602,513	0	0	1,602,513	1,714,454
Sub total cost of generating funds		<u>1,704,388</u>	<u>361,192</u>	<u>0</u>	<u>2,065,580</u>	<u>2,142,572</u>
Net incoming resources available for charity application		<u>1,054,768</u>	<u>6,818,063</u>	<u>4,366,596</u>	<u>12,239,427</u>	<u>12,594,566</u>
<i>Charitable activities</i>						
Operation of Museum	6	1,147,546	6,502,762	0	7,650,308	7,273,766
Purchase of exhibits		0	903	0	903	4,399
Notional cost of capital		0	1,296,357	0	1,296,357	1,239,280
Governance costs	5	<u>103,785</u>	<u>0</u>	<u>0</u>	<u>103,785</u>	<u>177,704</u>
Total resources expended		<u>1,251,331</u>	<u>7,800,022</u>	<u>0</u>	<u>9,051,353</u>	<u>8,695,149</u>
Net outgoing resources before reversal of notional costs		(196,563)	(981,959)	4,366,596	3,188,074	3,899,417
Reversal of notional cost of capital		<u>0</u>	<u>1,296,357</u>	<u>0</u>	<u>1,296,357</u>	<u>1,239,280</u>
Net (outgoing)/incoming resources for the year		<u>(196,563)</u>	<u>314,398</u>	<u>4,366,596</u>	<u>4,484,431</u>	<u>5,138,697</u>

Consolidated Statement of Financial Activities for the year ended 31 March 2006 *continued*

	Notes	Unrestricted funds 2006 £	Grant in Aid funds 2006 £	Other funds 2006 £	Total funds 2006 £	Total funds 2005 £
Gains and losses on revaluations of fixed assets for the charity's own use		0	1,109,517	0	1,109,517	1,618,247
Gains and losses on revaluations and disposals of investment assets		197	0	0	197	(275)
Net movement in funds		<u>(196,366)</u>	<u>1,423,915</u>	<u>4,366,596</u>	<u>5,594,145</u>	<u>6,756,669</u>
Funds brought forward at 1 April 2005		<u>2,764,014</u>	<u>36,326,808</u>	<u>11,061,878</u>	<u>50,152,700</u>	<u>43,396,031</u>
Funds carried forward at 31 March 2006		<u><u>2,567,648</u></u>	<u><u>37,750,723</u></u>	<u><u>15,428,474</u></u>	<u><u>55,746,845</u></u>	<u><u>50,152,700</u></u>

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

- 1 All prior period restatements within the SOFA and associated notes arise from changes required by the adoption of the 2005 Charities SORP. These changes merely reclassify incoming and outgoing resources into new categories. These changes have no impact on the prior period's Statement of Total Recognised Gains and Losses.

Consolidated Balance Sheet as at 31 March 2006

	Notes	Group 2006 £	Group 2005 £	Charity 2006 £	Restated ¹ Charity 2005 £
Fixed assets					
Tangible assets	9	53,522,158	46,953,887	53,407,604	46,802,408
Investments	4a	0	0	100,002	100,002
		53,522,158	46,953,887	53,507,606	46,902,410
Current assets					
Stocks	10	104,027	121,510	0	0
Debtors	11	876,367	3,453,294	1,026,869	3,577,359
Investments	12	2,565	2,469	2,565	2,469
Cash at bank	13	2,555,852	2,230,383	2,329,637	1,975,627
		3,538,811	5,807,656	3,359,071	5,555,455
Creditors: amounts falling due within one year	14	(1,314,124)	(2,544,166)	(1,114,026)	(2,291,856)
Net current assets		2,224,687	3,263,490	2,245,045	3,263,599
Total assets less current liabilities		55,746,845	50,217,377	55,752,651	50,166,009
Creditors: amounts falling due after more than one year	15	0	(64,677)	0	(42,008)
		55,746,845	50,152,700	55,752,651	50,124,001
Reserves	18, 19				
Unrestricted funds		2,567,648	2,764,014	2,573,454	2,735,315
Grant in Aid operating account		36,898,113	35,657,358	36,898,113	35,657,358
Grant in Aid exhibits reserve		852,610	669,450	852,610	669,450
Other restricted funds		15,428,474	11,061,878	15,428,474	11,061,878
		55,746,845	50,152,700	55,752,651	50,124,001

- 2 All prior period restatements within the Balance Sheet and associated notes arise from an FRS 5 adjustment. More detail on this adjustment can be found within note 9b. These changes have no impact on the Group's recognised gains and losses for the period.

Approved by the Board of Trustees on 18 September 2006 and signed on its behalf by

Sir Richard Johns
Chairman

10 November 2006

Dr MA Fopp
Director General

10 November 2006

Consolidated Cash Flow Statement for the year ended 31 March 2006

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

	Unrestricted funds 2006 £	Restricted funds Grant in Aid funds 2006 £	Other funds 2006 £	Total funds 2006 £	Total funds 2005 £
Net incoming resources	(196,563)	314,398	4,366,596	4,484,431	5,138,697
Interest receivable	(70,192)	(75,063)	0	(145,255)	(81,598)
Interest payable	8,989	0	0	8,989	11,858
Dividends received	(81)	0	0	(81)	(57)
Depreciation of tangible assets	1,333,050	110,805	0	1,443,855	1,450,571
Loss on revaluation of tangible fixed assets	0	0	0	0	0
(Profit)/loss on disposal of investments	0	0	0	0	0
(Increase)/decrease in stocks	17,483	0	0	17,483	13,110
(Increase)/decrease in debtors	118,931	2,608,500	(150,504)	2,576,927	(2,595,493)
(Decrease)/increase in creditors	(16,020)	(1,167,017)	0	(1,183,037)	1,546,908
Net cash flow from operating activities	<u>1,195,597</u>	<u>1,791,623</u>	<u>4,216,092</u>	<u>7,203,312</u>	<u>5,483,996</u>
Cash flow statement					
Net cash flow from operating activities	1,195,597	1,791,623	4,216,092	7,203,312	5,483,996
Returns on investments and servicing of finance					
Bank interest received	70,192	75,063	0	145,255	81,598
Finance charges paid	(8,989)	0	0	(8,989)	(11,858)
Dividends received	81	0	0	81	57
Capital expenditure					
Purchase of tangible fixed assets	(1,345,122)	(1,712,369)	(3,854,045)	(6,911,536)	(5,014,333)
Proceeds from disposal of tangible fixed assets	8,924	0	0	8,924	0
Management of liquid resources					
Purchase of current asset investments	0	0	0	0	(14)
Proceeds from disposal of current asset investments	101	0	0	101	21
Financing					
Capital element of finance lease rentals	(90,750)	0	0	(90,750)	(70,200)
(Decrease)/increase in cash in the period	<u>(169,966)</u>	<u>154,317</u>	<u>362,047</u>	<u>346,398</u>	<u>469,267</u>

The cash flow statement should be read together with note 16, which reconciles the net cash flow to the movement in net funds, and note 17, which analyses the changes in net funds.

Notes to the Financial Statements 31 March 2005

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 2005) and with the Accounts Direction issued by HM Treasury (pages 36 to 37). The comparative figures comply with SORP 2005.

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 2005. 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 31 March, 2006.

The Royal Air Force Museum Investments Limited was formed to hold, on behalf of the Trustees, the real property assets of the charity. In March 2005, the leasehold property was transferred to this company from the charity.

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 per cent 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.

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. Fixed assets with a cost of less than £1,000 are not capitalised. Any gains or losses on revaluation are reported as unrealised until an asset is disposed of. 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	three to five years straight line
Plant and machinery	five years straight line
Motor vehicles	four years straight line
Donated assets and 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.

Previously, collection assets acquired after 1 April 2001 with a cost in excess of £500 have been capitalised in accordance with Statement of Recommended Practice (SORP) 2005. This policy was amended in the year to a cost in excess of £1,000. These assets are not revalued or depreciated. Collection assets acquired before 1 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.

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 1/80th 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 1/60th 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 3/80th 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 3/8th 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 dependants' 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 stakeholder's 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 per cent 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 March 2006 was £Nil (2005: £Nil).

3a Other grants and donations

	Unrestricted fund	Grant in Aid Operating funds	Other restricted funds	Total funds	Total funds
	2006	2006	2006	2006	2005
Bomber Command Association	10,000	0	0	10,000	0
Society of Friends of the RAF Museum	12,463	0	0	12,463	12,000
Cosford Exhibits Donated	436,371			436,371	0
Other	306,324	0	0	306,324	905,098
	<u>765,158</u>	<u>0</u>	<u>0</u>	<u>765,158</u>	<u>917,098</u>

3b HLF Grants for Cosford development

2006 £	2005 £
<u>2,547,278</u>	1,484,282
<u>2,547,278</u>	<u>1,484,282</u>

4a Investment in subsidiary undertaking

The investment of £100,002 (2005: £100,002) of which £100,000 represents the charity's interest in 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

	2006 £	2005 £
The assets and liabilities of the subsidiary were		
Fixed assets	114,555	151,481
Current assets	399,886	564,842
Creditors: amounts falling due within one year	(420,247)	(564,955)
Creditors: amounts falling due after more than one year	0	(22,669)
	<u>94,194</u>	<u>128,699</u>
	2006 £	2005 £
At 1 April, 2005	128,699	163,070
Profit/(loss) retained in subsidiary	(34,505)	(34,371)
At 31 March, 2006	<u>94,194</u>	<u>128,699</u>

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, which is incorporated in England and Wales and holds the real property assets of the charity for administrative purposes.

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 Limited

	2006 £	2005 £
Turnover	1,632,876	1,873,564
Cost of sales and administrative expenses	(1,598,388)	(1,706,084)
	34,488	167,480
Interest receivable	8,194	6,221
Interest paid	(4,125)	(8,370)
Net profit	38,557	165,331
Charitable contribution under Deed of Covenant	(73,062)	(199,702)
Surplus/(deficit) in subsidiary	(34,505)	(34,371)

5 Allocation of support

The trust allocates its support costs as shown in the table below and then further apportions those costs between the charitable activities undertaken (see note 6). Support costs are allocated on a basis consistent with the use of resources.

	2006				2005
Support cost	Museum operation	Governance	Fund raising and publicity	Total	
Staff costs	966,868	66,478	186,619	1,219,965	1,175,488
Premises costs	0	876	1,942	2,818	0
Motor expenses	9,145	0	0	9,145	10,805
Travel, subsistence and hospitality	45,315	3,539	8,630	57,484	58,725
Administration expenses	34,149	1,427	0	35,576	37,630
Legal, professional and consultancy *	24,896	27,940	0	52,836	81,499
Advertising and publicity	0	0	262,392	262,392	272,242
Repairs and maintenance	141,342	475	1,050	142,867	111,704
Depreciation	107,270	1,100	2,434	110,804	114,327
Financial	18,314	0	0	18,314	24,961
Sundry	134,238	1,950	0	136,188	112,623
Total	1,481,537	103,785	463,067	2,048,389	2,000,004

* Included in Legal, Professional and Consultancy is the audit fee payable to National Audit Office amounting to £12,650

6a Analysis of charitable expenditure

	Education	Access and exhibition programmes	2006 Information and public services	Management of Heritage Assets	Total	2005
School programmes and curriculum development	27,867	0	0	0	27,867	26,791
Events and exhibitions	0	23,740	104,983	0	128,723	246,317
Department of Research Information Services	0	0	1,522	5,318	6,840	10,810
Curatorial	0	104	0	5,488	5,592	6,838
M B Conservation Centre	0	0	0	30,206	30,206	56,178
Department of Collection Management	0	0	0	9,255	9,255	15,195
Visual Arts	0	0	0	49,061	49,061	31,727
Salaries	258,612	445,776	1,652,747	631,203	2,988,338	2,696,960
Central premises costs	69,733	1,035,206	6,279	444,775	1,555,993	1,425,895
Depreciation	56,756	842,230	3,315	361,995	1,264,296	1,259,712
Administration expenses	24,540	30,966	18,551	28,540	102,597	103,161
Support costs	105,076	571,124	429,275	376,065	1,481,540	1,394,182
Total	542,584	2,949,146	2,216,672	1,941,906	7,650,308	7,273,766

6b Allocation of other operating costs by fund

	Unrestricted	2006 GIA	Total	2005 Total
Total per the SOFA				
Fund raising and publicity	101,875	361,192	463,067	428,118
Operation of Museum	1,147,546	6,502,762	7,650,308	7,273,766
Governance	103,785	0	103,785	177,704
	1,353,206	6,863,954	8,217,160	7,879,588
Less staff costs (Note 8)	(794,050)	(3,414,253)	(4,208,303)	(3,872,448)
Less depreciation (Note 5 and Note 6a)	0	(1,375,100)	(1,375,100)	(1,374,038)
	559,156	2,074,601	2,633,757	2,633,102

7 Analysis of support for charitable activities

This table shows the cost of the main charitable activities and the sources of revenue directly to support those activities.

	Education	Access and exhibition programmes	2006 Information and Public Services	Management of Heritage Assets	Total
	£	£	£	£	£
Costs	542,586	2,949,144	2,216,671	1,941,906	7,650,308
Heritage Lottery Funding	0	(2,547,278)	0	0	(2,547,278)
<i>Grants</i>					
European Regional Development Fund	0	(1,014,318)	0	0	(1,014,318)
Advantage West Midlands	0	(545,000)	0	0	(545,000)
Bridgnorth District Council	0	(260,000)	0	0	(260,000)
Ministry of Defence	0	(500,000)	0	0	(500,000)
Donations	0	(511,371)	0	0	(511,371)
Other Direct Revenue	(23,384)	(176,884)	(33,672)	0	(233,940)
Net cost/(income) funded from other come	519,202	(2,605,707)	2,182,999	1,941,906	2,038,401

8a Staff costs and numbers

	Un-restricted Fund	Grant in Aid Operating Funds	Other restricted Funds	Total Funds	Total Funds
	2006	2006	2006	2006	2005
	£	£	£	£	
Salaries and wages	546,026	3,035,201	0	3,581,227	3,281,247
Temporary agency staff	43,248	0	0	43,248	91,897
Social security costs	204,776	125,284	0	330,060	308,927
Pension costs	0	253,768	0	253,768	190,377
	794,050	3,414,253	0	4,208,303	3,872,448

The above costs exclude the trading subsidiary.

Notes

- '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.
- 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).

For 2005-2006, employers' contributions of £253,768 were payable to the PCSPS (2004-2005: £190,377) at one of four rates in the range of 16.2% to 24.6% 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 Chairman received £356 in reimbursed expenses during the year (2004-2005: £873) and another Trustee £53 (2004-2005: £nil).

The number of employees, excluding the Director General, whose remuneration was over £60,000 per annum (including benefits but excluding pension contributions) was as follows.

Employees with remuneration in the range

	2006 No.	2005 No.
£60,000 to £69,999	2	1
£70,000 to £79,999	0	1

Dr Michael A Fopp, MA, FMA, FRAeS

Age	58	57
Salary (including performance bonus)	£92,524	£89,036
Taxable benefits (for the benefit of a company car, received from the trading subsidiary)	£9,345	£9,062
Real increase in pension at 60 (in £2,500 bands)	£2,500 – £5,000	£0 – £2,500
Total accrued pension at 31 March 2006 (in £5,000 bands)	£15,000 – £20,000	£15,000 – £20,000
CETV at the year-end	£569,000	£474,000
Real increase in CETV	£84,000	£21,000

The number of monthly staff at the year end, by Division, was as follows

	2006 No.	2005 No.
Collections	43	47
Access and Learning Development	13	14
Group Business Development	5	5
Operations	98	94
Finance	6	6
Other	3	3
	168	169

8b Remuneration report

It is a requirement of the Treasury's Financial Reporting Manual (FReM) that the Museum discloses the remuneration package of the Accounting Officer each year.

The current employment contracts of some members of the Senior Management Team make no reference to any obligation, implicit or otherwise, to have details of their remuneration put into public domain.

As a responsible employer the Museum respects that it is not in a position to require individuals to consent to the disclosure of their remuneration details without any agreed basis or contractual grounds upon which to do so. The Museum has however introduced contracts of employment for new Senior Managers which include a requirement for them to give their consent to the disclosure of this information. In addition, the Museum has, with the support of the Trustees, begun discussions with the other Senior Managers about amending their contracts of employment in order to be able to comply with any requirements of the FReM about the disclosure of remuneration information in the future.

9a Tangible fixed assets – Group

	Freehold property £	Short leasehold property £	Fixtures, fittings and equipment £	Plant, machinery and vehicles £	Assets in the course of construction £	Exhibits £	Total £
Cost or valuation							
At 1 April 2005	38,722,874	2,465,736	2,112,128	385,855	3,634,297	1,714,601	49,035,491
Additions	59,127	46,714	55,055	11,514	6,075,175	663,948	6,911,533
Disposals	0	0	0	(14,772)	0	0	(14,772)
Revaluations	1,035,916	82,126	31,003	1,629	0	0	1,150,674
At 31 March 2006	39,817,917	2,594,576	2,198,186	384,226	9,709,472	2,378,549	57,082,926
Depreciation							
At 1 April 2005	880,631	164,835	813,654	222,484	0	0	2,081,604
Charged in the year	914,192	73,846	399,672	56,145	0	0	1,443,855
Disposals	0	0	0	(5,848)	0	0	(5,848)
Revaluations	29,331	3,475	9,220	(869)	0	0	41,157
At 31 March 2006	1,824,154	242,156	1,222,546	271,912	0	0	3,560,768
Net book values							
At 31 March, 2006	37,993,763	2,352,420	975,640	112,314	9,709,472	2,378,549	53,522,158
At 31 March 2005	37,842,243	2,300,901	1,298,474	163,371	3,634,297	1,714,601	46,953,887

9b Tangible fixed assets – Charity

	Freehold property £	Short leasehold property £	Fixtures, fittings and equipment £	Plant, machinery and vehicles £	Assets in the course of construction £	Exhibits £	Total £
Cost or valuation							
At 1 April 2005, as restated	38,722,874	2,465,736	1,771,681	88,243	3,634,297	1,714,601	48,397,432
Additions	59,127	46,712	45,950		6,055,042	663,948	6,870,779
Disposals	0	0	0	0	0	0	0
Revaluations	1,035,916	82,126	31,003	1,629	0	0	1,150,674
At 31 March 2006	39,817,917	2,594,574	1,848,634	89,872	9,689,339	2,378,549	56,418,885
Depreciation							
At 1 April, 2005, as restated	880,631	164,835	515,960	33,598	0	0	1,595,024
Charged in the year	914,192	73,846	367,887	19,175	0	0	1,375,100
Disposals	0	0	0	0	0	0	0
Revaluations	29,331	3,475	9,220	(869)	0	0	41,157
At 31 March, 2006	1,824,154	242,156	893,067	51,904	0	0	3,011,281
Net book values							
At 31 March, 2006	37,993,763	2,352,418	955,567	37,968	9,689,339	2,378,549	53,407,604
At 31 March, 2005 as restated	37,842,243	2,300,901	1,255,721	54,645	3,634,297	1,714,601	46,802,408

Group tangible fixed assets at 31 March 2006 include the tangible fixed assets of Royal Air Force Museum Enterprises Limited, with a net book value of £114,555 (2005: £151,481). While the Museum is required to follow HM 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. If the guidelines had been applied the effect would be an increase in the total value of £96,080 2005-2006 (£3,728 2004-2005)

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.

The title deeds to the Museum's freehold property are vested in the names of former Trustees. The Trustees' intention is to transfer the title of the freehold property to RAF Investments Limited, and the Museum is working with its lawyers to complete this transaction during the next financial year.

On 16 March 2005, the ownership of the leasehold property at Cosford, was transferred from the Charity, to a subsidiary company, The Royal Air Force Investments Limited.

Group fixtures, fittings and equipment include equipment with a net book value of £100,118 (2005: £156,963) held by the group under finance leases. The depreciation charge relating to finance leased equipment was £55,988 (2005: £56,797). Group plant and machinery includes motor vehicles with a net book value of £22,283 (2005: £30,304) held by the group under finance leases. The depreciation charge relating to finance leased motor vehicles was £10,612 (2005: £12,239).

Charity fixtures, fittings and equipment include equipment with a net book value of £29,078 (2005: £72,287) held by the charity under finance leases. The depreciation charge relating to finance leased equipment was £16,752 (2005: £17,562).

The short leasehold property relating to the Cosford site of the RAF Museum was transferred to a wholly-owned subsidiary, The Royal Airforce Museum Investments Limited, during the year ended 31 March 2005. However, while the legal ownership sits with the company, in substance the RAF Museum retains the risks and rewards associated with these assets. In accordance with FRS 5 the RAF Museum has recognised this in the current year by restating the 2005 figures.

10 Stocks

	Group 2006 £	2005 £	Charity 2006 £	2005 £
Goods for resale	<u>104,027</u>	<u>121,510</u>	<u>0</u>	<u>0</u>

11 Debtors

	Group 2006 £	2005 £	Charity 2006 £	2005 £
Trade debtors	82,575	197,849	40,822	23,182
Amounts due from subsidiary undertaking	0	0	147,085	112,939
Other debtors	201,105	467,018	200,300	467,018
Prepayments and accrued income	592,687	2,788,427	565,600	2,774,518
Charitable Deed of Covenant	0	0	73,062	199,702
	876,367	3,453,294	1,026,869	3,577,359

The restatement of prior year debtors held within the Charity arises from the FRS 5 adjustment referenced in Note 9b.

12 Investments – Group and Charity

	2006 £	2005 £
<i>Quoted investments</i>		
Market value on 1 April, 2005	2,469	2,751
Additions	0	14
Disposal of investments	(101)	(21)
Realised loss on disposal	0	0
Net unrealised investment (losses)/gains	197	(275)
Market value at 31 March, 2006	2,565	2,469
Historical cost at 31 March, 2006	2,229	2,229

13 Cash at bank and in hand

	Group 2006 £	2005 £	Charity 2006 £	2005 £
Unrestricted funds	1,267,597	1,437,561	1,041,382	1,182,805
Grant in Aid funds	339,148	205,762	339,148	205,762
Restricted Fund – Cosford redevelopment	949,107	587,060	949,107	587,060
	2,555,852	2,230,383	2,329,637	1,975,627

14 Creditors – amounts falling due within one year

	Group 2006 £	2005 £	Charity 2006 £	2005 £
Bank loans and overdrafts	2,388	23,319	2,388	23,319
Obligations under finance leases	64,677	90,750	42,008	31,890
Trade creditors	434,015	1,958,110	373,567	1,880,668
Taxation and social security	70,597	69,665	62,902	58,977
Other creditors	11,085	29,322	0	977
Accruals and deferred income	731,362	373,000	633,161	296,025
	1,314,124	2,544,166	1,114,026	2,291,856

Obligations under finance leases are secured on the underlying assets.

15 Creditors – Amounts falling due after more than one year

	Group 2006 £	2005 £	Charity 2006 £	2005 £
Obligation under finance leases	0	64,677	0	42,008
	0	64,677	0	42,008

16 Reconciliation of net cash flow to movement in net funds

	Unrestricted funds £	Restricted funds Grant in Aid £	Other funds £	Total funds £
(Decrease)/increase in cash in period	(169,964)	154,317	362,047	346,400
Cash outflow from decrease in financing	90,750	0	0	90,750
Cash inflow from sale of liquid resources	(101)	0		(101)
Change in net funds resulting from cash flow	(79,315)	154,317	362,047	437,049
Increase in financing in the period	0	0	0	0
Change in market value of liquid resources	197	0	0	197
	(79,118)	154,317	362,047	437,246
Net funds at 1 April 2005	1,261,284	205,762	587,060	2,054,106
Net funds at 31 March 2006	1,182,166	360,079	949,107	2,491,352

17 Analysis of net funds

	1 April 2005 £	Cash flow £	Other changes £	31 March 2006 £
Cash at bank and in hand	2,230,383	325,469	0	2,555,852
Overdrafts	(23,319)	20,931	0	(2,388)
Obligations under finance leases within one year	(90,750)	90,750	(64,677)	(64,677)
Obligations under finance leases after one year	(64,677)		64,677	0
Current asset investments	2,469	(101)	197	2,565
	2,054,106	437,049	197	2,491,352

18 Movement of funds

	Unrestricted funds	Grant in Aid		Other restricted funds	Total funds	Total funds
	2006 £	Operating funds 2006 £	Purchase grant funds 2006 £	2006 £	2006 £	2005 £
Incoming resources						
Grant in Aid	0	6,995,192	109,000	0	7,104,192	7,026,895
Other grants and donations	765,158	0	0	0	765,158	917,098
Special events	235,164	0	0	0	235,164	64,196
Public telephones	3,635	0	0	0	3,635	418
Interest on deposits	70,192	0	75,063	0	145,255	81,598
Visual arts	553	0	0	0	553	1,533
ERDF and other income	51,497	0	0	1,819,318	1,870,815	3,287,497
HLF grant income	0	0	0	2,547,278	2,547,278	1,484,282
Dividends received	81	0	0	0	81	57
Commercial trading operations	1,632,876	0	0	0	1,632,876	1,873,564
Total incoming resources	2,759,156	6,995,192	184,063	4,366,596	14,305,007	14,737,138
Resources expended						
Staff costs (Note 8)	794,050	3,414,253	0	0	4,208,303	3,872,448
Purchase of exhibits	0	0	903	0	903	4,399
Other operating costs (Note 6)	559,156	2,074,601	0	0	2,633,757	2,633,102
Depreciation (Note 5 and Note 6)	0	1,375,100	0	0	1,375,100	1,374,038
Commercial trading operation	1,602,513	0	0	0	1,602,513	1,714,454
Total resources expended	2,955,719	6,863,954	903	0	9,820,576	9,598,441
Net (outgoing)/incoming resources for the year	(196,563)	131,238	183,160	4,366,596	4,484,431	5,138,697
Gains and losses on revaluations of fixed assets	0	1,109,517	0	0	1,109,517	1,618,247
Gains and losses on revaluations and disposals of investments	197	0	0	0	197	(275)
Net movement in funds for the year	(196,366)	1,240,755	183,160	4,366,596	5,594,145	6,756,669
Funds brought forward at 1 April 2005	2,764,014	35,657,358	669,450	11,061,878	50,152,700	43,396,031
Funds carried forward at 31 March 2006	2,567,648	36,898,113	852,610	15,428,474	55,746,845	50,152,700

18 Movement of funds continued*Reconciliation of total resources expended to the SOFA*

	Unrestricted funds	Grant in Aid funds	Other funds	Total funds	Total funds
	2006 £	2006 £	2006 £	2006 £	2005 £
Resources expended per the SOFA					
Costs of generating funds					
Fund raising and publicity	101,875	361,192	0	463,067	428,118
Commercial trading operations	1,602,513	0	0	1,602,513	1,714,454
	<u>1,704,388</u>	<u>361,192</u>	<u>0</u>	<u>2,065,580</u>	<u>2,142,572</u>
Charitable activities					
Operation of Museum	1,147,546	6,502,762	0	7,650,308	7,273,766
Purchase of exhibits	0	903	0	903	4,399
Notional cost of capital	0	1,296,357	0	1,296,357	1,239,280
Governance costs	103,785	0	0	103,785	177,704
	<u>1,251,331</u>	<u>7,800,022</u>	<u>0</u>	<u>9,051,353</u>	<u>8,695,149</u>
Less notional cost of capital	0	(1,296,357)	0	(1,296,357)	(1,239,280)
Total resources expended	<u>2,955,719</u>	<u>6,864,857</u>	<u>0</u>	<u>9,820,576</u>	<u>9,598,441</u>

19 Analysis of group net assets between funds

	Un-restricted funds	Grant in Aid		Other restricted funds	Total funds	Total funds
	2006	Operating funds	Purchase grant funds	2006	2006	2005
	£	£	2006 £	2006 £	£	£
Tangible fixed assets	114,554	41,784,061	2,378,549	9,244,994	53,522,158	46,953,887
Cash at bank and in hand	1,267,597	0	0	949,107	2,216,704	2,230,383
Other net current assets	1,185,497	(4,885,948)	(1,525,939)	5,234,373	7,983	1,033,107
Total assets less current liabilities	<u>2,567,648</u>	<u>36,898,113</u>	<u>852,610</u>	<u>15,428,474</u>	<u>55,746,845</u>	<u>50,217,377</u>
Creditors due after one year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(64,677)</u>
Net assets	<u>2,567,648</u>	<u>36,898,113</u>	<u>852,610</u>	<u>15,428,474</u>	<u>55,746,845</u>	<u>50,152,700</u>

20 Commitments

	Group 2006	Charity 2006
Lease commitments		
<i>Net Obligations under finance leases payable</i>		
Within one year	64,677	42,008
Between one and five years	0	0
	64,677	42,008
<i>Gross obligations under finance leases</i>		
Within one year	48,914	25,717
Between one and five years	18,918	18,918
Total gross obligations	67,832	44,635
Finance charges and interest allocated to future accounting periods	(3,155)	(2,627)
	64,677	42,008

Net obligations under finance lease contracts are secured by fixed charges on the assets concerned. The interest charges incurred in the year on finance leases amounted to £4,065 (2005: £2,391).

During the year, the Museum made operating lease payments amounting to £544,068 (2005: £537,927). As at 31 March 2006, the Museum had annual commitments under non-cancellable operating leases as follows

	Group and charity 2006	2005
Operating leases expiring		
<i>Plant and machinery</i>		
Within one year	694	0
In the second to fifth years	7,967	9,355
<i>Land and buildings</i>		
after five years	516,500	516,500
	525,161	525,855

21 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 11.

The Royal Air Force Museum Investments Limited

The company was formed to hold, on behalf of the Trustees, the real property assets of the charity and thus minimise the administrative burden whenever a change in Trustees takes place. In March 2005, the leasehold property was transferred to this company from the charity.

Royal Air Force Cosford Air Show

Museum staff are involved in the RAF Cosford Air Show. The Museum has traditionally received a share of the proceeds after expenses. The sum of £32,690 (2005: £53,000) was paid to the Museum during the year.

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. The sum of £12,463 (2005: £12,000) was paid to the Museum during the year.

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. The sum of £10,000 (2005: £nil) was paid to the Museum during the year.

Royal Air Force Museum American Foundation Inc.

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

22 Contingent liability

There were no contingent liabilities as at 31 March 2006.

The prior year contingent liability was resolved with HM Revenue & Customs with the help of the Museum's sponsor PTC Command, RAF.

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 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.
 - 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.

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.

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 HM 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.

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