

Registered number: 00503668

**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
(A Company Limited by Guarantee)

**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**



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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
**(A Company Limited by Guarantee)**

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**COMPANY INFORMATION**

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<b>MEMBERS OF COUNCIL</b>	Mr John David Dunn Mr Steven Harding Mr Christopher Stephen Job Mr Kevin Young
<b>REGISTERED NUMBER</b>	00503668
<b>REGISTERED OFFICE</b>	Manton Lane Bedford MK41 7PF
<b>INDEPENDENT AUDITOR</b>	MHA MacIntyre Hudson Chartered Accountants & Statutory Auditor Moorgate House 201 Silbury Boulevard Milton Keynes MK9 1LZ
<b>CHIEF EXECUTIVE</b>	Mr Paul Hutchings

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**STRATEGIC REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**PRINCIPAL ACTIVITIES**

The Association is principally engaged in the promoting and undertaking of scientific research in aerodynamics and in particular in the operation and maintenance of wind tunnels, laboratories and model manufacturing workshops and in the development and use of Computational Fluid Dynamics. The work is carried out at Manton Lane, Bedford.

These activities have continued and remain unchanged during the year.

**BUSINESS REVIEW**

Gross income for the year amounted to £14,018,479 (2019: £12,790,410). There was a profit for the year amounting to £1,733,370 (2019: loss of £830,981).

Demand throughout 2020 was strong, and a significant amount of work for 2021 under contract as at the Balance Sheet date.

The Association continues to have a mix of income streams from commercial customers worldwide and grant funded projects (primarily EU) for further capability enhancement and fundamental research and technology projects, applicable to the aerospace industry.

In the year the Association received Research and Development tax credits (RDEC) for the year ended December 2018 (which had been accrued for in 2019). The RDEC relating to 2019 has been accrued for, with the claim having been submitted in 2020. The association has continued to invest in Research and Development throughout 2020 and into 2021.

During the year the Association continued to invest in plant, equipment and capability which will result in the capability enhancement and modernisation of some business critical equipment. It continued to invest in and internally fund activity to develop new or enhanced processes and capabilities, and further develop research techniques, tools and models.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**PRINCIPAL RISKS AND UNCERTAINTIES**

The Association uses various financial instruments. These include cash, cash equivalents and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Association's operations.

The existence of these financial instruments exposes the Association to a number of financial risks, which are described in more detail below.

The main risks arising from the Association's financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk. The Members of Council review and agree policies for managing each of these risks and they are summarised below.

**Market risk:** Market risk for the Association encompasses two types of risk: currency risk and fair value interest rate risk. The Association's policy for managing fair value interest rate risk are considered along with those for managing cash flow interest rate risk and are set out in the point entitled "interest rate risk" below.

**Currency risk:** The Association is on occasion exposed to transaction foreign exchange risk on some activities for overseas customers. This risk will be mitigated through agreements with customers and through appropriate hedging.

**Interest rate risk:** The Association is exposed to minimal interest rate risk as it routinely chooses to finance its operations through retained surplus.

**Credit risk:** The Association's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited. The principal credit risk therefore arises from its trade debtors.

All significant customers are major aerospace corporations and any regarded as giving rise to a potential risk are routinely requested to provide advance payments ahead of any work. In addition, the credit control function also reviews debtor balances on a regular basis.

**Liquidity risk:** The Association seeks to manage liquidity risk by ensuring adequate cashflow is available to meet foreseeable needs and to invest cash assets safely and profitably.

The Association policy throughout the year has been to ensure continuity of funding by ensuring suitable cash balances are maintained or available on demand from the ultimate parent undertaking.

**FINANCIAL KEY PERFORMANCE INDICATORS**

The Members of Council recognise the need to monitor performance against agreed Key Performance Indicators ("KPIs"). Targets were established for achievement during 2020 in respect of order book, income, trading margin and cash.

Performance of KPIs in the year: revenue, increase, diversification of income, stable, capital investment, stable.

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**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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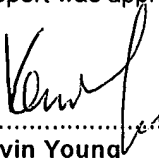
**GOING CONCERN**

The Members of Council have reasonable expectation, taking full account of the five year Business Plan and Financial Strategy, that the Association has adequate financial resources to continue its operational existence for the foreseeable future.

The COVID-19 pandemic in 2020 / 21 had minimal impact on the Associations trading during 2020 but the longer term impact on civil aerospace is unclear. Additionally, the Association does recognise that changes to the UK's electricity pricing structure are a medium term threat.

For these reasons they continue to adopt the going concern basis in preparing the financial statements.

This report was approved by the Members of Council and signed on their behalf.

  
.....  
**Mr Kevin Young**  
Member

Date: 14/01/2021

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**MEMBERS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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The Members of Council present their report and the financial statements for the year ended 31 December 2020.

**MEMBERS OF COUNCIL'S RESPONSIBILITIES STATEMENT**

The Members of Council are responsible for preparing the Strategic Report, the Members' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Members of Council to prepare financial statements for each financial year. Under that law the Members have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Members are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Members of Council are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**RESULTS**

The profit for the year, after taxation, amounted to £1,733,370 (2019 - loss £830,981).

**MEMBERS OF COUNCIL**

The Members of Council who served during the year were:

Mr John David Dunn  
Mr Steven Harding  
Mr Christopher Stephen Job  
Mr Kevin Young

**FUTURE DEVELOPMENTS**

The Association's 2021 plans include the continuation of a number of major projects started in previous years as well as new investment in people, plant and equipment to sustain its future viability.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**MEMBERS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**TANGIBLE FIXED ASSETS**

The tangible fixed assets of the Association, with the exception of freehold land, had been revalued at current prices up to 31 December 1999. The valuations and corresponding adjusted depreciation charges have been frozen at that date and treated as the deemed cost under the transition exemptions for Financial Reporting Standard 102. Subsequent fixed asset additions have been capitalised in the accounts at cost and depreciation charged accordingly.

Freehold land was carried at historical cost of £20,276 until 31 December 2016. The Members of Council were of the opinion that land should be carried at valuation from 2017 since in aggregate the market value of freehold land is appreciably in excess of the cost. A professional valuation was carried out at the end of 2017 and reviewed at the balance sheet date.

**DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who are Members of Council at the time when this Members' Report is approved has confirmed that:

- so far as that Member of Council is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that Member of Council has taken all the steps that ought to have been taken as a Member in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

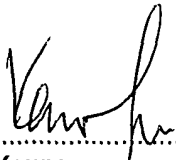
**POST BALANCE SHEET EVENTS**

There have been no significant events affecting the Association since year end.

**AUDITOR**

The auditor, MHA MacIntyre Hudson, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Members of Council and signed on its behalf.



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**Mr Kevin Young**  
Member

Date: 14/01/2021

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIRCRAFT RESEARCH ASSOCIATION LIMITED**

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**OPINION**

We have audited the financial statements of Aircraft Research Association Limited (the 'Company') for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**CONCLUSIONS RELATING TO GOING CONCERN**

In auditing the financial statements, we have concluded that the Members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Members with respect to going concern are described in the relevant sections of this report.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIRCRAFT RESEARCH ASSOCIATION LIMITED (CONTINUED)**

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**OTHER INFORMATION**

The Members are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Members' Report have been prepared in accordance with applicable legal requirements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Members' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIRCRAFT RESEARCH ASSOCIATION LIMITED (CONTINUED)**

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**RESPONSIBILITIES OF MEMBERS**

As explained more fully in the Members' Responsibilities Statement set out on page 4, the Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Members are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Members either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Enquiry of management around actual and potential litigation and claims;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and review of accounting estimates for bias;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing financial statement disclosures and testing supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. The risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's Report.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIRCRAFT RESEARCH ASSOCIATION LIMITED (CONTINUED)**

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**USE OF OUR REPORT**

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members, as a body, for our audit work, for this report, or for the opinions we have formed.



Atul Kariya FCCA (Senior Statutory Auditor)

for and on behalf of  
**MHA MacIntyre Hudson**

Chartered Accountants  
Statutory Auditor

Milton Keynes, United Kingdom

Date: 28/09/2021

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
**(A Company Limited by Guarantee)**

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**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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	Note	2020 £	2019 £
Turnover	3	14,018,479	12,790,410
Cost of sales		(7,591,042)	(8,637,948)
<b>GROSS PROFIT</b>		<b>6,427,437</b>	<b>4,152,462</b>
Internal project costs		(992,439)	(664,135)
Administrative expenses		(4,457,187)	(5,485,385)
Other operating income and expenses	9	1,144,992	1,711,106
<b>OPERATING PROFIT/(LOSS)</b>	4	<b>2,122,803</b>	<b>(285,952)</b>
Interest receivable and similar income	6	14	781
Interest payable and expenses	7	(122,678)	(367,781)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>2,000,139</b>	<b>(652,952)</b>
Tax on profit/(loss)	8	(266,769)	(178,029)
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		<b>1,733,370</b>	<b>(830,981)</b>

There were no recognised gains and losses for 2020 or 2019 other than those included in the statement of comprehensive income.

There was no other comprehensive income for 2020 (2019: £NIL).

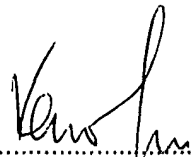
The notes on pages 15 to 33 form part of these financial statements.


**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
**(A Company Limited by Guarantee)**  
**REGISTERED NUMBER: 00503668**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2020**

	Note	2020 £	2020 £	2019 £	2019 £
<b>FIXED ASSETS</b>					
Intangible assets	10		82,922		49,673
Tangible assets	11		6,411,621		6,676,926
			<u>6,494,543</u>		<u>6,726,599</u>
<b>CURRENT ASSETS</b>					
Stocks	12	62,790		68,236	
Debtors: amounts falling due within one year	13	3,503,345		4,030,548	
Cash at bank and in hand	14	6,105,610		3,600,422	
		<u>9,671,745</u>		<u>7,699,206</u>	
Creditors: amounts falling due within one year	15	(8,948,978)		(8,106,525)	
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			<u>722,767</u>		<u>(407,319)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>7,217,310</u>		<u>6,319,280</u>
Creditors: amounts falling due after more than one year	16		(3,476,299)		(4,336,970)
<b>NET ASSETS</b>			<u><u>3,741,011</u></u>		<u><u>1,982,310</u></u>
<b>CAPITAL AND RESERVES</b>					
Revaluation reserve	19		1,336,204		1,351,364
Other reserves	19		2,140,607		2,218,174
Profit and loss account	19		264,200		(1,587,228)
			<u><u>3,741,011</u></u>		<u><u>1,982,310</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 14/09/2021

  
 14/9/2021  
 .....  
**Mr Kevin Young**  
 Member

  
 .....  
**Mr John David Dunn**  
 Member

The notes on pages 15 to 33 form part of these financial statements.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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	Revaluation reserve £	Other reserves £	Profit and loss account £	Total equity £
At 1 January 2019	1,372,872	2,560,526	(1,120,107)	2,813,291
Loss for the year	-	-	(830,981)	(830,981)
Transfer to profit and loss account	(21,508)	(342,352)	363,860	-
At 1 January 2020	1,351,364	2,218,174	(1,587,228)	1,982,310
Profit for the year	-	-	1,733,370	1,733,370
Transfer to profit and loss account	(15,160)	(77,567)	118,058	25,331
<b>AT 31 DECEMBER 2020</b>	<b>1,336,204</b>	<b>2,140,607</b>	<b>264,200</b>	<b>3,741,011</b>

The notes on pages 15 to 33 form part of these financial statements.

**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
**(A Company Limited by Guarantee)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020 £	2019 £
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) for the financial year	1,733,370	(830,981)
<b>ADJUSTMENTS FOR:</b>		
Amortisation of intangible assets	22,512	9,756
Depreciation of tangible assets	1,066,865	1,402,651
Notional interest charge	77,567	342,352
Interest paid	19,780	25,429
Interest received	(14)	(781)
Taxation charge	266,769	178,029
Decrease/(increase) in stocks	5,446	(62,120)
Decrease in debtors	527,203	136,103
Increase in creditors	566,622	2,182,603
Corporation tax (paid)	(266,769)	(178,029)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>4,019,351</b>	<b>3,205,012</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of intangible fixed assets	(55,761)	(17,165)
Purchase of tangible fixed assets	(801,560)	(1,126,614)
Interest received	14	781
HP interest paid	(19,780)	(25,429)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(877,087)</b>	<b>(1,168,427)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of other loans	(422,433)	(657,648)
Repayment of/new finance leases	(137,076)	(68,579)
Notional interest charge	(77,567)	(342,352)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(637,076)</b>	<b>(1,068,579)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,505,188</b>	<b>968,006</b>
Cash and cash equivalents at beginning of year	3,600,422	2,632,416
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>6,105,610</b>	<b>3,600,422</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR COMPRISE:</b>		
Cash at bank and in hand	6,105,610	3,600,422

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AIRCRAFT RESEARCH ASSOCIATION LIMITED  
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ANALYSIS OF NET DEBT  
FOR THE YEAR ENDED 31 DECEMBER 2020

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	At 1 January 2020 £	Cash flows £	At 31 December 2020 £
Cash at bank and in hand	3,600,422	2,505,188	6,105,610
Debt due after 1 year	(3,195,727)	434,922	(2,760,805)
Debt due within 1 year	(400,864)	(12,489)	(413,353)
Finance leases	(495,781)	137,076	(358,705)
	<u>(491,950)</u>	<u>3,064,697</u>	<u>2,572,747</u>

The notes on pages 15 to 33 form part of these financial statements.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
(A Company Limited by Guarantee)

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**1. ACCOUNTING POLICIES**

**1.1 STATEMENT OF COMPLIANCE**

The financial statements of Aircraft Research Association Limited have been prepared in compliance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

**1.2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Association is a Company Limited by Guarantee and is incorporated in England and Wales and domiciled in England. The address of the registered office and principal place of business is Manton Lane, Bedford, MK41 7PF.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

**1.3 REVENUE RECOGNITION**

The Association distinguishes between long-term and short-term contracts. A long-term contract is one where the time taken to complete the contract activity substantially falls into different accounting periods. This definition requires contracts with duration of less than one year to be accounted for as a long-term contract if they are sufficiently material to the activities of the period that failure to record sales and margin on them would result in the accounts not giving a true and fair view. Contracts that do not fall into the long-term definition are short-term.

In order to ensure that the financial statements provide a true and fair view of the trading within the business units, sales of goods and the provision of services in respect of long-term contracts are recognised in the income statement on a periodic basis; based on the value of work completed in the period. Recognition of work completed is only taken into account once full contract cover has been provided by the customer or a formal authority to proceed has been issued. Most long-term contracts have a trading plan aimed at providing a neutral cashflow throughout their duration. Sales in respect of short-term contracts are recognised and recorded within the month of activity and are normally invoiced in that period.

Reported revenues are monitored on a monthly basis to ensure that they do not exceed the contract limit of liability and that they reflect fairly the progress made in the work completed relative to the contract value. Accrued sales are capped to the limit of liability where project costs overrun.

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**AIRCRAFT RESEARCH ASSOCIATION LIMITED**  
(A Company Limited by Guarantee)

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**1. ACCOUNTING POLICIES (CONTINUED)**

**1.4 GOING CONCERN**

The financial statements have been prepared on a going concern basis. The Directors have considered relevant information, including the annual budget, future cash flows and the impact of subsequent events in making their assessment. The ongoing COVID pandemic may have long term implications for the aerospace industry and the Directors have performed a robust analysis of future cash flows of possible scenarios. This analysis also considers the effectiveness of possible measures to assist in mitigating the impact.

Based on these assessments and having regard to the resources available to the entity, the Directors have concluded that there is no material uncertainty and that they can continue to adopt the going concern basis in preparing the annual report and accounts.

**1.5 RESEARCH AND DEVELOPMENT**

The Association undertakes research and development activities, either on its own behalf or on the behalf of customers, as part of its core activities. Research and development expenditure is written off as incurred and charged to the Statement of Comprehensive Income.

**1.6 GOVERNMENT GRANTS**

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

**1.7 INTANGIBLE FIXED ASSETS AND AMORTISATION**

Intangible assets comprise computer software and licenses and are stated at cost less accumulated amortisation to write off the cost in equal installments over their estimated useful lives. They are amortised over two to ten years, being the period over which it is believed they will generate revenue.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**1. ACCOUNTING POLICIES (CONTINUED)**

**1.8 TANGIBLE FIXED ASSETS AND DEPRECIATION**

Tangible fixed assets, other than freehold land, are stated at cost or valuation less depreciation. Depreciation on tangible fixed assets is provided at rates calculated to write off the cost or valuation of those assets, less their estimated residual value, on a straight line basis over their expected useful lives on the following bases:

Freehold property and fittings	-	2% - 20%
Plant and machinery (tunnels and equipment)	-	3.5% - 33.3%
Motor vehicles	-	33.3%

Assets under construction relate to those assets that are yet to be completed and are not fully operational to generate economic benefit. No depreciation is therefore recognised on such assets.

The Association elected to use the previous UK GAAP valuation of certain tangible fixed assets as the deemed cost on transition to FRS102. The items are being depreciated from the date of transition, 1 January 2014, in accordance with the above accounting policy.

**1.9 FREEHOLD LAND**

Freehold land is carried at fair value at the date of the revaluation less any subsequent accumulated impairment losses. Revaluations are undertaken with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the Balance Sheet date. Fair values are determined from market based evidence undertaken by professionally qualified valuers. No depreciation is provided on freehold land. Changes in fair value are treated as unrealised surpluses on revaluation and reflected as Other Comprehensive Income in the Statement of Comprehensive Income.

**1.10 OPERATING LEASES**

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

**1.11 IMPAIRMENT OF FIXED ASSETS**

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020

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1. ACCOUNTING POLICIES (CONTINUED)

1.12 STOCKS

Stocks are stated at the lower of cost and net realisable value.

1.13 DEBTORS

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.14 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

1.15 FINANCIAL INSTRUMENTS

The Association only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Association would receive for the asset if it were to be sold at the Balance Sheet date.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. ACCOUNTING POLICIES (CONTINUED)**

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the Statement of Comprehensive Income in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

**1.16 CREDITORS**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**1.17 FOREIGN CURRENCY TRANSLATION**

**Functional and presentation currency**

The Company's functional and presentational currency is GBP.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

**1.18 FINANCE COSTS**

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

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**1. ACCOUNTING POLICIES (CONTINUED)**

**1.19 PENSIONS**

**Defined contribution pension plan**

The Association operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Association pays fixed contributions into a separate entity. Once the contributions have been paid the Association has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Association in independently administered funds.

**1.20 OTHER SHORT TERM EMPLOYEE BENEFITS**

Short term employee benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the Statement of Comprehensive Income in the period in which the benefit is accrued.

**1.21 INTEREST INCOME**

Interest income is recognised in profit or loss using the effective interest method.

**1.22 BORROWING COSTS**

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

**1.23 PROVISIONS FOR LIABILITIES**

Provisions are made where an event has taken place that gives the Association a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Association becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

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**1. ACCOUNTING POLICIES (CONTINUED)**

**1.24 TAXATION**

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Association operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Research and Development Credits (RDEC) are recognised in the year in which the claim is submitted and where the Association is reasonably assured that receipt will be granted. Recoverable tax assets arising on corporation tax which has been deducted from the RDEC claims have not been recognised in the financial statements on the grounds that recoverability depends upon sufficient taxable profits in future periods.

**1.25 EXCEPTIONAL ITEMS**

Exceptional items are transactions that fall within the ordinary activities of the Association but are presented separately due to their size or incidence.

**1.26 RESEARCH AND DEVELOPMENT**

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020

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2. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY

The preparation of financial statements in accordance with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Key accounting estimates and assumptions**

The Association makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have the most significant potential impact upon the carrying values of assets and liabilities within the next financial year as as follows:

- i) *Revenue recognition on long term contracts*  
Revenue is recognised on projects based on percentage completion estimated by reference of actual cost to forecast cost of completion. The value recognised as Amounts Recoverable on Contracts as at 31 December 2020 was £1,729,288 (2019: £1,833,199). Monies received in advance are treated as payments on account and amount to £5,676,880 as at 31 December 2020 (2019: £4,834,388).
- ii) *Useful economic lives of tangible fixed assets*  
The useful economic lives used by the Association in respect of tangible fixed assets are set out in the accounting policies. These estimates are the best estimate based on past experience and expected performance and are regularly reviewed to ensure they remain appropriate. The net book value of tangible fixed assets as at 31 December 2020 was £6,411,621 (2019: £6,676,926) after a depreciation charge in the period of £1,066,865 (2019: £1,402,651).

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. TURNOVER**

Analysis of turnover by country of destination:

	2020	2019
	£	£
United Kingdom	7,342,550	2,999,797
Rest of Europe	3,947,119	2,275,104
Rest of the world	2,728,810	7,515,509
	<u>14,018,479</u>	<u>12,790,410</u>

**4. OPERATING PROFIT/(LOSS)**

The operating profit/(loss) is stated after charging:

	2020	2019
	£	£
Depreciation of owned tangible fixed assets	1,066,865	1,333,807
Depreciation of leased tangible fixed assets	68,844	68,844
Amortisation of intangible assets	22,512	9,756
Fees payable to the Association's auditor for the audit of the Association's annual financial statements	25,000	19,500
Exchange differences	51,628	76,974
Other operating lease rentals	12,256	12,256
Pension contributions	346,954	372,946
	<u>346,954</u>	<u>372,946</u>

The Association undertakes research work as an intrinsic part of its core activities. Separate disclosure here of expenditure on research and development during the period is not therefore considered to be representative of the reality.

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**5. EMPLOYEES**

Staff costs were as follows:

	2020 £	2019 £
Wages and salaries	5,470,803	5,661,183
Social security costs	592,909	559,274
Cost of defined contribution scheme	401,038	646,005
	<u>6,464,750</u>	<u>6,866,462</u>

The average monthly number of employees during the year was as follows:

	2020 No.	2019 No.
Technical (inc Engineering)	130	137
Non Technical	13	14
	<u>143</u>	<u>151</u>

The Key Management Personnel of the Association comprise the Members of Council and the Senior Management Team. During the year, no Member of Council received any emoluments (2019: £nil), only the Senior Management Team, none of whom are Members of Council. The total amount of employees benefits (including employer's pension contributions) received by Key Management Personnel for their services to the Association was £819,556 (2019: £843,066).

**6. INTEREST RECEIVABLE**

	2020 £	2019 £
Other interest receivable	<u>14</u>	<u>781</u>

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**7. INTEREST PAYABLE AND SIMILAR EXPENSES**

	2020 £	2019 £
Other loan interest	102,898	342,352
Finance leases and hire purchase contracts	19,780	25,429
	<u>122,678</u>	<u>367,781</u>

**8. TAXATION**

	2020 £	2019 £
<b>CORPORATION TAX</b>		
Set off amounts recognised against Research and Development credits	266,769	178,029
<b>TOTAL CURRENT TAX</b>	<u>266,769</u>	<u>178,029</u>

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Profit/(loss) on ordinary activities before tax	<u>2,000,139</u>	<u>(652,952)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	380,026	(124,060)
<b>EFFECTS OF:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	29,775	66,940
Capital allowances for year in excess of depreciation	(257,204)	(337,878)
RDEC tax credits	-	(175,020)
Tax deducted at source on RDEC amounts	266,768	178,029
Unrelieved tax losses carried forward	(152,596)	570,018
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	<u>266,769</u>	<u>178,029</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**8. TAXATION (CONTINUED)**

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

At the balance sheet date there are deferred tax assets of £1,667,437 and £843,417 (2019: £1,667,437 and £843,417), arising on taxable losses carried forward and future capital allowances, which have not been recognised in the financial statements on the grounds that recoverability is not certain in the foreseeable future and relies upon sufficient taxable profits in future periods.

A tax charge of £266,768 (2019: £178,029) has been deducted at source from Research and Development credits but is available to carry forward against future profits. The total tax recoverable asset of £2,010,116 (2019: £1,123,216) has not been recognised due to the uncertainty of future profitability and the considerable time in which it will take for the charge to unwind.

**9. EXCEPTIONAL ITEMS**

	2020 £	2019 £
RDEC claim	1,404,046	936,996
Professional fees	(24,663)	(15,836)
Insurance claims receivable	-	789,946
Costs associated with COVID-19	(234,391)	-
	<u>1,144,992</u>	<u>1,711,106</u>

During the year the Association has accrued for Research and Development tax credits (RDEC) receivable for the year ended 31 December 2019. The gross amount of the RDEC claim amounted to £1,404,046 (2019: £936,996) and has been treated as an exceptional income in the Statement of Comprehensive Income. Corporation tax was deducted at source from these credits and is available to carry forward to offset against future corporation tax liabilities. This is further explained in note 8. Professional fees relating to the above exceptional item has been incurred amounting to £24,663 (2019: £15,836) and these also are included in exceptional costs in the Statement of Comprehensive Income.

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**10. INTANGIBLE ASSETS**

	Assets under construction £	Computer software £	Total £
<b>COST</b>			
At 1 January 2020	207,950	126,853	334,803
Additions	-	55,761	55,761
At 31 December 2020	<u>207,950</u>	<u>182,614</u>	<u>390,564</u>
<b>AMORTISATION</b>			
At 1 January 2020	207,949	77,181	285,130
Charge for the year on owned assets	-	22,512	22,512
At 31 December 2020	<u>207,949</u>	<u>99,693</u>	<u>307,642</u>
<b>NET BOOK VALUE</b>			
At 31 December 2020	<u>1</u>	<u>82,921</u>	<u>82,922</u>
At 31 December 2019	<u>1</u>	<u>49,672</u>	<u>49,673</u>

Assets under construction relate to the internal development a software programme that is yet to be completed. As part of a routine impairment review in a previous year, the Association has written down the value of this intangible asset to £1 based on uncertainty over its future value.

The amortisation charge for the period is included within administrative expenses on the Statement of Comprehensive Income.

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**11. TANGIBLE FIXED ASSETS**

	Freehold property £	Long-term leasehold property £	Plant and machinery £	Computer equipment £	Other fixed assets £	Total £
<b>COST OR VALUATION</b>						
At 1 January 2020	6,651,156	985,000	14,599,664	86,540	1,100,704	23,423,064
Additions	25,098	-	202,020	272,925	301,517	801,560
At 31 December 2020	<u>6,676,254</u>	<u>985,000</u>	<u>14,801,684</u>	<u>359,465</u>	<u>1,402,221</u>	<u>24,224,624</u>
<b>DEPRECIATION</b>						
At 1 January 2020	5,194,190	-	11,500,731	51,217	-	16,746,138
Charge for the year on owned assets	181,124	-	704,932	111,965	-	998,021
Charge for the year on financed assets	-	-	68,844	-	-	68,844
At 31 December 2020	<u>5,375,314</u>	<u>-</u>	<u>12,274,507</u>	<u>163,182</u>	<u>-</u>	<u>17,813,003</u>
<b>NET BOOK VALUE</b>						
At 31 December 2020	<u>1,300,940</u>	<u>985,000</u>	<u>2,527,177</u>	<u>196,283</u>	<u>1,402,221</u>	<u>6,411,621</u>
At 31 December 2019	<u>1,456,966</u>	<u>985,000</u>	<u>3,098,933</u>	<u>35,323</u>	<u>1,100,704</u>	<u>6,676,926</u>

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**11. TANGIBLE FIXED ASSETS (CONTINUED)**

Freehold property relates wholly to buildings owned by the Association.

Freehold land was transferred at its original cost from freehold property during 2017 and is reflected as a separate class of asset. The land has been revalued to its fair value at the balance sheet date. The valuation was carried out in 2017 by professional valuers, Savills (UK) Limited and was prepared on the assumption that the site has been cleared of all buildings with mains services capped and is available with vacant possession. An estimate of the demolition costs has also been assessed by the valuers and these have been deducted from the valuation to give the fair value of £985,000 as disclosed in the financial statements. The Members are of the opinion that the valuation is still appropriate as at 31 December 2020.

With the exception of freehold land as described above, other fixed assets had been revalued at current prices up to 31 December 1999. The valuations and corresponding adjusted depreciation charges have been frozen at that date and treated as the deemed under the transition exemptions for Financial Reporting Standard 102. Subsequent fixed asset additions have been capitalised in the accounts at cost and depreciation charged accordingly.

Assets under construction relate to those assets that are yet to be completed and are not fully operational to generate economic benefit.

Included in the net book value of plant and machinery are assets which have been acquired on hire purchase agreements with a net book value of £524,938 (2019: £593,782).

**12. STOCKS**

	2020	2019
	£	£
Raw materials and consumables	<u>62,790</u>	<u>68,236</u>

**13. DEBTORS**

	2020	2019
	£	£
Trade debtors	346,840	843,126
Other debtors	89,949	105,735
Prepayments and accrued income	1,337,268	1,248,488
Amounts recoverable on long term contracts	1,729,288	1,833,199
	<u>3,503,345</u>	<u>4,030,548</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**14. CASH AND CASH EQUIVALENTS**

	2020	2019
	£	£
Cash at bank and in hand	<u>6,105,610</u>	<u>3,600,422</u>

**15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2020	2019
	£	£
Amounts due to a related party	413,353	400,864
Payments received on account	5,676,880	4,834,388
Trade creditors	1,076,177	1,108,199
Other taxation and social security	137,741	150,530
Obligations under finance lease and hire purchase contract	137,903	137,076
Other creditors	442,672	328,696
Accruals and deferred income	1,064,252	1,146,772
	<u>8,948,978</u>	<u>8,106,525</u>

Liabilities under hire purchase contracts are secured upon the assets concerned.

**16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2020	2019
	£	£
Amounts due to a related party	2,760,805	3,195,727
Obligations under finance leases and hire purchase contracts	220,802	358,705
Accruals and deferred income	494,692	782,538
	<u>3,476,299</u>	<u>4,336,970</u>

Liabilities under hire purchase contracts are secured upon the assets concerned.

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**17. AMOUNTS DUE TO RELATED PARTY**

Analysis of the maturity of loans is given below:

	2020 £	2019 £
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		
Amounts due to related party	413,353	400,864
<b>AMOUNTS FALLING DUE 2-5 YEARS</b>		
Amounts due to related party	1,783,976	1,731,369
<b>AMOUNTS FALLING DUE AFTER MORE THAN 5 YEARS</b>		
Amounts due to related party	976,829	1,464,358
	<u>3,174,158</u>	<u>3,596,591</u>

The amounts due to related party is in respect of a settlement agreement with BAE Systems plc. During 2017, the Association transferred its defined benefit pension scheme liability to BAE Systems plc. In return, the Association agreed to repay the sum of £5,000,000 in the form of an unsecured interest free settlement payable in equal instalments over 10 years, with the first instalment paid in early 2019.

A settlement value of £4,254,239 was determined by calculating the present value of the future payments discounted at a market rate of 3.05%. The market rate used is based on the interest rate charged on a similar loan.

The difference of £745,761 arising on initial recognition of the settlement has been included as a capital contribution.

As at 31 December 2020 an amount of £3,174,158 (2019: £3,596,591) was due to BAE Systems plc relating to the settlement agreement.

The amounts due in respect of the settlement are partly secured on the freehold land owned by the Association.

**18. HIRE PURCHASE AND FINANCE LEASES**

Minimum lease payments under hire purchase fall due as follows:

	2020 £	2019 £
Within one year	137,903	137,076
Between 1-5 years	220,802	358,705
	<u>358,705</u>	<u>495,781</u>

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**19. RESERVES**

**Revaluation reserve**

The original Revaluation Reserve arose on the historic revaluation of certain fixed assets in 1999, predominantly buildings and plant and machinery. This valuation has been adopted as the deemed cost on conversion to Financial Reporting Standard 102 and the reserve is being unwound against the appropriate depreciation on the assets concerned. At the balance sheet date the amount included in the Revaluation Reserve against these assets amounted to £371,480 (2019: £386,640).

In a previous year the freehold land was classified as a separate class of asset and revalued to its fair value at the balance sheet date. There has been no change to the value in the year. The amount included in the Revaluation Reserve in respect of freehold land amounted to £964,724 (2019: £964,724).

**Other reserves**

Included in the Capital Reserve balance is £1,814,765 which represents capital contributions made by the founding Members upon incorporation of the Association. The remaining balance of £325,842 represents a capital contribution by the controlling party of £745,761 less a notional interest charge of £419,919. This arose in a previous year when the Association entered into a settlement agreement with its controlling party. The amount of the settlement was interest free and has been reflected in the financial statements at the present value of future payments discounted at a market rate of interest. This amount is being unwound against the notional interest charge calculated over the repayment period of 10 years.

**Profit and loss account**

The profit and loss account reserve represents retained earnings for future re-investment within the Association.

**20. COMPANY STATUS**

The Association is a private company limited by guarantee and consequently does not have share capital. Each of the members is liable to contribute an amount not exceeding £5 per member towards the assets of the Association in the event of liquidation during their membership or within one year afterwards.

**21. CAPITAL COMMITMENTS**

The Company did not have any outstanding capital commitments as at 31 December 2020 (2019: £nil).

**22. PENSION COMMITMENTS**

During the year the Company made contributions of £401,038 (2019: £646,005) to a defined contribution pension scheme in respect of its staff and Directors.

The assets of the scheme are held separately from those of the Company in an independently administered fund. The Company has no liability to the scheme other than the contributions due. There were £47,709 (2019: £47,993) of outstanding contributions at year end.

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**23. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £	2019 £
Not later than 1 year	12,256	12,256
Later than 1 year and not later than 5 years	24,512	36,768
	<u>36,768</u>	<u>49,024</u>

**24. RELATED PARTY TRANSACTIONS**

During the year, the Association made sales of £4,330,611 (2019: £1,511,156) to BAE Systems plc, a member of the Association.

During 2017 the pension liability due from the Association transferred to BAE Systems plc in exchange for a settlement of £5,000,000. This amount has been discounted in the financial statements as fully disclosed in note 17 to the financial statements. The total outstanding amount due to BAE Systems plc as at 31 December 2020, as reflected in note 17, amounted to £3,174,158 (2019: £3,596,591).

All trading with members is on normal commercial terms in the course of the principal activities of the Association.

**25. CONTROLLING PARTY**

The ultimate parent undertaking is BAE Systems plc which is incorporated in England and Wales.

The consolidated financial statements of BAE Systems plc can be obtained from Companies House.

**26. CONTINGENT ASSETS AND LIABILITIES**

**Performance bonds**

Performance bonds require the Association to make payments to customers should the Association not perform what is expected of it under the terms of the sales contract. At the balance sheet date the Association had performance bonds amounting to £120,000 (2019: £296,900) relating to one (2019: two) customer and one (2019: three) contracts.