



Medical Research Scotland

56<sup>th</sup> Annual Report and Financial Statements

2009-10

*Medical Research Scotland is the operational name  
of the Scottish Hospital Endowments Research Trust (SHERT)  
Recognised in Scotland as a charity with Scottish Charity No. SC014959*

## Medical Research Scotland

As Scotland's largest charity funder of medical research, Medical Research Scotland is committed to:

- supporting people in the early stages of their careers in medical research in Scotland
- supporting only the highest-quality clinical and laboratory-based medical research, which is aimed at improving understanding of the basic mechanisms of disease processes; or the diagnosis, treatment or prevention of disease; or the advancement of medical technology.

### PATRON

HRH The Princess Royal

### MEMBERS

The following served as Members of the Trust during the year:

\*Professor S Moira Brown, OBE, PhD, FRCPath, FRSE (Chairman) (*retired 14 November 2009*)

\*Professor David J Harrison, BSc, MBChB, MD, FRCPath, FRCPE, FRCSEd (*as Chairman from 15 November 2009*)

Dr Marie Boyd, BSc, PhD

Dr Denise Coia, MBChB, FRCPsych (*resigned 25 January 2010*)

Professor William Cushley, BSc, PhD

\*Mr Frederick Dalgarno, LLB, DipIM, CA

\*Mr Brian Duffin, MA, FFA, CCMi (*appointed 27 November 2009*)

Professor David J Harrison, BSc, MBChB, MD, FRCPath, FRCPE, FRCSEd

Dr Karen Horsburgh, BSc, PhD (*resigned 25 March 2010*)

\*Mr Bruce M Mann, MCIBS, BSc(fin) (*appointed 10 November 2009*)

Professor Allan M. Mowat, BSc, MBChB, PhD, FRCPath

\*Mr John Naylor, OBE, MA, CCMi

\*Ms Fiona Nicolson, MA, LLB, DipLP

Professor Michael Steel, BSc, MBChB, PhD, DSc, FRCPE, FRCSE, FRCPath (*retired 26 February 2010*)

\*Mr Alan A Stewart (*retired 31 August 2009*)

Professor Stephen J Wigmore, BSc, MBBS, MD, FRCSEd, FRCS

*\* Denotes membership of the Audit & Investment Sub-Committee*

### PRINCIPAL ADDRESS

Princes Exchange, 1 Earl Grey Street, Edinburgh EH3 9EE

### SECRETARIES

Turcan Connell, Princes Exchange, 1 Earl Grey Street, Edinburgh EH3 9EE

### SCIENTIFIC ADVISER

Dr Joan C M Macnab PhD, FRCPath

### AUDITORS

Scott-Moncrieff, Exchange Place 3, Seiple Street, Edinburgh EH3 8BL

### INVESTMENT MANAGER

Martin Currie Investment Management Ltd, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

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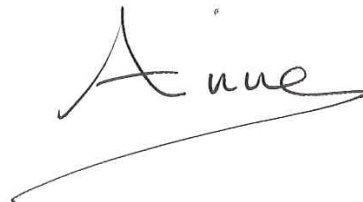
## Foreword from HRH The Princess Royal



BUCKINGHAM PALACE

As Patron, I am gratified to note that Medical Research Scotland is adapting to meet the continuing need to attract young people into medical research. It was a pleasure to be able to attend the Researcher Showcase Open Day in Glasgow recently to meet and talk both to young researchers supported by the charity and to the senior pupils who attended from several local schools. The range of science supported is impressive, and the focus on sharing enthusiasm and knowledge with the next generation particularly encouraging.

Last summer, Medical Research Scotland said farewell to Professor Moira Brown who achieved so much as Chairman, for which we are all most grateful, and I am pleased to welcome Professor David Harrison in her place. I am confident Medical Research Scotland will continue its innovative work under his guidance.



## Chairman's Report

The charity is immensely grateful to Professor Moira Brown who retired as Chair, having brought Medical Research Scotland to independence and reinvigorated its mission to support young people in biomedical research. In August 2009, the Members said their farewells at a dinner in the Raeburn Room, Old College, The University of Edinburgh. During this year, we also said farewell to Members Dr Denise Coia, Mr Alan Stewart, Dr Karen Horsburgh and Professor Michael Steel who demitted office. Mr Brian Duffin and Mr Bruce Mann joined the Board and bring a wealth of experience of finance, governance and investment expertise. Members of Medical Research Scotland act in a voluntary capacity and so it is fitting to acknowledge with thanks their contributions. We are currently appointing new Members by a process of advertisement and interview, a first for the charity, but reflecting our desire to ensure transparency and good governance.

The Members have reviewed aspects of its structure and work, to reflect both the changing economic and research environments and also both the costs of running the charity and the benefits accrued from charitable spend. Some of the changes adopted are now in place and we anticipate there will be more to follow.

Our annual Research Open Day moved from Edinburgh to Glasgow, where grantees and some Members presented careers in science to almost 70 school students and their teachers. We were particularly honoured by the attendance and active participation of our Royal Patron, HRH The Princess Royal in the event.

Summer 2010 saw the first group of 11 Medical Research Scotland Research Scholars take up Undergraduate Vacation Bursaries. This new scheme enables science students from across Scotland to gain up to 8 weeks' experience working on a real research project in a high-quality academic laboratory.

In recent years, we have been able to award up to 6 Research Project Awards per annum to support a staff salary for up to 3 years. Reflecting a number of comments about the application process and to shorten the time it takes to make a decision, we have moved from a two-stage to a one-stage process. In addition we invite applicants to respond to comments from external referees. We think these changes allow for a more efficient processing of awards, while also providing much more feedback to candidates, whether their application succeeds or not.

Medical Research Scotland depends largely on investment income and this has been a volatile period. We are grateful for the donations we receive each year. Members are reviewing both costs and investment strategy, in order to maximise our usefulness in continuing to support new generations of young people entering biomedical research.

Professor David J. Harrison  
Chairman

## Members' Report

The Members present their report along with the Financial Statements of the Trust for the year ended 31<sup>st</sup> March 2010. The Financial Statements have been prepared in accordance with the accounting policies set out in Note 1 to the Financial Statements and comply with the Trust's constitutive legislation and also with the Statement of Recommended Practice: *Accounting and Reporting by Charities 2005*.

### Objectives and Activities

The objectives of the Trust are to:

- Receive and hold endowments, donations and bequests.
- Make grants from these to promote medical research in Scotland.
- Engage in fundraising activities for the purposes of the Trust.
- Develop and exploit ideas and exploit intellectual property.

The Trust aims to improve health standards by funding research of the highest quality into the cause, diagnosis, treatment and prevention of all forms of illness and genetic disorders, and into the advancement of medical technology.

The Trust fulfils its objects by supporting research-minded members of the scientific, medical, nursing, midwifery and allied health professions by giving them the opportunity to pursue high-calibre research either independently or in collaboration with colleagues in their own or other universities, major hospitals and research units in Scotland.

The Trust intends to increase its provision of research support and further encourage young doctors, scientists, nurses, midwives and those in the allied health professions. It also intends to augment the funds available to it to help sustain the outstanding contributions of Scottish medical research to health care throughout the world.

### Grant-making Policy

The Trust aims to support research of the highest quality. It has a rigorous system of assessment of grants before they reach Members. There is an outline application procedure before selecting those invited to submit full applications. The Trust's Scientific Adviser obtains references from at least two independent referees, preferably more. The scientific Members of the Trust then consider which applications to invite to submit full applications. Thereafter the Members of the Trust consider the full applications for support and select from among those in accordance with the Trust's priorities. During the course of the year under report, the two-stage process for consideration of funding applications was streamlined, whereby outline applications received were considered in detail by the scientific Members, who then decided which applicants should be invited to submit full applications. The Trust's Scientific Adviser then obtained references on these full applications from at least two independent referees, usually more. Thereafter the Members of the Trust consider the funding applications and the reports received, selecting from among them in accordance with the Trust's priorities.

After award, grantholders are required to submit progress and final reports and also a post-grant check-up report. Progress and final reports are scored by the scientific Members and any found to be unsatisfactory are followed up. The purpose of the post-grant completion check is to assess the grantholder's subsequent progress and what publications and possible intellectual property exploitation may flow from a project which the Trust has supported. An annual report is also received from the IP Manager of each administering institution in respect of each grant.

### Grant Awards

During the 2009-10 Financial Year, the Members awarded a total of seven Research Project Grants and one Support Grant to a Scottish Senior Clinical Research Fellow. These will involve work into kidney transplant rejection, cardiac imaging, obesity, rheumatoid arthritis, inflammatory lung diseases, ovarian cancer, developmental biology and gene therapy over periods varying from two to three years. Further information about these can be found in the *Annual Review 2009-10* (which is available on the Trust's website: [www.medicalresearchscotland.org.uk](http://www.medicalresearchscotland.org.uk)). The total value of the grants awarded amounted to more than £1.1million.

## Achievements and Performance

The Trust's **Annual Plan** for 2009-10 and performance against it are summarised as follows:

1. To continue to raise awareness of the Trust and seek to increase the number of high-quality applications for research funding, including from engineers and physical scientists from whom it was agreed in August 2008 applications should be accepted.

*Work on this continues; several applications from chemists have been successful. The annual Research Open Day 2010 took place in Glasgow in March 2010, in the form of a "Meet the Researcher Showcase". Attended by senior pupils and teachers from West of Scotland schools, who learned about research in practice from the 11 current grantholders who had prepared poster displays explaining their work and also heard about career opportunities from current and former Members. The event, which was also graced by a visit from our Patron, HRH The Princess Royal was deemed successful and consideration is being given to holding similar events elsewhere in Scotland in future.*

2. To continue to develop the Trust's fundraising and maximise the benefit of the patronage of HRH The Princess Royal. An event, attended by Her Royal Highness will take place in summer 2009 and further fundraising and marketing ideas will be considered by the Fundraising/Marketing Sub-committee.

*HRH The Princess Royal met and spoke to many of the more than 70 individuals from Scotland's academic, business and public sectors who attended a reception at the Palace of Holyroodhouse in July. A short film about the Trust and its work was displayed during the event and subsequently distributed on DVD with copies of the Annual Review.*

3. To appoint a new Chairman of the Trust with effect from autumn 2009 and to continue to keep the broader membership under review, both in terms of advance planning ahead of re-appointments and retirements and ensuring a wide breadth of expertise.

*Professor David J. Harrison, Professor of Pathology in the University of Edinburgh and Clinical Director for Laboratory Services, Lothian University Hospitals Trust, succeeded Professor S. Moira Brown as Chairman with effect from 15 November, 2009. Three Members retired by rotation, two resigned, two new lay Members were appointed and two were re-appointed for a second term.*

4. To consider opportunities for partnership funding, and in particular to pursue the possibility of collaboration on the Scottish Senior Clinical Fellowship Scheme.

*After discussions with the Scottish Government Health Department, the Members agreed to provide additional support for the Scheme, for three years in the first instance, with a review at the end of the first year. Applications were invited from the four newly-appointed Scottish Senior Clinical Fellows for the provision of funding for one, or possibly two, awards of up to £150,000 over three years each, principally to support the costs of employing a young researcher/post-doctoral assistant to work on the Fellowship Project. Four applications were received and, following peer review, the Members agreed to make one award in the field of diagnostic imaging in cardiology. The Members subsequently agreed to invite applications from those awarded Scottish Senior Clinical Fellowships during 2009.*

5. To continue the review of the Trust's services in line with the timetable agreed.

*Following competitive tendering process and subsequent interview of short-listed firms, it was agreed to appoint Scott Moncrieff as Auditors for the Trust for three years from the 2009-2010 financial year. The same process was undertaken for the review of Investment Management services and Martin Currie were re-appointed for the same period.*

6. To continue to keep under very close review the Trust's investment portfolio and, in particular, its income

*This has continued throughout the year, with both the Secretaries and the Trust's Audit & Investment Committee receiving regular (monthly) performance reports, all Members receiving quarterly reports. The Investment Managers reported in person at two meetings during the year and a further meeting with the Members of the Audit & Investment Committee was held at the Investment Managers' offices in February.*

7. To continue to monitor and develop the operation of and systems involved with the online grant application process and to implement a system allowing for conflicts of interests to be declared online

*An online system for the declaration and recording of any conflicts of interest among the Members in any application was implemented in August 2009.*

8. To have the Trust's *Annual Report & Accounts* and *Annual Review* printed and the *Annual Review* distributed before 30 September, 2009.

*Both publications were made available on the Trust's website on 8 September and the Annual Review was distributed during that month.*

## **Plans for the Future**

A new longer-term plan is in preparation following the appointment of the new Chairman.

The Trust's **Annual Plan 2010-11** is as follows:

1. To continue to raise awareness of the Trust within the academic community and seek to increase the number of high-quality applications for research funding.
2. To consider fundraising and marketing ideas.
3. To review the Trust's policy in order to maximise the benefit of the patronage of Her Royal Highness The Princess Royal.
4. Following the appointment of a new Chairman of the Trust with effect from autumn 2009, to review the overall strategy and procedures, to draft a 5-year plan, and to continue to keep the broader membership under review both in terms of advance planning ahead of re-appointments and retirements and ensuring a wide breadth of expertise.
5. To consider opportunities for partnership funding, and in particular to evaluate the collaboration on the Scottish Senior Clinical Fellowship Scheme.
6. To review the procedures for consideration and review of applications to improve efficiency and quality and reduce unnecessary bureaucracy.
7. To continue the review of the Trust's services in line with the timetable agreed.
8. To continue to keep under very close review the Trust's investment portfolio and, in particular, its income.
9. To continue to monitor and develop the operation of and systems involved with the online grant application processes.
10. To have the Trust's *Annual Report & Financial Statements* printed and both it and the *Annual Review* available from its website before 30<sup>th</sup> September 2010.

## Financial Review

The Trust can only spend income and it is therefore reliant on the income from its investments, and also on legacies, donations and royalties. The annual investment income is supplemented by an Income Investment Fund which was created at a time when there was a surplus of income. Income generated on the investment portfolio and related cash deposits was £1,032,676 during the year, compared with £1,105,862 in 2008-09 and royalties were £68,895 compared with £37,740. Work also continues in terms of developing plans to broaden the Trust's income base.

## Investment Policy and Performance

The remit given to the Trust's investment manager, Martin Currie Investment Management Limited, is to manage the fund conservatively with the objective of maintaining the real value of income whilst protecting capital growth. The investment manager may invest in UK and Foreign Equities, Fixed Interest Securities, Regulated Collective Investment Schemes managed by an associate of Martin Currie and Investment Trusts managed within Martin Currie or elsewhere.

The Investment Manager is prohibited from investing directly in the tobacco sector and alcohol-related stocks. The Investment Manager reports to the Members of the Trust in writing four times a year, provides monthly statements to the Members of the Audit & Investment sub-committee and reports in person at meetings on a regular basis. The benchmark selected comprises 80% FTSE All Share and 20% FTSE World ex-UK against which performance is monitored and reported on in writing and at meetings.

In the year under review, the total return on the Trust's portfolio was 44.78% compared with a return on the benchmark of 51.23%. As at 31<sup>st</sup> March 2010, the value of the Trust's investment portfolio (including capital cash) was £26,921,777, compared with £19,439,437 at 31<sup>st</sup> March 2009 and a value as at 26<sup>th</sup> August 2010 of £24,581,339.

## Reserves Policy

Under the National Health Service (Scotland) Act 1978 it is the duty of the Trust to hold and administer funds on Trust for the purpose of assisting the conduct of research into specified matters. The Trust has power to accept, hold and administer property on Trust. The Trust has a limited power to borrow money or draw upon capital to meet expenditure of a capital nature, but otherwise may only spend its income. The Trust's investments are divided into Restricted and Unrestricted Funds. Restricted Funds support research into specific diseases; the Unrestricted Funds are available for supporting any area of the Trust's work. In addition, the Trust has an Income Investment Fund. This Fund, although invested, is part of the Unrestricted Income Fund and is therefore available to be drawn down in the discretion of the Members of the Trust from time to time.

The Trust's income fund continues to show a surplus, although it is significantly less than last year (which in turn was significantly less than the preceding year). The grant spend has increased again for the year. The Members will continue as ever to monitor the income and expenditure very closely over the year ahead.

The Trust continues to seek to meet expenditure commitments as they fall due for payment out of its predictable flow of income and, if required, the Income Investment Fund and expects to be able to do so.

## Structure, Governance and Management

The Trust is a body corporate constituted under the Hospital Endowments (Scotland) Act 1953 (repealed and re-enacted by the National Health Service (Scotland) Act 1978) all as subsequently amended, most recently by the Smoking, Health and Social Care (Scotland) Act 2005, which repealed the Trust's non-departmental public body status. The Trust was established to receive and hold endowments, donations and bequests and to make grants from these funds to promote medical research in Scotland. It is empowered by the National Health Service and Community Care Act 1990 to engage in fundraising activities for the purposes of the Trust. It is also required by the Health & Medicines Act 1988 where feasible to develop and exploit ideas and to exploit intellectual property.

The Trust funds are administered in terms of this legislation by a body of Members who receive no fee or remuneration for their services. Members are appointed by the existing Members of the Trust and,



in accordance with the Standing Orders of the Trust, the minimum number of Members is six and the maximum is fifteen. In accordance with the constitutive legislation, Members may not be appointed for a period exceeding four years, and are eligible for re-appointment only once.

The Members meet twice-yearly to agree the broad strategy and areas of activity for the Trust, including considering grant applications, investment, reserves and risk management policies and performance. There is also an Audit & Investment sub-committee which meets normally twice a year to consider accounting and investment issues in more detail. Other sub-committees are convened where appropriate. The day-to-day administration of grants and processing and handling of applications prior to consideration by the Trust (or the relevant sub-committee) is dealt with by the Trust Secretaries and Scientific Adviser.

In considering new grant applications, applications are received and reviewed by the scientific Members in conjunction with independent referee reports obtained by the Scientific Adviser. The Trust also has power to co-opt Members in order to provide particular expertise or cover a temporary absence of a Member, so as to ensure a breadth of expertise among the members when considering applications.

In addition to ensuring a breadth of expertise among the scientific Members, consideration is also given to ensuring that other skill requirements among the Members are met. New Members may be sought by open advertisement or through dialogue with the research universities.

The induction process for any newly appointed Member comprises a welcome pack including a brief history of the Trust, a copy of the constitutive legislation, guidance on the duties and responsibilities of charity trustees, a copy of the most recent *Annual Report & Financial Statements* and any other relevant documentation. There is an opportunity to discuss particular issues with either the Chairman or the Trust Secretaries, and there is an explanation of the grant-making process and the organisational structure.

There is also training offered to both new and existing Members at Trust meetings and this is at least annually, but more frequently if appropriate.

## **Risk Management**

The Members have assessed the major risks to which the Trust is exposed, in particular those relating to the operations and finances of the Trust, have reviewed those risks, both in the Audit & Investment sub-committee and at full Trust meetings, and are satisfied that systems are in place to mitigate exposure to the major risks. The following processes have been established:

- Regular Members' meetings to consider the plans, policies, finances and strategic direction of the Trust.
- Regular meetings of the Audit & Investment sub-committee to consider the Trust's finances.
- Monthly meetings of the relevant staff of the Secretaries to consider the plans, policies, finances and strategic direction of the Trust together with any associated risks.
- The Audit & Investment sub-committee receives monthly reports from the Investment Manager to consider both investment performance and risk.
- Monthly financial reconciliations prepared by the Secretaries.
- Six-monthly checks by the external accountants of the monthly financial reconciliations.
- Annual statutory Financial Statements are audited by independent external auditors.

## Financial Statements

The Financial Statements for the year to 31<sup>st</sup> March 2010 form part of this *Report* and are presented on the following pages (11-22).

### Disclosure of information to auditors

As far as each of the Members at the time this report is approved is aware:

- there is no relevant information of which the charity's auditors are unaware; and
- the Members have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of the information.

### Statement of Members' responsibilities in respect of the financial statements

The Members are responsible for preparing the Report and the financial statements in accordance with applicable law and regulations.

Law applicable to charities in Scotland requires the Members to prepare financial statements for each financial year which give a true and fair view of the Charity's financial activities during the year and of its financial position at the end of the year. In preparing the financial statements the Members are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Charity will continue in operation.

The Members are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006, and the National Health Service (Scotland) Act 1978. The applicable law also sets out the Members' responsibilities for the preparation and content of the Members' Report.

The Members are 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.

Approved by the Members and authorised to be signed on their behalf by:

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Professor David J Harrison (Chairman)  
27th August 2010

## Statement of Financial Activities

For the year ended 31 March 2010

	Notes	Unrestricted Income Fund £	Unrestricted Capital Fund £	Restricted Income Funds £	Restricted Capital Funds £	Total 2010 £	Total 2009 £
<b>Incoming Resources</b>							
<i>Incoming resources from generated funds</i>							
Voluntary income:							
Legacies & donations	5	2,751	-	-	-	2,751	517
Activities for generating funds:							
Royalties	6	68,895	-	-	-	68,895	37,740
Investment income	7	776,459	-	256,217	-	1,032,676	1,105,862
Miscellaneous income		75	-	-	-	75	-
<b>Total incoming resources</b>		<b>848,180</b>	<b>-</b>	<b>256,217</b>	<b>-</b>	<b>1,104,397</b>	<b>1,144,119</b>
<b>Resources Expended</b>							
<i>Cost of generating funds</i>							
Cost of generating voluntary income	8	12,488	-	4,162	-	16,650	7,596
Investment management cost	9	18,860	35,026	6,287	11,675	71,848	66,765
<i>Charitable activities</i>							
Grant-making activities							
Grants payable	10	283,783	-	430,628	-	714,411	639,054
Support cost of grant-making		140,600	-	46,967	-	187,467	190,100
<i>Governance costs</i>	12	33,517	-	11,172	-	44,689	45,831
<b>Total resources expended</b>		<b>489,248</b>	<b>35,026</b>	<b>499,116</b>	<b>11,675</b>	<b>1,035,065</b>	<b>949,346</b>
Net incoming/(outgoing) resources before transfers		358,932	(35,026)	(242,899)	(11,675)	69,332	194,773
Gross transfers between funds	18	(64,033)	-	64,033	-	-	-
Net incoming resources before revaluations and investment asset disposals		294,899	(35,026)	(178,866)	(11,675)	69,332	194,773
Net realised gains/(losses) on sale of investments		-	564,565	-	193,783	758,348	(1,948,805)
Net incoming resources after realised gains/(losses) on sale of investments		294,899	529,539	(178,866)	182,108	827,680	(1,754,032)
Unrealised gain/(loss) on investments	14	-	4,946,830	-	1,781,212	6,728,042	(7,574,896)
<b>Net movement in funds</b>		<b>294,899</b>	<b>5,476,369</b>	<b>(178,866)</b>	<b>1,963,320</b>	<b>7,555,722</b>	<b>(9,328,928)</b>
Fund balances at 1 April 2009		863,301	13,718,299	1,739,740	5,050,224	21,371,564	30,700,492
Fund balances at 31 March 2010	19	1,158,200	19,194,668	1,560,874	7,013,544	28,927,286	21,371,564

The Charity has no recognised gains or losses other than those included in the Statement of Financial Activities. All activities relate to continuing operations.

The notes on pages 13 to 20 form part of these Financial Statements.

## Balance Sheet

As at 31 March 2010

	Notes	2010		2009	
		£	£	£	£
<b>Fixed Assets</b>					
Investments at market value	14		26,239,323		18,104,384
<b>Current assets</b>					
Debtors	15	118,754		134,275	
Cash at bank – at Secretaries		3,040,048		2,804,887	
– at Investment Manager		709,954		1,362,553	
		<u>3,868,756</u>		<u>4,301,715</u>	
<b>Creditors:</b> Amounts falling due within one year	16				
Creditors		44,713		41,879	
Grants payable	17	980,819		917,053	
		<u>1,025,532</u>		<u>958,932</u>	
<b>Net current assets</b>			2,843,224		3,342,783
<b>Total assets less current liabilities</b>			29,082,547		21,447,167
<b>Creditors:</b> Amounts failing due after more than one year					
Grants payable	17		(155,261)		(75,603)
<b>Net assets</b>			<u>28,927,286</u>		<u>21,371,564</u>
<b>Funds</b>	19				
<b>Unrestricted</b>					
Unrestricted Capital Fund	2		19,194,668		13,718,299
Unrestricted Income Fund			1,158,200		863,301
			<u>20,352,866</u>		<u>14,581,600</u>
<b>Restricted Funds</b>					
Restricted Capital Fund	4	7,013,544		5,050,224	
Restricted Income Fund	3	1,560,874		1,739,740	
			<u>8,574,420</u>		<u>6,789,964</u>
			<u>28,927,286</u>		<u>21,371,564</u>

Approved by the Members and authorised to be signed on their behalf by:

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Professor David J Harrison (Chairman)  
27th August 2010

The notes on pages 13-20 form part of these Financial Statements

## **Notes to the Financial Statements**

### **For the year ended 31 March 2010**

#### **1. Accounting policies**

The Financial Statements are prepared in accordance with applicable accounting standards, the Statement of Recommended Practice – Accounting and Reporting by Charities 2005 (SORP), and the Charities Accounts (Scotland) Regulations 2006.

#### **Incoming resources**

Incoming resources are recognised when the Trust becomes entitled to them, the amount is quantitative and there is reasonable certainty of receipt.

Dividend income and interest on Government stocks are credited when they become ex-dividend. Accrued interest on fixed interest stocks received on disposal and acquisition is taken to the Statement of Financial Activities. Deposit interest receivable is accounted for on an accruals basis. Where the Charity has elected to take shares instead of cash dividends under enhanced scrip dividend offers, the cash equivalent is included as income. The income of the Charity includes, where applicable, any recoverable tax deducted at source.

Investment income arising from the capital funds is allocated to the appropriate Unrestricted Income or Restricted Income Fund to which it relates.

Legacies and donations are included in the period in which they are receivable, which is when the Charity becomes entitled to the resource, based on the Members' best estimate given the information available to them. Legacies and donations given for general medical research are included in Unrestricted Funds, and those given for research into specific medical conditions or illnesses at the request of the donor are included within Restricted Funds. Unless the donor has specified that the legacies or donations must be held as capital, the amounts will be included initially within the Income Funds. An appropriation is made to Capital Funds thereafter at the discretion of the Members.

Gifts in kind are recorded at their market value at the date of donation.

Royalties are receivable from the commercial exploitation of the intellectual property resulting from research funded (in whole or in part) by the Charity. Royalty receipts are credited to revenue in the period receivable.

#### **Resources expended**

All expenditure is included on an accruals basis and is recognised when there is a legal or constructive obligation to pay for expenditure. All costs have been directly attributed to one of the functional categories of resources expended. All charitable expenses and costs of generating funds are apportioned between Unrestricted and Restricted Income Funds 75% and 25% respectively. The Members consider this allocation reasonable based on the balance on the Unrestricted and Restricted Funds. The Trust is not VAT registered therefore expenditure is shown inclusive of any VAT.

Costs of generating funds comprise those costs directly attributable to managing the investment portfolio and raising investment income and fundraising costs for raising donations and legacy income. Grant-making activities comprise grants payable, and support costs for processing grants and applications. Governance costs relate to costs incurred in respect of strategic or constitutional matters and also compliance with statutory reporting requirements. Where the Secretaries' fees cannot be directly attributed to these categories, they are estimated 35% (2009: 35%) to Governance activities, and 65% (2009: 65%) to Grant-making activities.

## Notes to the Financial Statements (*continued*)

For the year ended 31 March 2010

### 1. Accounting policies (*continued*)

#### Investment management fees

Investment management fees are allocated 65% to capital funds and 35% to income funds in line with the investment objectives and expected long-term return on the investment portfolio.

#### Foreign exchange gains and losses

Transactions in foreign currencies are recorded at an average rate over the financial period. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All currency differences are taken to the SOFA.

#### Grants

Grants payable are charged to the statement of financial activities when the application is approved and a valid expectation created with the recipient that the grant will be paid. Where the grant offer or an element thereof, is conditional, such grants are not recognised as expenditure until the conditions are fulfilled. Grants offered subject to conditions which have not been met at the year end are noted as a commitment, but are not accrued as expenditure.

#### Investments

Investments are included in the financial statements at market value at the year end, the unrealised gain or loss being applied to Unrestricted or Restricted Capital Funds as appropriate.

Land is included at agricultural value, being the appropriate estimate of market value.

Gains or losses arising on the sale of investments during the year are taken to capital unrestricted and restricted funds on the basis of 75% / 25%. Within the Restricted Capital Funds gains or losses are allocated based on the balance of the funds held at the beginning of the year.

#### Fund accounting

The nature and purpose of each fund are explained in notes 2, 3, 4 and 19.

### 2. Unrestricted Designated Capital Fund

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Balance at 1 April 2009	13,718,299	20,702,629
Resources expended	(35,026)	(32,548)
Net realised gains/(losses) on sale of investments	564,565	(1,423,025)
Unrealised gains/(losses) on investments	4,946,830	(5,528,757)
	<u>19,194,668</u>	<u>13,718,299</u>
Balance at 31 March 2010	<u>19,194,668</u>	<u>13,718,299</u>

The Unrestricted Designated Capital Fund is derived from legacies, bequests and donations which were donated, or allocated by the Members, for the purposes of general medical research and which form the Unrestricted Funds of the Charity.

**Notes to the Financial Statements (continued)****For the year ended 31 March 2010****3. Restricted Income Funds**

Movement during the year was as follows:

	<b>As at 1 April 2009</b>	<b>Investment income</b>	<b>Grants</b>	<b>Cost of generating funds, support &amp; admin costs</b>	<b>Transfers</b>	<b>As at 31 March 2010</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Neurological diseases	-	10,634	(71,825)	(2,845)	64,035	-
Cancer	562,559	107,627	(144,507)	(28,769)	-	496,910
Arthritis	403,144	50,703	(72,466)	(13,553)	-	367,828
Diabetes	26,429	4,981	-	(1,331)	-	30,079
Kidney	5,927	9,937	-	(2,656)	-	13,208
Cardiac & vascular diseases	297,223	64,376	(75,000)	(17,208)	-	269,391
Miscellaneous conditions	444,458	7,959	(66,830)	(2,129)	-	383,458
	<u>1,739,740</u>	<u>256,217</u>	<u>(430,628)</u>	<u>(68,538)</u>	<u>64,035</u>	<u>1,560,874</u>

The Restricted Income Funds are derived from the Restricted Capital Funds of the Charity.

**4. Restricted Capital Funds**

Movement during the year was as follows:

	<b>As at 1 April 2009</b>	<b>Cost of generating funds</b>	<b>Realised gain on investments</b>	<b>Unrealised gain on investments</b>	<b>As at 31 March 2010</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Neurological diseases	209,609	(485)	8,043	73,929	291,096
Cancer	2,121,398	(4,904)	81,400	748,216	2,946,110
Arthritis	999,389	(2,310)	38,348	352,484	1,387,911
Diabetes	98,170	(227)	3,767	34,624	136,334
Kidney	195,868	(453)	7,516	69,083	272,014
Cardiac & vascular diseases	1,268,906	(2,933)	48,689	447,543	1,762,205
Miscellaneous conditions	156,884	(363)	6,020	55,333	217,874
	<u>5,050,224</u>	<u>(11,675)</u>	<u>193,783</u>	<u>1,781,212</u>	<u>7,013,544</u>

The Restricted Capital Funds are derived from legacies, bequests and donations which were donated for specific areas of medical research and which form the Restricted Funds of the Charity.

**5. Legacies and Donations**

	<b>Unrestricted Income Fund</b>	<b>Restricted Income Funds</b>	<b>Total 2010</b>	<b>Total 2009</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Legacies	-	-	-	(1,108)
Donations	2,751	-	2,751	1,625
	<u>2,751</u>	<u>-</u>	<u>2,751</u>	<u>517</u>

**Notes to the Financial Statements (*continued*)**  
**For the year ended 31 March 2010**

**6. Royalties**

	<b>Unrestricted Income Fund</b>	<b>Restricted Income Funds</b>	<b>Total 2010</b>	<b>Total 2009</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Royalties	68,895	-	68,895	37,740
	<u>68,895</u>	<u>-</u>	<u>68,895</u>	<u>37,740</u>

Royalty income arising from research funded by the Charity varies from year to year depending on the research undertaken and cannot be reliably ascertained until receipt.

**7. Investment income**

	<b>Unrestricted Income Fund</b>	<b>Restricted Income Funds</b>	<b>Total 2010</b>	<b>Total 2009</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
UK listed investments	710,437	233,575	944,012	953,641
Interest on cash deposits	66,022	21,817	87,839	151,406
Rent receivable	-	825	825	815
	<u>776,459</u>	<u>256,217</u>	<u>1,032,676</u>	<u>1,105,862</u>

**8. Cost of generating voluntary income**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Fundraising and marketing – support costs (Note 11)	16,650	7,596
	<u>16,650</u>	<u>7,596</u>

**9. Investment management costs**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Investment Manager's fee	71,848	66,765
	<u>71,848</u>	<u>66,765</u>

**10. Grant-making activities**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Grants payable in respect of medical research (Note 17)	714,411	639,054
Support costs	187,467	190,100
	<u>901,878</u>	<u>829,154</u>



## Notes to the Financial Statements (*continued*)

For the year ended 31 March 2010

### 11. Support costs

Support costs are allocated to activities as detailed below:

	Generating voluntary income	Grants payable	Governance costs	2010	2009
	£	£	£	£	£
Secretaries' fee	-	63,883	34,398	98,281	101,422
Stationery, printing and postage	-	5,074	-	5,074	5,104
Miscellaneous	-	65,008	-	65,008	71,061
Marketing	16,650	7,418	-	24,068	7,596
Staff costs					
Scientific Adviser	-	44,389	-	44,389	44,421
Other staff costs	-	1,695	-	1,695	1,874
	<u>16,650</u>	<u>187,467</u>	<u>34,398</u>	<u>238,515</u>	<u>231,478</u>

### Bases of allocation

Where costs are directly attributable to an activity, they are allocated to that activity. Where items of expenditure relate to more than one activity, the cost is apportioned on the basis of usage or staff time as appropriate, and allocated to each activity on that basis. Secretaries' fees are allocated on the basis of staff time with the exception of fees for specific work which are allocated to the relevant activity.

Included in Marketing costs are the costs of the event with HRH The Princess Royal at Holyrood in July 2009, which was to raise the profile of the Trust both with a view longer term to increasing the level of legacies and donations and also with a view to increasing the level of quality applications.

The Members did not receive any direct remuneration for their services during the year (2009: £nil).

Meeting expenses amounting to £1,947 (2009: £851) were reimbursed to seven (2009: three) of the Members.

### 12. Governance costs

	2010	2009
	£	£
Secretaries' fee – support of governance activities (Note 11)	34,398	33,782
Accountancy fees:		
- audit services	6,673	5,554
- financial statements preparation	3,618	6,495
	<u>44,689</u>	<u>45,831</u>

**Notes to the Financial Statements (*continued*)**  
**For the year ended 31 March 2010**

**13. Staff costs**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Gross wages	41,695	41,880
Employer's National Insurance	4,359	4,415
	<u>46,084</u>	<u>46,295</u>

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

	<b>No</b>	<b>No</b>
Scientific Adviser	1	1
Administrative assistant (part-time)	1	1
No employee received emoluments above £60,000		

**14. Investments**

	<b>Investment property</b>	<b>UK Stock Exchange listed</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Market value at 1 April 2009	27,500	18,076,884	18,104,384
Additions	-	4,028,959	4,028,959
Disposals	-	(2,622,062)	(2,622,062)
Net unrealized investment losses in the year	-	6,728,042	6,728,042
	<u>27,500</u>	<u>26,211,823</u>	<u>26,239,323</u>
Market value at 31 March 2010	<u>27,500</u>	<u>26,211,823</u>	<u>26,239,323</u>
Historical cost	<u>27,500</u>	<u>23,091,797</u>	<u>23,119,297</u>

The charity is a joint beneficiary of an estate comprising potential development land. The potential development land has not yet been sold and has been included in the financial statements as an investment property. The land included in the balance sheet is at agricultural value as a development value cannot be quantified with reasonable accuracy.

	<b>Market value</b>
	<b>£</b>
At the balance sheet date the following holdings exceed 5% of the total portfolio:	
Martin Currie Global Alpha Fund B shares	16.96%
British Petroleum Plc	6.18%

**15. Debtors**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Accrued income	<u>118,754</u>	<u>134,275</u>

**16. Creditors: amounts falling due within one year**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Accrued fees	<u>44,713</u>	<u>41,879</u>

**Notes to the Financial Statements (*continued*)**  
**For the year ended 31 March 2010**

**17. Grants**

	<b>2010</b>		<b>2009</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
(a) Reconciliation of grants payable				
At 1 April 2009		992,656		860,774
Awards made and authorised in the year	724,389		663,747	
Grant awards cancelled and recovered	(9,978)		(24,294)	
Grant provision adjustments	-		(399)	
	<hr/>		<hr/>	
Grants payable for the year		714,411		639,054
Grants paid during the year		(570,987)		(507,172)
		<hr/>		<hr/>
At 31 March 2010		<u>1,136,080</u>		<u>992,656</u>
		<hr/> <hr/>		<hr/> <hr/>
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total 2010</b>	<b>Total 2009</b>
	<b>Income Fund</b>	<b>Income Funds</b>		
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
(b) Grants falling due within one year:				
Grants payable	414,690	556,129	980,819	917,053
	<hr/>	<hr/>	<hr/>	<hr/>
(c) Grants falling due after more than one year:				
Year to 31 March 2012	44,238	111,023	155,261	75,603
	<hr/>	<hr/>	<hr/>	<hr/>
Total grants payable	<u>458,928</u>	<u>677,152</u>	<u>1,136,080</u>	<u>992,656</u>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(d) Grants awarded  
 Grants awarded and authorised during the year were as follows:

<b>Principal Grantholder</b>	<b>Administering Institution</b>	<b>£</b>	<b>£</b>
<b>New grants awarded</b>			
Smith	University of St Andrews	76,864	
Sabatier	University of Edinburgh	75,723	
Berry	University of Glasgow	75,000	
Marwick	University of Edinburgh	71,394	
Dufès	University of Strathclyde	67,643	
Goodyear (Richard Vipiana award)	University of Glasgow	72,466	
Childs	University of Edinburgh	62,672	
McNally	University of Edinburgh	58,658	
		<hr/>	560,420
<b>Conditional grants awarded in previous years, now unconditional and authorised</b>			
Delaney	University of Edinburgh	66,830	
Stanfield	University of Edinburgh	44,082	
Culshaw	University of Strathclyde	53,057	
		<hr/>	163,969
			<hr/>
			<u>724,389</u>
			<hr/> <hr/>

**Notes to the Financial Statements (*continued*)**  
**For the year ended 31 March 2010**

**17. Grants (*continued*)**

(e) Commitments

In addition to the amounts committed and accrued noted above, the Members have also authorised certain grants which are subject to the recipient fulfilling certain conditions. The total amount authorised but not accrued as expenditure at 31 March 2010 was £1,014,871 (2009: £525,298), of which £390,599 is expected to be payable within one year if certain conditions are satisfied (2009: £174,608).

**18. Transfers between funds**

There was a transfer during the year of £64,033 from the Unrestricted Income Fund to Restricted Income Funds; this was to eliminate the deficit on the Neurological diseases fund.

**19. Analysis of net assets between funds**

	Investments	Net Current Assets	Creditors falling due after more than one year	Total
	£	£	£	£
<b>Unrestricted Funds</b>				
Unrestricted Capital Fund	18,577,574	617,094	-	19,194,668
Unrestricted Income Fund	935,962	266,476	(44,238)	1,158,200
	<u>19,513,536</u>	<u>883,570</u>	<u>(44,238)</u>	<u>20,352,868</u>
<b>Restricted Funds</b>				
Restricted Capital Fund	6,725,787	287,757	-	7,013,544
Restricted Income Fund	-	1,671,897	(111,023)	1,560,874
	<u>6,725,787</u>	<u>1,959,654</u>	<u>(111,023)</u>	<u>8,574,418</u>
<b>Total Funds</b>	<u><u>26,239,323</u></u>	<u><u>2,843,224</u></u>	<u><u>(155,261)</u></u>	<u><u>28,927,286</u></u>

The Unrestricted Funds represent the funds which the Members are free to use in accordance with the charitable objects.

The Restricted Funds are derived from legacies, bequests and donations which were donated for specific areas of medical research and which form the Restricted Funds of the Charity. The Members may only use these Restricted Funds to make grants for medical research into the specific areas noted within the original terms of the legacy, bequest or donation.

**20. Non audit services**

In common with many other charities of our size and nature, we use our auditors to assist in the preparation of the financial statements.

## **Independent Auditor's Report to the Members**

We have audited the financial statements of Medical Research Scotland for the year ended 31 March 2010 which are set out on pages 11-20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's Members, as a body, in accordance with section 44 (1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulation 2006. Our audit work has been undertaken so that we might state to the members and the charity'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 charity, its members as a body and its Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Members and auditors**

The responsibilities of the Members for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Members' Responsibilities.

We have been appointed as auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

We also report to you if, in our opinion, the information given in the Members' Annual Report is consistent with the financial statements, if the charity has not kept proper accounting records, if the charity's statement of account is not in agreement with these accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Report and the Members' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We read the Chairman's Report and the Members' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

We have undertaken the audit in accordance with the requirements of APB Ethical Standards, in the circumstances set out in Note 20 to the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charity's affairs as at 31 March 2010 and of its incoming resources and application of resources, for the year then ended; and
- the financial statements have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

Scott-Moncrieff  
Registered Auditor  
Chartered Accountants  
Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006  
Exchange Place 3  
Semple Street  
Edinburgh EH3 8BL

**27<sup>th</sup> August 2010**