



Medical Research Scotland

58th Annual Report and Financial Statements

2011-12

*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 independent comprehensive charity funder of medical research, Medical Research Scotland is committed to:

- supporting people in the early stages of their careers in biomedical research in Scotland
- supporting only the highest-quality clinical and laboratory-based 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 during the year:

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

Professor Catherine Abbott, BSc, PhD

Professor Andrew H Baker, BSc, PhD, FAHA, FESC, FRSE

Dr Marie Boyd, BSc, PhD

Professor William Cushley, BSc, PhD

*Mr Brian Duffin, MA, FFA, CCMi

Mr Scott Johnstone, CEng, BSc(Eng), MBA, MIET, AMIMECHE

*Mr Bruce M Mann, MCIBS, BSc(fin) (*resigned 23rd May 2012*)

Professor Allan M Mowat, BSc, MBChB, PhD, FRCPath (*resigned 1st September 2011*)

*Mr John Naylor, OBE, MA, CCMi

*Ms Fiona Nicolson, MA, LLB, DipLP

** 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 Alex M Graham PhD

AUDITORS

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

INVESTMENT MANAGER

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

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Foreword



BUCKINGHAM PALACE

As Patron, I am pleased to learn that Medical Research Scotland has continued to implement its revised funding strategy, with the successful start of its innovative PhD studentship scheme. These awards are encouraging the type of university/industry partnerships needed in Scotland to ensure that aspiring young researchers have the training needed to equip them for successful careers in either sector.

It is also gratifying that the popular and now competitive Undergraduate Vacation Scholarship awards will be continued. Undergraduates have only limited opportunities to obtain such practical insights into the reality of biomedical research. The experience provides invaluable support and guidance for the career plans of those students who receive these awards.

Seeking to encourage and support more young people in biomedical research clearly remains the Trust's key objective and its ability to find new ways to do this is laudable. I wish it continued success in the year ahead.



HRH The Princess Royal

Chairman's Report

This year we have continued with the phased implementation of the changes agreed following the Strategic Review. Although all the benefits may take some time to be felt fully, as the project grants are phased out, we believe that the new PhD awards and the Vacation Scholarships are enabling the Trust to continue to encourage and support young biomedical scientists in Scotland. Changes still in the pipeline will be less visible, being largely administrative and operational, but they are no less important to the effective management of the Trust in the years ahead.

I am pleased to report that, at their meeting in February 2012, the Trustees were able to give formal confirmation to the recommendations of the PhD Panel that 10 PhD Studentships be awarded from the 24 applications received. The Panel's recommendations had earlier been accepted unanimously by the Trustees and all the applicants informed of the decisions in November 2011. There will be seven new Medical Research Scotland PhD students taking up their 4-year posts in September 2012; and an eighth in January 2013. Introducing these innovative awards involving some new university/industry collaborations has been challenging, but we are learning from the experience and will monitor them closely. The Vacation Scholarships remain popular and since we are always seeking to ensure the quality of the individuals and the research we support, we only awarded 18 from the 22 applications received.

The second Researcher Showcase for senior school pupils was held in Edinburgh on a Friday afternoon in mid-March. There was an excellent attendance by young people from schools in Edinburgh, the Lothians and some travelled from the Borders to take part. Short talks about their personal research careers and work were given by two of our grantholders and there were 10 poster displays presented by a selection of other grantholders and Vacation Scholars. Feedback from the event was excellent and I am grateful to those Trustees who were also able to attend and talk to the young people supported by the Trust.

During the year, we agreed to a modest upgrade of our presence on a website which receives online donations on our behalf, recognising that online giving is becoming increasingly popular. Although the sums involved are usually modest, they and others made directly, are all received gratefully and are included in the relevant pages of our own website. During the year we have also received over £100,000 from legacies. In all cases, the income is taken to the funds relevant to the purposes or diseases specified by the donors.

We were sorry to receive Professor Allan Mowat's resignation in September 2011, his contributions having been valuable to our deliberations since November 2007. Although occurring after the formal end of the year under report, I must also here record the Trustees' sadness at receiving the resignation of Mr Bruce Mann in May 2012, after only two years' service as a Trustee. Believing that the Trust should find ways to encourage more young people to consider research careers, Bruce's strong support of the Vacation Scholarship awards has been demonstrated by a significant donation from the Mann Foundation towards ensuring their continuation. We are grateful to the Foundation for its generosity. Now that the implementation of the strategic review is nearing completion, we will be seeking to bring the Trust's membership up to complement with all speed.

I continue to be grateful to my fellow Trustees for the time they so willingly give to the work of the charity, helping to ensure that it is governed and administered appropriately in these difficult economic times. All act in a voluntary capacity while also being very active in their respective fields, so their contributions are all the more welcome.

Professor David J. Harrison
Chairman

Members' Report

The Members present their report along with the Financial Statements of the Trust for the year ended 31st March 2012. 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 and medical 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, or with companies operating in healthcare-related fields in Scotland.

Following a strategic review of its provision of research support, a new funding stream has been introduced to replace the research project grants. Through the provision of commercially-linked PhD Studentships, the Trust will continue to support young biomedical researchers while also preparing them for a career in academia or the health-related commercial sector. The Trust 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 funding applications before they reach Members. For the last of the Research Project Grants, the Trust's Scientific Adviser obtained references from at least two independent referees, preferably more. The applicants were invited to respond to anonymised extracts of the referees' comments, before the scientific Members reviewed and reported on those applications in which they had no conflict of interest, together with the referee reports and the applicants' responses to them. Thereafter all the Members considered the applications for support in light of the reports received and selected from among them, in accordance with the Trust's priorities.

Funding decisions for the first of the new PhD Studentship awards were taken in a two-stage process. Applications, detailing a defined research project, were subject to expert peer review by members of the specially-appointed PhD Studentship Panel, who had first been provided (by the Scientific Adviser) with sufficient information about each to enable them to declare any possible conflict of interest in any application. The Panel members then reviewed the applications independently and their reports were then considered by the Panel members in committee. Recommendations for funding were made to the Members, who later took the final decisions. Those accepting the offer of funding then selected appropriately highly-motivated and qualified students following advertisement and interview by a group comprising the academic institution and representatives from both the company and the Trust.

After award, all grantholders are required to submit progress and final reports and also a post-completion 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-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 Intellectual Property Manager of each administering institution in respect of each project grant.

Vacation Scholarship applications are reviewed separately and independently by the scientific and medical Members, with final funding decisions being taken by all of the Members in light of the recommendations of the scientific and medical Members. After completion of the Vacation Scholarship, a short report is required from the grantholder and the student. These reports are reviewed by all the Members.

Grant Awards

During the 2011-12 Financial Year the Members recommended the award of a total of three Project Grants, 10 PhD Studentships and 18 Undergraduate Vacation Scholarships. The Project Grants are all of three years' duration and will involve work aimed at improving prognostic accuracy for treatment in advanced cancer, genetic understanding of dwarfism and the development of neural control of breathing. The topics of the 4-year PhD Studentships cover a wide range including cancer, cardiovascular diseases, respiratory and inflammatory diseases – many with either drug development or improved diagnosis as their primary focus. Further information about all the awards formally accepted can be found in the *Annual Review 2011-12* (which is available on the Trust's website: www.medicalresearchscotland.org.uk). The total value of the grants awarded amounted to over £1.3 million.

Achievements and Performance

The Trust's **Annual Plan** for 2011-12 and performance against it are summarised as follows:

1. To continue to raise awareness of the Trust and particularly its new funding strategy within the academic and business communities in Scotland, seeking to ensure appropriately high-quality applications.

The availability of the new PhD Scholarship awards was publicised widely among both the life sciences business and academic communities throughout Scotland and 20 applications were received by the closing date.

2. To make up to 10 awards under the new PhD Studentships Scheme to suitably high-quality university/industry consortia and to make funds available for up to 20 Undergraduate Vacation Scholarships.

Eighteen Vacation Scholarships were awarded after consideration of the 22 applications received. Ten PhD Studentship awards were offered after consideration of the 24 applications received: of these, seven PhD students will start in September 2012 and an eighth in January 2013.

3. To hold a Researcher Showcase for senior school pupils in Aberdeen, Dundee or Edinburgh during 2012.

An event was held at the Royal College of Surgeons of Edinburgh on Friday 16th March, at which posters on their Trust-funded research were presented by a selection of those holding Project Grants and also some of the Undergraduate Vacation Scholars. Details are available on the website at: www.medicalresearchscotland.org.uk/events.htm.

4. To identify appropriate opportunities which might benefit from Her Royal Highness The Princess Royal's continued patronage of the Trust.

The Trustees invited Her Royal Highness to attend the Edinburgh Showcase event but she declined: her diary being heavily committed to Jubilee events.

5. To identify appropriate fundraising and marketing opportunities arising from the change in funding strategy, including the potential for further partnership funding.

Work on this continues.

6. To continue to keep the membership of the Trust under review, in terms of advance planning ahead of retirements and appraisal for re-appointments and to ensure the appropriate breadth of expertise needed for the continued good governance of the Trust.

The recommendations of the strategic review included a widening of the range and breadth of expertise appropriate to the proposed restructured board of Trust and the establishment of a Science sub-committee. Recent resignations and phased retirements among the medical/scientific membership should enable the search for and appointment of appropriate individuals to be handled strategically in the coming months.

7. To continue to implement agreed aspects arising from the strategic review, in particular those seeking to maximise efficient use of the Trust's resources with appropriate streamlining of procedures and reduction in bureaucracy.

Work on this continues.

8. To complete the review process for the Trust's Secretarial Services and review others of the Trust's services in line with the agreed timetable.

Work on this continues.

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

During the year the asset allocation of the portfolio has remained the same, although it is reviewed regularly, in particular by the Trust's Audit & Investment Committee.

10. To complete the transition of the Trust's online funding application and review processes from the existing extranet to the new secure document management system and to extend its use to include others of the Trust's administrative file-sharing and document management functions.

The technical transition was completed before the end of September 2011, when it came into full operational use, with the transfer and online archiving of all application and review documents from the previous system being completed shortly thereafter.

11. To have the Trust's *Annual Report & Financial Statements* printed and both it and the *Annual Review* available from its website before 30th September 2011.

The Annual Report & Financial Statements and the Annual Review were published on the website on 16th September 2011.

Plans for the Future

The Chairman has carried out a comprehensive strategic review of the Trust's activities in light of the current and likely future direction of the biomedical research and health care environments in Scotland. A longer-term plan is in preparation taking account of this review.

The Trust's **Annual Plan 2012-13** is as follows:

1. To continue to raise awareness of the Trust and particularly its new funding strategy within the academic and business communities in Scotland, seeking to ensure appropriately high-quality applications.
2. To make up to 10 PhD Studentship Awards for suitably high-quality, relevant projects submitted by university/industry collaborations and to make funds available for up to 20 Undergraduate Vacation Scholarships.
3. To hold a Researcher Showcase for senior school pupils in Aberdeen or Dundee during 2013, to which the Patron, HRH The Princess Royal might be invited to attend.
4. To bring the membership of the Trust back to full strength in light of the recent retirements, resignations and the need to ensure that there is the appropriate breadth of expertise needed for the continued good governance of the Trust.
5. To continue to implement agreed aspects arising from the strategic review, in particular those seeking to maximise efficient use of the Trust's resources with appropriate streamlining of procedures and reduction in bureaucracy.
6. To complete the review process for the Trust's Secretarial Services and review others of the Trust's services in line with the agreed timetable.
7. To continue to keep under close review the Trust's investment portfolio and, in particular, its income.
8. To have the Trust's *Annual Report & Financial Statements* printed and both it and the *Annual Review* available from its website before 31st October 2012.

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 £964,024 during the year, compared with £836,671 in 2010-11 and royalties were £73,672 compared with £59,653. Work 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 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, against which performance is monitored and reported on in writing and at meetings, comprised 70% FTSE All Share and 30% FTSE World ex-UK.

In the year under review, the total return on the Trust's portfolio was 1.47% compared with a return on the benchmark of 1.10%. The 12-month out-performance came from a combination of the core UK equity portfolio and the holding in the Martin Currie Global Equity Income Fund, which both out-performed their respective benchmarks over the period. The holding in the Martin Currie Emerging Markets Fund detracted from performance over the period as emerging markets generally lagged their developed market counterparts. As at 31st March 2012, the value of the Trust's investment portfolio (including capital cash) was £27,799,499, compared with £27,993,712 at 31st March 2011 and a value as at 25th October 2012 of £28,388,484.

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 from time to time.

The Trust's Income Fund continues to show a surplus, as a result of the reduction in the number of project grants awarded as the PhD Scholarship awards have been introduced and the accounting treatment of the PhD awards made. The surplus also includes a one-off refund of fees from Martin Currie in respect of the acquisitions of units in the Emerging Markets Fund and Global Equity Income Fund, most of which took place in 2010/11. Actual spending on the new PhD awards will not start until late in the 2012-13 financial year. However as can be seen from Note 17(e) to the Financial Statements, the total spend authorised but not yet accrued, has increased significantly from last year. In addition to the innovative new PhD Scholarship Awards, the Trust continues to fund the Vacation Scholarship Awards and the Trustees are looking to add to these two funding streams as the new PhD scheme beds down.

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 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. A 'light-touch' appraisal process has recently been introduced for Members reaching the end of their first term of appointment.

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 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:

- A Risk Register of all the Trust's activities is held and maintained by the Secretaries. This is reviewed annually by the Audit & Investment sub-committee and any recommendations for change made to the Members.
- 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 auditors of the monthly financial reconciliations.
- Annual statutory Financial Statements are audited by independent external auditors.

Financial Statements

The Financial Statements for the year to 31st March 2012 form part of this *Report* and are presented on pages 14-24.

Statement of disclosure of information to auditors

To the knowledge and belief of each of the persons who are Members at the time the report is approved:

- So far as the Member is aware, there is no relevant information of which the Charity's auditor is unaware, and
- He/she has taken all the steps that he/she ought to have taken as a Member in order to make himself/herself aware of any relevant audit information, and to establish that the Charity's auditor is aware of the information

Statement of Members' responsibilities

The Members are responsible for preparing the Members' Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The 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 state of affairs of the Charity and of the incoming resources and application of resources of the Charity for that period. In preparing these financial statements, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material 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 business.

The Members are responsible for keeping proper accounting records that 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 (as amended) and the National Health Service (Scotland) Act 1978. They 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.

The Members are responsible for the maintenance and integrity of the Charity and financial information included on the Charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Professor David J Harrison (Chairman)

26th October 2012

Independent Auditor's Report to the Members

We have audited the financial statements of Medical Research Scotland for the year ended 31 March 2012 which comprise the Statement of Financial Activities, Balance Sheet and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the Charity's Members those matters we are required to state to them in an auditors' 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 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

As explained more fully in the Statement of Members' responsibilities set out on page 11, the Members are responsible for the preparation of the financial statements which give a true and fair view.

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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors, including "APB Ethical Standard – Provisions Available for Smaller Entities (Revised)", in the circumstances set out in Note 20 to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Members; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 31 March 2012 and of its incoming resources and application of resources, including its income and expenditure, 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 Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Independent Auditor's Report to the Members (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- the information given in the Members' annual report is inconsistent in any material respect with the financial statements; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

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

26th October 2012

Statement of Financial Activities

For the year ended 31 March 2012

	Notes	Unrestricted Income Fund £	Unrestricted Capital Fund £	Restricted Income Funds £	Restricted Capital Funds £	Total 2012 £	Total 2011 £
Incoming Resources							
<i>Incoming resources from generated funds</i>							
Voluntary income:							
Legacies & donations	5	58,069	-	74,226	-	132,295	247,915
Activities for generating funds:							
Royalties	6	73,672	-	-	-	73,672	59,653
Investment income	7	718,447	-	245,577	-	964,024	836,671
Miscellaneous income		90,483	-	32,710	-	123,193	-
Total incoming resources		<u>940,671</u>	<u>-</u>	<u>352,513</u>	<u>-</u>	<u>1,293,184</u>	<u>1,144,239</u>
Resources Expended							
<i>Cost of generating funds</i>							
Cost of generating voluntary income	8	9,953	-	3,317	-	13,270	8,410
Investment management cost	9	23,733	44,076	7,911	14,692	90,412	81,187
<i>Charitable activities</i>							
Grant-making activities	10						
Grants payable		181,368	-	688,796	-	870,164	1,145,761
Support cost of grant-making		82,509	-	27,503	-	110,012	159,420
<i>Governance costs</i>	12	37,620	-	12,540	-	50,160	45,962
Total resources expended		<u>335,183</u>	<u>44,076</u>	<u>740,067</u>	<u>14,692</u>	<u>1,134,018</u>	<u>1,440,740</u>
Net income resources before transfers		605,488	(44,076)	(387,554)	(14,692)	159,166	(296,501)
Gross transfers between funds	18	(167,197)	-	167,197	-	-	-
Net incoming resources before revaluations and investment asset disposals		438,291	(44,076)	(220,357)	(14,692)	159,166	(296,501)
Net realised gains/(losses) on sale of investments		-	(7,827)	-	990	(6,837)	(116,021)
Net incoming resources after realised gains/(losses) on sale of investments		438,291	(51,903)	(220,357)	(13,702)	152,329	(412,522)
Unrealised gain on investments	14	-	(458,515)	-	(173,612)	(632,127)	1,216,558
Net movement in funds		438,291	(510,418)	(220,357)	(187,314)	(479,798)	804,036
Fund balances at 1 April 2011		903,918	19,956,910	1,571,427	7,299,067	29,731,322	28,927,286
Fund balances at 31 March 2012	19	<u>1,342,209</u>	<u>19,446,492</u>	<u>1,351,070</u>	<u>7,111,753</u>	<u>29,251,524</u>	<u>29,731,322</u>

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 16-24 form part of these Financial Statements.

Balance Sheet

As at 31 March 2012

		2012		2011	
Notes	£	£	£	£	£
Fixed Assets					
Investments at market value	14		27,334,802		27,249,549
Current assets					
Debtors	15	135,153		120,593	
Cash at bank – at Secretaries		2,965,874		3,190,512	
– at Investment Manager		492,197		771,663	
		3,593,224		4,082,768	
Creditors: Amounts falling due within one year					
Creditors	16	37,285		40,284	
Grants payable	17	1,439,791		1,380,021	
		1,477,076		1,420,305	
Net current assets			2,116,148		2,662,463
Total assets less current liabilities			29,450,950		29,912,012
Creditors: Amounts falling due after more than one year					
Grants payable	17		(199,426)		(180,690)
Net assets			29,251,524		29,731,322
Funds	19				
Unrestricted					
Unrestricted Capital Fund	2		19,446,492		19,956,910
Unrestricted Income Fund			1,342,209		903,918
			20,788,701		20,860,828
Restricted Funds					
Restricted Capital Fund	4	7,111,753		7,299,067	
Restricted Income Fund	3	1,351,070		1,571,427	
			8,462,823		8,870,494
			29,251,524		29,731,322

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

Professor David J Harrison (Chairman)

26th October 2012

The Notes on pages 16-24 form part of these Financial Statements.

Notes to the Financial Statements

For the year ended 31 March 2012

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 measurable 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 credited 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.

Expenditure is shown inclusive of any irrecoverable 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% (2011: 35%) to Governance activities, and 65% (2011: 65%) to Grant-making activities.

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

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 Statement of Financial Activities (SOFA).

Grants

Grants payable are charged to the SOFA 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 Unrestricted and Restricted Capital 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

	2012	2011
	£	£
Balance at 1 April 2011	19,956,910	19,194,668
Resources expended	(44,076)	(39,579)
Net realised (losses)/gains on sale of investments	(7,827)	(89,594)
Unrealised (losses)/gains on investments	(458,515)	891,415
	<hr/>	<hr/>
Balance at 31 March 2012	<u>19,446,492</u>	<u>19,956,910</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 2012

3. Restricted Income Funds

Movement during the year was as follows:

	As at 1 April 2011	Investment & other income	Legacies & Donations	Grants	Cost of generating funds, support & admin costs	Transfers	As at 31 March 2012
	£	£	£	£	£	£	£
Neurological diseases	-	11,550	-	(176,619)	(2,128)	167,197	-
Cancer	352,839	116,897	104	(191,333)	(21,537)	-	256,970
Arthritis	523,308	55,070	432	(104,318)	(10,146)	-	464,346
Diabetes	-	5,410	-	-	(997)	-	4,413
Kidney	-	10,793	700	3,725	(1,988)	-	13,230
Cardiac & vascular diseases	307,176	69,922	2,345	(145,661)	(12,882)	-	220,900
Miscellaneous conditions	388,104	8,645	-	(74,590)	(1,593)	-	320,566
ME	-	-	70,645	-	-	-	70,645
	<u>1,571,427</u>	<u>278,287</u>	<u>74,226</u>	<u>(688,796)</u>	<u>(51,271)</u>	<u>167,197</u>	<u>1,351,070</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:

	As at 1 April 2011	Cost of generating funds	Realised gain/(loss) on investments	Unrealised gain on investments	As at 31 March 2012
	£	£	£	£	£
Neurological diseases	302,947	(610)	41	(7,206)	295,172
Cancer	3,066,046	(6,172)	416	(72,927)	2,987,363
Arthritis	1,444,414	(2,907)	196	(34,356)	1,407,347
Diabetes	141,884	(286)	19	(3,375)	138,242
Kidney	283,087	(570)	38	(6,733)	275,823
Cardiac & vascular diseases	1,833,945	(3,691)	249	(43,622)	1,786,880
Miscellaneous conditions	226,744	(456)	31	(5,393)	220,926
	<u>7,299,067</u>	<u>(14,692)</u>	<u>990</u>	<u>(173,612)</u>	<u>7,111,753</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

	Unrestricted Income Fund	Restricted Income Funds	Total 2012	Total 2011
	£	£	£	£
Legacies	31,466	70,853	102,319	241,949
Donations	26,603	3,373	29,976	5,966
	<u>58,069</u>	<u>74,226</u>	<u>132,295</u>	<u>247,915</u>

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

6. Royalties

	Unrestricted Income Fund	Restricted Income Funds	Total 2012	Total 2011
	£	£	£	£
Royalties	73,672	-	73,672	59,653

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

	Unrestricted Income Fund	Restricted Income Funds	Total 2012	Total 2011
	£	£	£	£
UK listed investments	664,049	226,545	890,594	763,943
Interest on cash deposits	54,398	18,132	72,530	71,903
Rent receivable	-	900	900	825
	<u>718,447</u>	<u>245,577</u>	<u>964,024</u>	<u>836,671</u>

8. Cost of generating voluntary income

	2012 £	2011 £
Fundraising and marketing – support costs (Note 11)	13,270	8,410

9. Investment management costs

	2012 £	2011 £
Investment Manager's fee	90,412	81,187

10. Grant-making activities

	2012 £	2011 £
Grants payable in respect of medical research (Note 17)	870,164	1,145,761
Support costs (Note 11)	110,012	159,420
	<u>980,176</u>	<u>1,305,181</u>

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

11. Support costs

Support costs are allocated to activities as detailed below:

	Generating voluntary income	Grants payable	Governance costs	2012	2011
	£	£	£	£	£
Secretaries' fee	-	73,119	39,371	112,490	100,406
Stationery, printing & postage	-	4,953	-	4,953	3,553
Miscellaneous	-	20,890	-	20,890	38,867
Marketing	13,270	11,050	-	24,320	25,342
Staff costs					
Scientific Adviser	-	-	-	-	34,804
	<u>13,270</u>	<u>110,012</u>	<u>39,371</u>	<u>162,653</u>	<u>202,972</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.

The Members did not receive any direct remuneration for their services during the year (2011: £nil).

Meeting expenses amounting to £655 (2011: £1,370) were reimbursed to four (2011: six) of the Members.

12. Governance costs

	2012	2011
	£	£
Secretaries' fee – support of governance activities (Note 11)	39,371	35,142
Accountancy fees:		
audit services	7,093	6,970
financial statements preparation	3,696	3,850
	<u>50,160</u>	<u>45,962</u>

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

13. Staff costs

	2012	2011
	£	£
Gross wages	-	31,395
Employer's National Insurance	-	3,409
	<u>-</u>	<u>34,804</u>

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

	No.	No.
Scientific Adviser	-	1
No employee received emoluments above £60,000		

14. Investments

	Investment property	UK Stock Exchange listed	Total
	£	£	£
Market value at 1 April 2011	27,500	27,222,049	27,249,549
Additions	-	1,705,724	1,705,724
Disposals	-	(988,344)	(988,344)
Net unrealised investment losses in the year	-	(632,127)	(632,127)
	<u>27,500</u>	<u>27,307,302</u>	<u>27,334,802</u>
Market value at 31 March 2012	<u>27,500</u>	<u>27,307,302</u>	<u>27,334,802</u>
Historical cost	<u>27,500</u>	<u>24,714,763</u>	<u>24,742,263</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.

	Market value %
At the balance sheet date the following holdings exceed 5% of the total portfolio:	
Martin Currie Emerging Markets Fund B Shares	18.76
Martin Currie Global Income Fund	10.66

15. Debtors

	2012	2011
	£	£
Accrued income	<u>135,153</u>	<u>120,593</u>

16. Creditors: amounts falling due within one year

	2012	2011
	£	£
Accrued fees	<u>37,285</u>	<u>40,284</u>

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

17. Grants

	2012		2011	
	£	£	£	£
(a) Reconciliation of grants payable				
At 1 April 2011		1,560,711		1,136,080
Awards made and authorised in the year	881,535		1,145,761	
Grant awards cancelled and recovered	(11,371)		-	
Grants payable for the year		870,164		1,145,761
Grants paid during the year		(791,658)		(721,130)
At 31 March 2012		1,639,217		1,560,711

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2012 £	Total 2011 £
(b) Grants falling due within one year:				
Grants payable	377,881	1,061,910	1,439,791	1,380,021
(c) Grants falling due after more than one year:				
Year to 31 March 2013	46,274	153,152	199,426	180,690
Total grants payable	424,155	1,215,062	1,639,217	1,560,711

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

Principal Grantholder	Administering Institution	£	£
New Project Grants awarded			
Laird	University of Edinburgh	74,036	
Bicknell	University of Edinburgh	74,928	
McKay	University of Glasgow	74,895	
			223,859
PhD Scholarships awarded 2011			
Hawksworth *	University of Aberdeen	27,844	
Meek	University of Dundee	27,732	
Woof	University of Dundee	25,413	
Bradley	University of Edinburgh	27,400	
Bachmann	University of Edinburgh	27,400	
Langdon	University of Edinburgh	27,400	
Walkinshaw	University of Edinburgh	27,500	
Smith	University of Glasgow	27,732	
			218,421

*To be held by Dr Heather Wilson, following the death of Professor Hawksworth.

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

17. Grants (*continued*)

Vacation Scholarships awarded - 2012		£	£
Prazak	University of Aberdeen	1,840	
Wallen	University of Aberdeen	1,840	
Scott	University of Dundee	1,840	
Crook	University of Dundee	1,840	
Middleton	University of Dundee	1,840	
Batchen	University of Edinburgh	1,840	
Price	University of Edinburgh	1,840	
Henderson	University of Edinburgh	1,840	
Lim	University of Edinburgh	1,840	
Horsburgh	Edinburgh Napier University	1,840	
Rintala	University of Glasgow	1,840	
Jamal	University of Glasgow	1,840	
Morrison	University of Glasgow	1,840	
Crookston	University of Glasgow	1,840	
Trimble	University of Glasgow	1,840	
Patterson	University of Glasgow	1,840	
Olsen	Glasgow Caledonian University	1,840	
Kulka	University of Strathclyde	1,840	
			33,120
Conditional grants awarded in previous years, now unconditional and authorised			
Childs	University of Edinburgh	73,024	
Berry	University of Glasgow	75,000	
Maffia	University of Glasgow	70,661	
Sabatier	University of Edinburgh	74,224	
Goodyear	University of Glasgow	76,474	
Sorensen	University of Strathclyde	36,752	
			406,135
			881,535

(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 2012 was £1,455,806 (2011: £989,159), of which £279,843 is expected to be payable within one year if certain conditions are satisfied (2011: £328,603).

18. Transfers between funds

There was a transfer during the year of £167,197 from the Unrestricted Income Fund to Restricted Income Funds; this was to eliminate the deficit on the Neurological diseases fund.

Notes to the Financial Statements (*continued*)

For the year ended 31 March 2012

19. Analysis of net assets between funds

	Investments	Net Current Assets	Creditors falling due after more than one year	Total
	£	£	£	£
Unrestricted Funds				
Unrestricted Capital Fund	19,373,387	73,105	-	19,446,492
Unrestricted Income Fund	730,886	657,597	(46,274)	1,342,209
	<u>20,104,273</u>	<u>730,702</u>	<u>(46,274)</u>	<u>20,788,701</u>
Restricted Funds				
Restricted Capital Fund	7,230,529	(118,776)	-	7,111,753
Restricted Income Fund	-	1,504,222	(153,152)	1,351,070
	<u>7,230,529</u>	<u>1,385,446</u>	<u>(153,152)</u>	<u>8,462,823</u>
Total Funds	<u><u>27,334,802</u></u>	<u><u>2,116,148</u></u>	<u><u>(199,426)</u></u>	<u><u>29,251,524</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.