

Trustees'  
Report and  
Financial  
Statements

for the year ended  
31 March 2006

# Trustees' Report and Financial Statements

■ For the year ended 31 March 2006

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# Trustees' Report

■ For the year ended 31 March 2006

Registered Charity No 207043

## Trustees

The Trustees of the Society are the Members of its Council duly elected by its Fellows. Ten of the 21 members of Council retire each year in line with its Royal Charter.

### President

Lord May of Oxford, OM, AC, Kt<sup>a</sup>  
Lord Rees of Ludlow, Kt<sup>b</sup>

### Treasurer and Vice-President

Sir David Wallace, CBE\*

### Biological Secretary and Vice-President

Professor David Read\*

### Physical Secretary and Vice-President

Professor Martin Taylor\*

### Foreign Secretary and Vice-President

Dame Julia Higgins, DBE\*

### Other Members of Council

Professor Jean Beggs<sup>c</sup>  
Professor Joselyn Bell Burnell, CBE\*  
Dr Mariann Bienz\*  
Professor David Clary<sup>c</sup>  
Professor Caroline Dean, OBE<sup>d\*</sup>  
Professor Eleanor Dodson<sup>d\*</sup>  
Professor Athene Donald\*  
Professor Dianne Edwards<sup>d\*</sup>  
Sir Peter Knight<sup>d\*</sup>  
Professor Philip Kocienski<sup>d\*</sup>  
Professor Douglas Gough<sup>c</sup>  
Professor Judith Howard, CBE<sup>c</sup> Vice President  
Professor David Lilly<sup>d\*</sup>

Professor Georgina Mace, OBE<sup>d\*</sup>  
Professor Angus MacIntyre\*  
Professor Robin Marshall<sup>c</sup>  
Dame Bridget Oqilvie, DBE<sup>c</sup>  
Professor Mark Pepys<sup>c</sup>  
Professor Ole Petersen\*  
Professor John Pethica\*  
Professor Peter Ratcliffe<sup>d\*</sup>  
Professor Alan Rickinson<sup>c</sup>  
Professor Dale Sanders\*  
Professor John Shepherd<sup>d\*</sup>  
Sir John Meurig Thomas<sup>d\*</sup>

## Changes

*The above served as Members of Council throughout the year unless indicated as below.*

a President until 30 November 2005

b President since 30 November 2005

c Other Members of Council until 30 November 2005

d Other Members of Council since 30 November 2005

\* Members of Council at both 31 March 2006 and at the date of approval of this Report and Financial Statements

## Executive Secretary

Mr Stephen Cox, CVO

## Registered Address

6–9 Carlton House Terrace  
London,  
SW1Y 5AG

[www.royalsoc.ac.uk](http://www.royalsoc.ac.uk)

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## **Auditors**

PKF (UK) LLP  
Chartered Accountants and Registered Auditors  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

## **Solicitors**

Darbys  
52 New Hall Street  
Oxford  
OX1 2QD

## **Bankers**

Barclays Bank plc  
Level 28  
1 Churchill Place  
London  
E14 5HP

## **Investment Managers**

Rathbone Investment Management Ltd  
159 New Bond Street  
London  
W1S 2UD

UBS AG  
1 Curzon Street  
London  
W1J 5UB

## **Internal Auditors**

Deloitte & Touche LLP  
Hill House  
1 Little New Street  
London  
EC4A 3TR

# Trustees' Report

■ For the year ended 31 March 2006

The Royal Society of London for Improving Natural Knowledge, commonly known as the Royal Society, is an independent self-governing scientific academy founded in 1660 incorporated by Royal Charter and is a Registered Charity. This report and the financial statements attached are presented in the format required by the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005).

## ■ STRUCTURE, GOVERNANCE AND MANAGEMENT

### *Organisation*

The Society is governed by a Council of 21 Fellows, who are also its trustees for charity purposes, including five honorary officers: President, Treasurer, two Secretaries (one drawn from the physical sciences and mathematics, and the other from the life sciences) and a Foreign Secretary. Members of Council serve for various terms of between one and five years. The Royal Charter requires that 10 of the 21 members of Council retire each year. The composition of Council comprises three categories of membership – the President and other officers who hold office for one year but are eligible for re-election annually and normally serve for five years one retiring each year by rotation, one representative from each of 10 subject area classifications who hold office for one year but are eligible for re-election for a second year and members elected to create a balanced and representative Council who also hold office for one year but are eligible for re-election for a second. All members of Council begin and end their tenure on Council on Anniversary Day, which is usually 30 November – St Andrew's day. Suggestions for membership of Council are invited annually from the Fellowship. The determination of vacancies and nomination of candidates is decided by Council in accordance with its Standing Orders. Nominees are confirmed by ballot of the Fellowship. All members of Council are elected from the Fellowship.

Fellows elected to Council are amongst the world's leading scientists and are well-qualified to provide the Society with the necessary guidance and leadership to achieve its objectives. Council holds an annual seminar to ensure that its members have a wider understanding of their responsibilities and duties as trustees of a charity. As many members of Council serve for only one year, and others for two, it is not usually possible to provide extended training.

Council is advised by a wide range of committees, the membership of many of which and their

subcommittees is not confined to Fellows. The Strategy and Policy Board, comprising the President, honorary officers and the Executive Secretary, is responsible for the recommendation to Council and oversight of policy management. The Finance and General Purposes Committee, comprising the same and other Fellows selected for their experience of financial matters, oversees the financial and other operational systems and methods of control, including risk analysis and management; ensuring the Society complies with all financial aspects of the law, relevant regulations and good practice. The Audit Committee reports direct to Council, reviews the audited financial statements and recommends their approval to Council, enquires into the Treasurer's stewardship of Society assets, reviews reports from the external and internal auditors, monitors management response thereto and implementation of agreed recommendations. Other Committees advise Council on, amongst other things, the election of new Fellows, publishing and the administration of activity programmes including the award of grants etc. The Investment Advisory Committee, comprising Fellows and experienced investment professionals, advises the Treasurer on the performance of the investment managers and recommends objectives and benchmarks forming the basis of the Society's investment policy.

### *Fellowship*

The Royal Society is a Fellowship of outstanding scientists drawn from all areas of science, engineering and medicine. Since its foundation it has embodied and promoted knowledge of the natural world through observation and experiment. Through this approach new in 1660, which we now call science, Fellows of the Society have sought over the centuries to obtain a better understanding of ourselves and the world in which we live, and to make that knowledge widely available to benefit society. The Society's mission is best described as being to expand the frontiers of knowledge by championing the development and use of science, engineering and medicine for the benefit of humanity and the good of the planet. Fellows of the Society are elected for life and designate themselves through the use of the letters FRS after their names. Forty-four new Fellows are elected through a peer review process that culminates in a vote by existing Fellows. The main criterion for election as a Fellow is scientific excellence.

The election process for Fellows and Foreign Members is extremely rigorous and is based upon the established practice of peer review. Although the identities of the

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■ For the year ended 31 March 2006

candidates for election remain confidential, the identities of all members of committees involved in the election process, together with the full regulations governing the process, are published annually in the *Year Book* of the Royal Society, copies of which are available for purchase.

Fellows are called upon to perform a wide range of tasks for, and on behalf of, the Society. Many Fellows invest significant time and effort, voluntarily, to carry out these tasks in support of the cause of science and the Society.

## **Volunteers**

The Society is grateful for the valuable contribution to its work made voluntarily. This includes not only that made by its Fellows but also many non Fellows who give their time serving on committees supporting the Society and its activities, together with many others, too numerous to specify, who peer review grant applications and attend, participate in and contribute towards its activities. This latter includes many members of the general public who attend the Society's open discussion meetings.

## **Risk assessment**

The major risks to which the Society is exposed, as identified by Council, have been reviewed and systems have been established to mitigate those risks. The active review of risk analysis and management is delegated, in the first instance, to the Finance and General Purposes Committee which reports directly to Council. The Audit Committee also actively reviews on a regular basis the major operational and business risks, both financial and non-financial, to which the Society is exposed and believes that systems have been established, which are subject to review through an internal audit process, to mitigate those risks.

Council has agreed clear lines of delegation and authority to staff and has involved staff in recognition of risk in all its activities. Council recognises the need to maintain the Society's independence and has approved an income strategy, connected to the Society's 350th anniversary in 2010, to increase its endowment to address the potential risk to its independence and to ensure the Society's financial stability well into the 21st century.

## **Connected charities**

Council regards The Wolfson Research Professorship of the Royal Society to be a Connected Charity of the Royal Society. The charity's objectives and activities are

common to or in parallel with, those of the Society and it is administered by the Society. The principal contact address for the charity is that of the Society. The Wolfson Research Professorship of the Royal Society supports the Society's Professorship of that name.

## **Management and staffing**

The day-to-day management of the Society and its activities are delegated to the Executive Secretary supported by three Directors, responsible for Communications, Science Policy and Finance & Operations, and the senior management team. The Executive Secretary leads a permanent staff of 117. The Executive Secretary is also the Accounting Officer for the Parliamentary Grant-in-Aid and is tasked with ensuring that Council applies the grant on agreed projects and programmes.

The Business Plan and Budget, approved annually by Council, is implemented by seven activity sections led by a core providing strategic direction and co-ordination and supported by four resource management sections, press and public relations and media and publicity units. In addition the development section is responsible for fundraising and will be expanded to facilitate the Society's plans for 2007/08 and beyond.

## **Council's responsibilities**

Charity law requires the Council, as Trustees, to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Society and of the surplus or deficits of its funds for that period. The Treasurer, on behalf of Council, is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable and ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005) (SORP 2005) and any other relevant accounting standards. He is also responsible for safeguarding the assets of the Society and hence for taking all reasonable steps for the prevention and detection of fraud and other irregularities. In preparing the financial statements the Treasurer, on behalf of Council, has selected suitable accounting policies and applied them consistently; made judgements and estimates that are reasonable and prudent; followed applicable accounting standards and applied the going concern basis.

# Trustees' Report

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## ■ OBJECTIVES AND ACTIVITIES

### **Summary of aims and objectives**

The Charter incorporates the Society in the name of The President, Council and Fellows whose studies are to be applied to further promoting by the authority of experiments the sciences of natural things and of useful arts, to the glory of God the Creator, and the advantage of the human race. The present day Society has three major roles as a learned society embracing the entire scientific landscape by supporting excellent individuals, organising meetings and producing publications; as the United Kingdom's (UK) Academy of Science providing independent scientific advice and representing UK science on the international stage; and as a funding agency providing support for scientists, engineers and technologists to pursue their work.

The Society's strategic objectives are:

- to strengthen UK science by providing support to excellent individuals;
- to fund excellent research to push back the frontiers of knowledge;
- to attract and retain the best scientists;
- to ensure the UK engages with the best science around the world;
- to support science communication and education, and to communicate and encourage dialogue with the public;
- to provide the best independent advice nationally and internationally; and
- to promote scholarship and encourage research into the history of science.

### **Plans for 2007/08 and beyond**

The Society has recently conducted a strategic review of its work against the background of the opportunity presented by the Society's 350th anniversary in 2010, the need to prepare a bid to the Office of Science and Innovation (OSI) (formerly the Office of Science and Technology) for the 2007 Spending Review and, above all, the need for a new strategy on which detailed business plans can be based. The review has identified five high level priorities aimed at expanding the frontiers of knowledge by championing the development and use of science, engineering and medicine for the benefit of humanity and the good of the planet. These are:

- advance scientific excellence and support innovation and entrepreneurship;

- ensure the best impartial scientific advice is at the heart of public policy;
- reinvigorate science and mathematics education;
- promote the international dimension in science;
- promote science as central to our daily life.

Comprehensive details of the Society's activities for the 2005/06 reporting period are provided in the *2005 Review of the Year* (current to 31 August 2005), the *Review of the Year to 31 March 2006* (1 September 2005 – 31 March 2006), and *Council's Report to the Fellowship – 1 September 2005 – 31 March 2006*. These documents will also be made available at the Society's Anniversary Day Meeting on 30 November 2006.

## ■ ACHIEVEMENTS AND PERFORMANCE DURING THE YEAR

The Society awards a variety of grants under a number of different schemes. Full details of these schemes can be found on the Society's website at [www.royalsoc.ac.uk/funding](http://www.royalsoc.ac.uk/funding)

Major achievements and performance against objectives during the year were as follows:

### **to strengthen UK science by providing support to excellent individuals;**

During the year the Society continued to support excellent postdoctoral scientists in developing their careers by selecting, funding and administering a number of professorial and fellowship award schemes. The largest of these are University Research Fellowships, which provide outstanding postdoctoral scientists with the opportunity to build an independent research career. Also significant are Dorothy Hodgkin Fellowships, which offer recently-awarded PhD scientists a recognised first step into their careers with flexible arrangements for part-time working, as well as career breaks and mentoring support. During the year the Society appointed 45 new University Research Fellows, maintaining their overall number at 303, and 15 Dorothy Hodgkin Fellows, increasing their number to 62.

The Society continued to work with the Wolfson Foundation through two schemes – the Wolfson Laboratory Refurbishment scheme, and the Royal Society Wolfson Research Merit Awards. This year 11 grants were awarded for essential laboratory refurbishments. The Royal Society Wolfson Research Merit Awards are also supported by the Office of Science and Innovation and aim to attract and retain

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within the UK scientific researchers of outstanding achievement and potential. Nineteen Royal Society Wolfson Research Merit Awards were made during the year.

The Society awarded 20 medals and prize lectureships to individuals for achievements in science. The Society's premier medal, the Copley medal, was awarded in 2005 to Nobel Prize Winner Sir Paul Nurse in recognition of his seminal contributions to cancer research. Professor Iain Campbell FRS and Professor Athene Donald FRS were awarded the 2005 Croonian and 2005 Bakerian Lectureships respectively, and Professor Fran Balkwill was awarded the 2005 Michael Faraday Prize in recognition of her excellence in communicating science to children. Professor Christine Davies received the 2005 Rosalind Franklin Award for scientific achievement and work in promoting the cause of women in science.

### ***to fund excellent research to push back the frontiers of knowledge;***

The Research Grants scheme continued to be in high demand with 160 grants made to support new avenues of research. Five new appointments were made to the Industry Fellowship scheme which supports collaboration between industry and universities, bringing the total number to 21. The Society's Brian Mercer Award for Innovation, which provides funding for an area of research to be developed to a stage where it becomes technologically viable with practical applications, was made to Dr Adel Sharif whose research focuses on desalination and water treatment for the provision of clean drinking water in regions of the world with low natural water resources.

During the year the Society has expanded its development section and has begun the planning process for a significant fundraising campaign to support current and future scientific programmes and expand the endowment base. The development campaign will strengthen the Society's independence and ability to meet urgent needs.

### ***to attract and retain the best scientists;***

The 19 Royal Society Wolfson Research Merit Awards, referred to above, are designed to encourage high flying scientists to remain in the UK through additional salary funding. This brings the total number of researchers supported under this scheme to 96. Through its short visit scheme the Society supported 110 high-calibre UK scientists in initiating one-to-one collaborations, exploring opportunities to build lasting

network and gaining access to complementary equipment, data observations and ideas whilst retaining their bases in the UK. Under the new Royal Society Relocation Fellowship Scheme, four postdoctoral researchers were supported for up to one year in moving to follow a partner relocating in the UK.

### ***to ensure that the UK engages with the best science around the world;***

During the year 940 conference grants were made, enabling UK research scientists to attend and participate in overseas conferences. In addition to supporting UK scientists to spend time working overseas, the short visit scheme has also enabled 259 overseas scientists to receive support to visit the UK. The International Joint Project Grants scheme funded 141 longer-term interactions. Incoming International Fellowships allowed 63 overseas scientists to spend between 6 months and a year in the UK, with priority being given to scientists from China and India. Four postdoctoral scientists were funded to spend between 6 months and a year in Australia, Canada or New Zealand, and 8 were appointed to USA Fellowships. A further 81 scientists were supported under the International Networking Grants scheme, which was established to help UK scientists to develop enduring partnerships and international collaboration with their overseas counterparts. In April, two new major projects under the Royal Society/National Research Foundation Joint Collaborative Programme were approved in the respective areas of parasitic diseases and crop performance, with a further five developmental projects being funded for a two year period. The Society provided three postdoctoral fellowships for this programme during the year, and hosted meeting of the UK Project Leaders in August.

### ***to support science communication and education, and to communicate and encourage dialogue with the public;***

The Society publishes six internationally renowned scientific journals and one chronicling the history of science as influenced by the Society and its Fellowship. The journals include *Philosophical Transactions of the Royal Society*, which was first published in 1665 and is the world's longest running international science journal, and *Journal of the Royal Society: Interface*, which is the newest addition to the Society's portfolio. *Interface* has quickly emerged as one of the leading international journals publishing multi-disciplinary and cross-disciplinary work spanning the physical and life sciences, and collected a Highly Commended

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certificate in the 'Best New Journal' category of the prestigious awards run by the Association of Learned and Professional Society Publishers and the Charlesworth Group.

All of the Society's journals had a successful year both financially and editorially. Submissions to its primary research journals increased by an average of 21%, demonstrating their popularity with authors. Quality editorial content remains paramount, and the journals' high rejection rates (75% in one case) ensure that standards remain high. The improving editorial quality of the Society's journals and their visibility among readers was confirmed with the news that all journals had secured increased Impact Factors (a key citation metric produced by Thompson Scientific). All but one title saw percentage increases in double digits, with *Notes and Records of the Royal Society* increasing by 73% and *Philosophical Transactions of the Royal Society A* increasing by 43%. *Philosophical Transactions of the Royal Society B* exceeded an Impact Factor of 4 for the first time.

The Partnership Grants scheme once again attracted sponsorship of £150,000 from the Department for Education and Skills (DfES). Seventy-six grants to primary and secondary schools across the UK, totalling £139,434, were awarded enabling 11,951 pupils to engage in exciting science investigations with a practicing scientist. The remainder of the grant was spent facilitating the scheme through the production of educational material, outreach support, running events and promotion of activities.

Although visitor numbers for the 2005 Summer Science Exhibition in July were affected by the tragic London bombings, the event was still a great success and attracted 994 post-16 students. The Society continued to support secondary science teachers by funding and organising three keynote lectures for the series of *Discovery Days* events in January and February. These events marked the launch of the new National Science Learning Centre in York and attracted 230 participants.

The Society's media and communication skills courses provided training to 80 scientists (including many of the Society's funded researchers) during the year, equipping participants with the skills they need to interact and engage with non-specialist audiences. During the year more than 2000 participants attended 9 two-day scientific discussion meetings held by the Society on a variety of topics including food crops in a changing

climate, conditions for the emergence of life on the early Earth, and extreme natural hazards.

Scientific discussion meetings bring together leading scientists across various disciplines and countries, and serve to communicate pivotal and rapidly developing science to wider audiences, notably through exposing younger scientists to international speakers of high calibre and supporting leading-edge scientific research not adequately represented in other forums.

This year marked the culmination of the five-year Kohn Foundation-funded Science in Society programme (now funded by the Society's Parliamentary Grant-in-Aid until 2008). The programme has become mainstreamed in the work of the Society, with public and stakeholder engagement forming part of the evidence-gathering stages of two major Royal Society policy studies on the topics of personalised medicines and the impact of information and communication technology (ICT) on health and healthcare (see below). A major report was also published into a workshop organised by the programme at the request of the Food Standards Agency to obtain social science insights for risk assessment. The programme continued to make a strategic impact on the broader science in society field, helping to shape the work of research councils, the Office of Science and Innovation and the Higher Education Funding Council for England. The MP-scientist pairing scheme, which has been highly praised by participants for its useful contribution in creating an exchange of dialogue, enjoyed a successful fifth year with 25 pairs taking part. This scheme became the model for the new MEP Scientist Pairing scheme that was launched in the spring of 2006. The Society also awarded the inaugural Royal Society Kohn Award for Excellence in Engaging the Public with Science to Dr Colin Pulham in May, and continued to manage the Aventis Prizes for Science Books in partnership with the Aventis Foundation, a German charitable trust established by a predecessor of sanofi-aventis.

The Society continued to convey its views and policies to the public through the media. Its major media relations activities were in relation to climate change, tackling misrepresentation of the scientific evidence in the media and promoting the unprecedented statement by the national academies of the G8 nations, plus India, China and Brazil. The media relations team also managed the media coverage of the change in presidency, as well as the publication of major policy reports on ocean acidification and

pharmacogenetics, and key statements on open access and science education.

The Society's website remained its primary means for communicating to global audiences. The website, which was re-launched in 2004, received external recognition through its short-listing for the prestigious New Media Age (NMA) Effectiveness awards (public sector category). During the year, the Society broadcasted 24 public lectures on the web in either live or recorded format (see [www.royalsoc.ac.uk/live](http://www.royalsoc.ac.uk/live)), reaching more than 5000 people in more than 30 countries. New technology available through the website has also enabled the Society to streamline the electronic registration process for its scientific discussion meetings. The website served more than 19 million page impressions over the course of the year, with an interactive online poll pitting Einstein against Newton proving particularly popular.

The Society also continued the regular production of its *Excellence in Science* newsletter as a key tool for updating the Fellowship and wider stakeholders about the Society's major activities and initiatives.

### **to provide the best independent advice nationally and internationally;**

The Society published 28 science policy reports and statements during the year. A report on ocean acidification formed part of a broader climate change work strand, which also included a response to the Stern Review of the economics of climate change and work on non-carbon energy sources. In addition, the Society successfully led a group of science academies in an initiative intended to influence world leaders meeting at the G8 Gleneagles Summit in July 2005 on the issues of climate change and science for African development. A report entitled *Personalised Medicines: hopes and realities* summarised the Society's position on pharmacogenetics, while work on nanotechnologies included two workshops with the Science Council of Japan on the potential health, environmental and societal impact of nanotechnologies.

The Society responded to UK Government consultations on a range of issues during the year, including the Office of Science and Technology (OST) review of Defra science, radioactive waste management and the role of culling badgers in retarding Bovine TB, as well as the Council for Science and Technology's universal code for scientists. The Society also held a number of workshops and seminars to bring together key scientists and

policy-makers on subjects as diverse as obesity, the potential misuse of biological research, and food crops in a changing climate.

The Society initiated major policy projects to investigate the use of science in the preparations for dealing with avian and human pandemic influenza and to investigate the impacts of developments in ICT on health and healthcare. Building on its response to the House of Commons Select Committee on Science and Technology's inquiry into strategic subject provision, the Society established a pilot project to investigate the supply of and demand for scientifically-trained graduates.

The Society continued to promote scientific collaboration with key countries around the world, delivering a range of high-quality networking events in India, China and South Africa, and holding UK events focusing on scientific excellence and opportunities in Korea and South Africa. The Society maintained its leading role in European science by coordinating actions of the European members of the International Council for Science (ICSU) at its 28th General Assembly in China in October 2005. The Society also continued to host the secretariat of the European Academies Science Advisory Council (EASAC), a unique body which provides a means for the national academies of Europe to work together to inject high-quality scientific advice into EU policy-making. During the year, EASAC produced a report on infectious diseases, engaged extensively with a range of stakeholders with respect to the possible creation of a new European Research Council, and won a contract to deliver advice on the scientific aspects of policy issues to the European Parliament.

This year the Society stepped up its efforts to champion the place of science in education reform, bringing the Government to account for slow progress towards goals set out in the ten year science and innovation investment framework (published in July 2004) through a sustained media strategy. This strategy advocated the need for better science education for 14-19 year olds, a theme which was reinforced by the Society's hosting of a March conference to examine uptake of science post-16. The result was a commitment by Government alongside the March 2006 Budget announcement to reverse the decreases in the numbers of students taking physics, chemistry and maths at A-level.

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Against this backdrop, in the latter half of the year the Society commissioned independent research into enhancing the science community's influence on education policy. It also began building new strategic partnerships with the Institute of Physics, Royal Society of Chemistry, Royal Academy of Engineering, Institute of Biology, Association for Science Education and Biosciences Federation to improve communication and coordination between these bodies and their efforts to shape the future of science education in the UK.

With respect to mathematics education, the Advisory Committee on Mathematics Education (ACME), which is based at and operates under the auspices of the Society, was granted continued enhanced funding by the DfES to help implement the Smith Inquiry recommendations on post-14 mathematics. ACME produced a report on 14–19 mathematics pathways, which examined issues relating to 'functional mathematics' and a proposed new mathematics GCSE. It also organised a mathematics teachers' conference looking at the outcomes of the Smith Inquiry at which The Right Hon Ruth Kelly MP, then Secretary of State for Education and Skills, gave a keynote address. ACME also continued to participate in advisory and working groups run by the Department for Education and Skills, Qualifications and Curriculum Authority and Training and Development Agency for Schools, and helped develop plans for the new National Centre for Excellence in Teaching Mathematics.

### ***to promote scholarship and encourage research into the history of science;***

Scholarly access to the Society's collections was a primary concern during the year, and significant proportions of the collections were recorded, made available and promoted to both academic and public audiences. Use of the Library's reading rooms for research purposes increased during 2005/06, and this recovery will be built upon in the coming year.

Archive cataloguing work sponsored by the Andrew W Mellon Foundation reached its conclusion in October 2005. Presently there are 95,000 archive catalogue records, with associated information and many digitised images on the web-based archive catalogue. An additional 70,000 bibliographic records of books and papers are similarly available. These, combined with over 7,000 existing biographical entries on the Society's Fellows, comprise a resource of over 170,000 database entries that is accessible to researchers worldwide.

Donations of funds from private sources to enable the cataloguing of the personal papers of Thomas Gold FRS (1920-2004) enabled a temporary archive assistant to be employed to describe this major astronomy collection and sample its contents. The Library is actively seeking similar types of funding to continue cataloguing and to enable digitisation projects. The need for such projects was highlighted by the Society's recent acquisition of the folio of Robert Hooke's personal records of the Royal Society from 1661-1691 at a cost of £1million.

## ■ FINANCIAL REVIEW

### ***Financial statements***

The financial statements for the year ended 31 March 2006 are set out on pages 14-33. These were prepared applying the Accounting Policies set out on page 18-19. The Accounting Policies have been restated where necessary to explain changes arising from the application of the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005) and the Financial Reporting Standard 17 – Retirement Benefits. Comparative figures have also been restated where applicable.

### ***Funding sources***

The Society receives its funding from a variety of sources. These include the Parliamentary Grant-in-Aid (PGA), donations from companies and trusts, income from investments and endowments and from income from ancillary trading connected to the Society's prime purpose – publishing and the letting of room. Whilst the PGA, which is provided for specific projects and programmes, accounts for 65%-70% the variety of funding sources ensures that the Society's retains its independence.

### ***Funds and reserves***

The Society's funds have been applied for the purpose of the advancement and promotion of science in accordance with its objectives and policies. An analysis of the expenditure is shown in the Statement of Financial Activities on pages 14 and 15. All of the Society's assets are used in the support of its charitable objectives.

The Society's reserves of £139m, of which 62% are held as investments and bank deposits, generate the income that sustains either wholly or in part the Society and many of its activities.

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The Society's reserves are made up as follows:	£m
<i>Permanent endowments</i>	
Funds invested where there is no power to convert the capital into income.	27
<i>Restricted funds</i>	
Funds, comprising accumulated income and expendable endowments, which may only be used for the purposes specified by the original donor and or contributors as a condition of the gift. The Society depends on the income produced from these reserves to finance core and continuing activities. Expending these reserves would jeopardise the long-term continuance of these activities.	34
<b>Total Permanent endowments and Restricted funds</b>	<b>61</b>
<i>General and Unrestricted funds:</i>	
The Society depends upon the income produced from General Purposes reserves to contribute towards day to day running costs. Without this source of income additional charges would need to be levied on the Restricted and Unrestricted Funds, reducing funds available for charitable activities. As with Restricted funds the Society depends upon the income from Unrestricted funds and endowments to finance core and continuing activities.	13
Tangible fixed assets (note 18 on page 25)	46
<b>Heritage assets held for the Society's charitable purposes (note 20 on page 26)</b>	<b>59</b>
<i>Free Reserves</i>	
Funds invested to support activities (note 24 on page 28)	37
Less: Net Liabilities (note 24 on page 28)	18
	19
<b>Total General and Unrestricted funds</b>	<b>78</b>
<b>Total Reserves as at 31 March 2006</b>	<b>139</b>

The free reserves provide the working capital of the Society and allow it to develop new initiatives. In addition the Society has provided for a liability from General Purposes Funds to fund the Pension Plan deficit of £4.4m, which has been calculated in compliance with FRS17. In December 2005 the Society paid an additional contribution of £2.5m into the Plan to reduce the deficit. The provision of a liability does not mean that an immediate liability for this amount has crystallized. Nor does disclosure of the liability mean that the equivalent amount is already committed and not available for the furtherance of the Society's objectives. The Society is confident that it can meet future contributions without significant impact on planned levels of charitable activity.

The Society continually reviews its policies for retaining reserves on a fund by fund basis with a view to ensuring that the maximum benefit is achieved for the advancement and promotion of science.

The restrictions imposed on funds may require that from time to time they are unable to meet the costs of a sustainable programme. In these circumstances they may be allowed to accumulate income for a number of years until they can do so or else they may, where Council has discretion, be applied together with other funds with similar purpose.

### **Investment policies**

The Society, having existed for nearly 350 years, takes a long-term view of investment with the aim of producing above-average total returns whilst growing the base value of investments and dividends in real terms.

The Society has split the portfolio between two firms of managers, Rathbone Investment Management Limited and UBS AG, whose approaches to asset management complement each other providing, overall, a more defensive strategy against market fluctuations. The Society expects investments in the portfolio normally to

# Trustees' Report

■ For the year ended 31 March 2006

comprise leading UK and international companies, Unit and Investment Trusts including those investing in major international markets, property and, because income is important but not paramount, fixed interest. Investments should be suitable for a mature fund seeking both income and capital appreciation. The emphasis in the UK portfolio is on larger well established companies paying a dividend in excess of the market, although it is expected that it will also include a proportion of medium and smaller sized companies. Overseas investment is normally via collectives. The Society does not invest in the producers of tobacco or manufacturers of tobacco products.

Within these terms the Society's investment managers have a general discretion over asset allocation and selection. This provides the flexibility to take advantage of changing market situations and opportunities to which they are expected to respond timeously to maximise returns for the Society. Generally industry standard benchmarks do not match the Society's requirements.

In addition to funds invested through its investment managers the Society has, on the advice of the Investment Advisory Committee, directly invested in two hedge funds, which have produced significant returns since original investment.

## **Obligations**

Council considers the Society's finances to be sound and that it is able to fulfil all its obligations and commitments without delay or shortfall in the realisation of the assets of its funds.

## **Auditors**

The Auditors, BDO Stoy Hayward LLP resigned with effect from 7 November 2005. BDO Stoy Hayward LLP confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of Fellows or beneficiaries of the Society. On 14 July 2005 Council appointed PKF (UK) LLP as auditors in place of BDO Stoy Hayward LLP. The appointment became effective from 7 December 2005. A resolution to re-appoint PKF (UK) LLP, Chartered Accountants and Registered Auditors, will be proposed at the annual meeting of the Fellowship of the Society on Anniversary Day for the ensuing year.

*Signed on behalf of Council by the President*  
**LORD REES OF LUDLOW**  
**6 July 2006**

# Report of the Independent Auditors to the Fellowship of the Royal Society

## ■ For the year ended 31 March 2006

We have audited the financial statements of The Royal Society for the year ended 31 March 2006 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the Society, as a body, in accordance with Regulation 7 of the Charities Accounts and Report Regulations 2005. Our audit work has been undertaken so that we might state to the Council 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 Council members (as trustees), for our audit work, for this report, or for the opinions we have formed.

## ■ RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

The Council's responsibility for preparing the Trustees' 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 the Council's responsibilities.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of 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 have been properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the Trustees' report is not consistent with the financial statements, if the Society has not kept proper accounting records or if we have not received all the information and explanations we require for our audit. We read the Trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

## ■ 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 judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 Royal Society's affairs as at 31 March 2006 and of its incoming resources and application of resources in the year then ended; and
- have been properly prepared in accordance with the Charities Act 1993.

PKF (UK) LLP  
Chartered Accountants and Registered Auditors  
London  
6 July 2006

# Report of the Audit Committee to Council on the Financial Statements

## ■ For the year ended 31 March 2006

At a meeting of the Audit Committee held on 15 June 2006 the Committee examined the Treasurer's financial statements for the year ended 31 March 2006, set out on pages 14-33, and enquired into his stewardship of the Society's funds and resources.

The financial statements have been audited by PKF (UK) LLP Chartered Accountants and Registered Auditors. There are no matters arising therefrom which the Committee feels should be drawn to the attention of Council.

The Committee has received all information and explanations it has required and is satisfied that the Treasurer has properly carried out his duties under Statute 33 to prepare financial statements that give a true and fair view of the state of affairs of the Society and of the surplus or deficits of its funds for the year ended 31 March 2006. The Committee is also satisfied that the Treasurer has taken all reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee recommends the adoption of the financial statements by Council.

**PROFESSOR GORDON WILLIAMS**  
Chairman  
15 June 2006

# Statement of Financial Activities

For the year ended 31 March 2006

	Notes	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
<b>INCOMING RESOURCES</b>							
<i>Incoming resources from generated funds</i>							
Grants for charitable activities	1	2,715	556	38,399	-	41,670	41,286
Voluntary income	2	210	57	277	-	544	279
Investment income	3	100	550	1,802	-	2,452	2,171
		3,025	1,163	40,478	-	44,666	43,736
<i>Incoming resources from charitable activities</i>							
Trading in furtherance of charitable objectives	4 & 12	4,553	-	-	-	4,553	4,163
<b>Total incoming resources</b>		<b>7,578</b>	<b>1,163</b>	<b>40,478</b>	<b>-</b>	<b>49,219</b>	47,899
<b>RESOURCES EXPENDED</b>							
<i>Costs of generating funds</i>							
Costs of generating grants and voluntary income		175	-	-	-	175	116
Trading in furtherance of charitable activities	12	3,318	-	-	-	3,318	3,265
Investment management costs		35	30	40	51	156	128
<b>Total costs of generating funds</b>	5	<b>3,528</b>	<b>30</b>	<b>40</b>	<b>51</b>	<b>3,649</b>	3,509
<i>Charitable activities</i>							
Support for individuals, the funding of research to push back the frontiers of knowledge and attracting and retaining the best scientists		797	413	28,950	-	30,160	30,481
International collaboration between the UK and the rest of the world		551	-	7,194	-	7,745	6,432
Science communication and education, dialogue with the public		745	-	2,035	-	2,780	2,217
Independent advice nationally and internationally		837	-	230	-	1,067	936
Scholarship and research into the history of science		1,298	-	112	-	1,410	1,183
Other		-	121	219	-	340	271
<b>Total for cost of charitable activities</b>	6	<b>4,228</b>	<b>534</b>	<b>38,740</b>	<b>-</b>	<b>43,502</b>	41,520
<i>Governance costs</i>							
Governance costs	6	1,226	-	-	-	1,226	1,057
<b>Total resources expended</b>		<b>8,982</b>	<b>564</b>	<b>38,780</b>	<b>51</b>	<b>48,377</b>	46,086
<b>Net incoming/(outgoing) resources before transfers</b>		<b>(1,404)</b>	<b>599</b>	<b>1,698</b>	<b>(51)</b>	<b>842</b>	1,813

# Statement of Financial Activities

For the year ended 31 March 2006

Continued from page 14

Notes	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
<b>Net incoming/(outgoing) resources before transfers</b>	<b>(1,404)</b>	<b>599</b>	<b>1,698</b>	<b>(51)</b>	<b>842</b>	1,813
Gross transfers between funds 14	1,060	(368)	(692)	-	-	-
<b>Net incoming/(outgoing) resources before other recognised gains and losses</b>	<b>(344)</b>	<b>231</b>	<b>1,006</b>	<b>(51)</b>	<b>842</b>	1,813
Net gains on investments	4,809	2,313	3,135	3,896	<b>14,153</b>	6,562
Actuarial losses on defined benefits pension scheme	(190)	-	-	-	<b>(190)</b>	(960)
<b>Net movement in funds</b>	<b>4,275</b>	<b>2,544</b>	<b>4,141</b>	<b>3,845</b>	<b>14,805</b>	7,415
<i>Reconciliation of funds</i>						
Total funds brought forward 1 April 2005 (as reported)	60,138	17,671	29,592	23,416	<b>130,817</b>	122,302
Prior year adjustment 15	(6,520)	-	-	-	<b>(6,520)</b>	(5,420)
Total funds brought forward 1 April 2005 (restated)	<b>53,618</b>	<b>17,671</b>	<b>29,592</b>	<b>23,416</b>	<b>124,297</b>	116,882
<b>Total funds carried forward 31 March 2006</b>	<b>57,893</b>	<b>20,215</b>	<b>33,733</b>	<b>27,261</b>	<b>139,102</b>	124,297

All of the above results are derived from continuing activities. There are no other gains or losses other than are stated above.

# Balance Sheet

31 March 2006

	Notes	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
<b>Fixed Assets</b>			
Tangible assets	18	13,489	13,886
Heritage assets	20	46,085	46,048
Investments	21	86,177	70,880
		<b>145,751</b>	130,814
<b>Current Assets</b>			
Stock		22	15
Debtors receivable within one year	22	8,116	6,560
Debtors receivable after one year	22	1,406	1,608
Cash at bank and in hand		936	2,889
		<b>10,480</b>	11,072
<i>Creditors: amount due in one year</i>	23	<b>9,987</b>	9,558
<b>Net current assets</b>		<b>493</b>	1,514
<b>Total assets less net current assets</b>		<b>146,244</b>	132,328
Creditors: amounts due after one year	23	2,782	1,511
		<b>143,462</b>	130,817
Defined Benefits Pension Scheme: liability		4,360	6,520
<b>Net Assets</b>		<b>139,102</b>	124,297
<b>Capital Funds</b>			
Permanent Endowment Funds		27,261	23,416
Restricted Funds		33,733	29,592
Unrestricted Income Funds	16	78,108	71,289
		<b>139,102</b>	124,297

The Financial Statements were approved and authorised for issue by Council and signed on its behalf on 6 July 2006

SIR DAVID WALLACE  
Treasurer

# Cash Flow Statement

For the year ended 31 March 2006

Notes	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
<i>Reconciliation of net incoming resources to net cash inflow from activities</i>		
Net incoming resources before revaluation	842	1,813
Depreciation charges	814	829
(Increase) in stocks	(7)	(8)
(Increase) in debtors	(1,354)	(1,648)
Increase/(decrease) in creditors	1,700	(6,512)
(Decrease)/increase in pension fund liability	(2,350)	140
	<b>(355)</b>	(5,386)

## CASH FLOW STATEMENT

	2006 Total Funds £'000	2005 Total Funds £'000
Net cash (outflow) from activities	(355)	(5,386)
Capital (outflow)/inflow	1 <b>(1,598)</b>	5,197
<b>Decrease in cash</b>	2 <b>(1,953)</b>	(189)

## NOTES TO THE CASH FLOW STATEMENT

### 1. Capital (outflow)/inflow

	2006 Total Funds £'000	2005 Total Funds £'000
Purchase of tangible fixed assets	(417)	(619)
Purchase of heritage assets	(37)	(11)
Net proceeds from sale of investments	-	5,827
Net purchase of investments	<b>(1,144)</b>	-
<b>Net capital (outflow)/inflow</b>	<b>(1,598)</b>	5,197

*Proceeds from the sale of investments and Purchase of investments are stated net of amounts reinvested.*

### 2. Decrease in cash

	Balance 31 March 2006 £'000	Balance 31 March 2005 £'000	Change in year 2006 £'000	Change in year 2005 £'000
<b>Cash at bank and in hand</b>	936	2,889	<b>(1,953)</b>	(189)

# Accounting Policies

■ For the year ended 31 March 2006

## **Accounting convention**

The financial statements are prepared under the historical cost convention, with the exception that investments are valued at mid-market prices as at the Balance Sheet date and heritage assets are valued at their insurance valuation. They are also prepared in accordance with applicable accounting and financial reporting standards and the requirements of the Charities Act 1993 and the Statement of Recommended Practice—Accounting and Reporting by Charities (revised 2005) ('the SORP').

A Summary Income and Expenditure Account, separate from the Statement of Financial Activities, has not been produced, on the ground that the income and expenditure is identifiable from the Statement.

## **Administration charges**

An administration charge is made on most funds, normally calculated at 15% of investment income. In other cases the rate and basis of the charge have been separately agreed with the original donor(s) of the fund.

## **Charitable expenditure**

Charitable expenditure includes all expenditure incurred on grants awarded or on other schemes run in pursuance of the Society's objectives under its Charter, including Fellowship activities. The direct costs of supporting these activities, including staff, establishment and other overhead costs are separately analysed and shown as support costs under this heading.

## **Donations, gifts and other income**

Donations gifts and other income are credited as income in the year in which they are receivable.

## **Fellows' Contributions**

Fellows' Annual Contributions may be compounded into a single payment. Contributions compounded are recognised in the year of receipt as income of an Unrestricted Fund. One-twentieth of each receipt is transferred annually, calculated on a straight line basis, to General Purposes Funds and the balance carried forward to future years.

## **Foreign currency**

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currency are translated into sterling at the rate of exchange ruling on the Balance Sheet date.

## **Grants payable**

Grants are recognised as a liability when the Society is under an actual or constructive obligation to make a transfer to a third party. Where grants are time related to future periods and are to be financed by specific grants receivable in those future periods, they are treated as liabilities of those periods and not as liabilities at the Balance Sheet date. Such grants are disclosed as future commitments.

The proportion of grants both by value and number made to institutions is less than 5% of total grants payable. Disclosure of such grants is not considered material nor is the disclosure of the number of grants payable to individuals. Grants paid to institutions in respect of Royal Society Professorships/Fellowships and international exchange grants etc are regarded, for this purpose, as payment to the individuals concerned.

## **Grants receivable**

Subject to the following, grants are credited as income in the year in which they are receivable. Grants received for specific purposes are accounted for as Restricted Funds. Grants are not recognised as receivable until all conditions for receipt have been complied with. Where donor-imposed restrictions apply to the timing of the related expenditure as a precondition for its use, the grant is treated as deferred income until those restrictions are met.

Grants receivable in respect of expenditure on tangible fixed assets are treated as income of either a Restricted or Unrestricted Fund as applicable. A transfer is made annually to General Purposes Funds in equal instalments on the same basis as the depreciation charge applicable to the asset concerned.

## **Heritage assets**

The Society's heritage assets, which are those held as objects of the charity and comprise its library, artefacts, portraits, busts and scientific collections, are included on the Balance Sheet at a fair market/replacement value, which is also used for insurance purposes. The Society holds and retains these assets as a long-term policy for use in its charitable purposes and has no intention of disposing of any of these items. Taking account of likely realisable values over their useful lives, depreciation on these assets is not likely to be material and none has therefore been provided. The net gains/losses on the revaluation of these assets are disclosed in the Statement of Financial Activities.

# Accounting Policies

■ For the year ended 31 March 2006

## **Legacies**

Unless incapable of financial measurement, legacies are credited as income in the year in which they are receivable. Council has determined that it does not regard a legacy as receivable until probate has been granted in respect of the estate.

## **Investments**

Investments listed on a recognised stock exchange, including investment and unit trusts, are stated at mid-market value.

Net investment gains/losses for the year are disclosed in the Statement of Financial Activities.

## **Resource allocation**

Expenditure on staff, establishment and operating costs are allocated to charitable activities and support costs as follows:

Staff	—	actual costs.
Establishment	—	pro-rata to the office floor space occupied by each activity.
Operating costs	—	pro-rata to the number of staff engaged on each activity.

## **Support costs**

Support costs are apportioned over charitable activities proportionately to the direct costs incurred on those activities during the year.

## **Pension costs**

The Society operates a Pension Scheme providing defined benefits for its employees. The assets of the scheme are held separately from those of the Society, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triennially and updated under FRS17 rules at each balance sheet date. Any surplus or deficit is shown in the balance sheet as an asset or liability.

The charge to the Statement of Financial Activities is calculated so as to spread the cost of pensions over employees' working lives with the Society. The charge comprises the current service cost, computed by the actuary under FRS17, and gains and losses on settlements and curtailments. Past service costs are recognised immediately if the benefits have vested.

If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on assets are shown as a net amount of other finance costs or credits charged or credited to the Statement of Financial Activities. Actuarial gains and losses are recognised immediately under the description "Actuarial losses on defined benefits pension scheme".

## **Stocks**

Stocks are valued at the lower of cost and net realisable value. No value is included in the financial statements for stocks of publications.

## **Subsidiary undertaking**

The Society does not consolidate its interest in its subsidiary undertaking as changes to the financial statements that would result from consolidation would not be material.

## **Transfers**

Council, in accordance with its powers and within the restrictions imposed by such, has approved the transfer of the annual income of certain funds and to the extent that such income is not otherwise committed has designated the annual income of further funds as available, if needed, for the general use of the Society.

## **Tangible fixed assets**

Expenditure on tangible fixed assets is capitalised if the cost of the asset exceeds £2,500, or in the case of computer hardware or software £5,000. The cost of other items is written off as incurred.

Depreciation is calculated to write off the cost of tangible fixed assets by equal instalments over their expected useful lives as follows:

Leasehold improvements	—	20-30 years
Computers and other equipment	—	3-20 years

No depreciation is charged in any period prior to that in which the asset was first brought into use by the Society.

# Notes to the Financial Statements

For the year ended 31 March 2006

## 1. Grants for activities

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
<i>From Government and other public bodies:</i>						
Administration of the Parliamentary Grant	1,876	-	-	-	1,876	1,798
Rent and External Maintenance	790	-	-	-	790	439
Contribution to charitable activities	10	-	31,415	-	31,425	30,970
<i>From other external bodies</i>						
Administration	39	-	-	-	39	46
Contribution to charitable activities	-	556	6,984	-	7,540	8,033
	2,715	556	38,399	-	41,670	41,286

Details of the income and movement of individual funds are not disclosed as the information is not material to an understanding of these Financial Statements either as a whole or in relation to the context of the foregoing of which the income forms a part.

## 2. Voluntary income

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
Gifts and Donations	25	57	204	-	286	101
Legacies	-	-	73	-	73	10
Fellows Contributions	185	-	-	-	185	168
	210	57	277	-	544	279

## 3. Investment income

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
Dividends and short-term deposit interest	338	524	1,501	-	2,363	2,188
Bank deposit interest	(259)	26	301	-	68	61
Other gains/(losses) and loan interest	21	-	-	-	21	(78)
	100	550	1,802	-	2,452	2,171

# Notes to the Financial Statements

For the year ended 31 March 2006

## 4. Income from trading in furtherance of charitable activities

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000 (restated)
Publishing	2,355	-	-	-	2,355	2,207
Lettings in furtherance of objectives	2,135	-	-	-	2,135	1,827
Other	63	-	-	-	63	129
	4,553	-	-	-	4,553	4,163

## 5. Analysis of costs of generating funds

	Staff and Operating Costs £'000 (Note 8)	Grants & Direct Costs £'000	2006 Total £'000	2005 Total £'000
Costs of generating grants and voluntary income	101	74	175	116
Trading in furtherance of charitable activities	1,531	1,787	3,318	3,265
Investment management costs	-	156	156	128
<b>Total for costs of generating funds</b>	1,632	2,017	3,649	3,509

## 6. Analysis of costs of charitable activities and Governance

	Staff and Operating Costs £'000 (Note 8)	Support Costs £'000 (Note 7)	Grants & Direct Costs £'000	2006 Total £'000	2005 Total £'000
<i>Charitable activities</i>					
Support for individuals, the funding of research to push back the frontiers of knowledge and attracting and retaining the best scientists	498	299	29,363	30,160	30,481
International collaboration between the UK and the rest of the world	356	195	7,194	7,745	6,432
Science communication and education, dialogue with the public	533	304	1,943	2,780	2,217
Independent advice nationally and internationally	574	335	158	1,067	936
Scholarship and research into the history of science	1,081	217	112	1,410	1,183
Other	-	-	340	340	271
<b>Total for costs of charitable activities</b>	3,042	1,350	39,110	43,502	41,520
	Staff and Operating Costs £'000 (Note 8)	Support Costs £'000	Grants & Direct Costs £'000 (Note 11)	2006 Total £'000	2005 Total £'000
<b>Total for costs of Governance</b>	688	-	538	1,226	1,057

# Notes to the Financial Statements

For the year ended 31 March 2006

## 7. Support costs

	Staff and Operating Costs £'000 (Note 8)	Other Direct Costs £'000	2006 Total £'000	2005 Total £'000
Press and public relations	249	65	314	352
Finance, information technology and HR	688	-	688	656
House and office services	348	-	348	390
	1,285	65	1,350	1,398

## 8. Staff and operating costs

	Staff Costs £'000 (Note 9)	Operating Costs £'000 (Note 10)	2006 Total £'000	2005 Total £'000
Cost of generating funds	929	703	1,632	1,390
Charitable activities	1,887	1,155	3,042	3,066
Support costs	928	357	1,285	1,398
Governance	548	140	688	640
	4,292	2,355	6,647	6,494

## 9. Staff costs

	2006 Total £'000	2005 Total £'000
Salaries	3,394	3,346
Social Security costs	301	295
Death in service and Pension Scheme administration costs	47	61
Pension costs	550	540
	4,292	4,242
<i>Analysis of pension costs:</i>		
Current service cost (excluding death in service)	480	420
Expected return on the assets	(730)	(560)
Interest costs	800	680
	550	540
<i>Number of employees earning £60,000 pa or more:</i>		
£60,001 - £70,000	1	1
£70,001 - £80,001	1	-
£80,001 - £90,000	-	1
£90,001 - £100,000	1	-
£100,001 - £110,000	-	1
£110,001 - £120,000	1	-

All of the above are accruing benefits under a defined benefits Pension Scheme.

# Notes to the Financial Statements

For the year ended 31 March 2006

## 9. Staff costs (continued)

	2006 Total £'000	2005 Total £'000
The average number of employees, analysed by function was:		
<i>Generating Funds</i>		
Fundraising	2	2
<i>Charitable activities</i>		
Grants	15	16
International policy	6	6
Science communication	13	14
Science policy	11	11
Library and information services	9	11
Conference, catering and room hire	4	4
Publishing	23	23
<i>Support</i>		
Press and public relations	6	7
Finance, information technology and HR	13	12
House and office services	7	6
<i>Governance</i>		
Corporate management	5	5
Council and Fellowship	3	3
	<b>117</b>	120

## 10. Operating costs

	2006 Total £'000	2005 Total £'000
Temporary staff	32	25
Redundancy	-	23
Staff recruitment, training and welfare	150	190
Establishment costs	966	989
Maintenance	503	169
Office services	516	637
Information technology	188	293
	<b>2,355</b>	2,326

## 11. Governance direct costs comprise

	2006 Total £'000	2005 Total £'000
Fellowship costs	150	123
Council and committee expenses	95	86
Auditor's remuneration		
– Audit fee	22	34
– Non audit services	12	15
Internal audit	53	33
Other professional fees	206	72
Interest paid	-	26
	<b>538</b>	389

# Notes to the Financial Statements

For the year ended 31 March 2006

## 12. Trading in furtherance of charitable activities

	Gross Income £'000	Expenditure £'000	2006 Net Surplus £'000	Gross Income £'000	Expenditure £'000	2005 Net Surplus £'000
Publishing	2,355	1,823	532	2,207	1,860	347
Lettings in furtherance of objectives	2,135	1,432	703	1,827	1,282	545
Other	63	63	-	129	123	6
	4,553	3,318	1,235	4,163	3,265	898

All of the Society's trading activities are carried out within its prime charitable purposes. The Society is exempt from income tax, corporation tax or capital gains tax on income derived from trading or charitable activities.

## 13. Payments to trustees

	2006 Total £'000	2005 Total £'000
Remuneration	Nil	Nil
<i>Expenses:</i>		
Travel & subsistence	55	61

Expenses were reimbursed to 21 Trustees (2005 – 18 Trustees).

### *Indemnity Insurance*

With the consent of the Charity Commission the Society has taken out insurance to indemnify Trustees against the consequences of any neglect or defaults on their part. The cost of their insurance for the year was £2k (2005 – £2k). No claims have been made under this policy.

### *Grants and Awards*

Professor Martin Taylor is the holder of a Royal Society Wolfson Merit Award. The amount paid to Manchester University, in respect of the award, in the year was £55k.

## 14. Gross transfers between funds

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000
Fund administration charges for support of charitable activities	587	(83)	(504)	-	-	-
Annual transfers of income	30	(30)	-	-	-	-
Transfers of uncommitted income to General Purposes Funds	443	(255)	(188)	-	-	-
	1,060	(368)	(692)	-	-	-

## 15. Prior year Adjustment

The prior year adjustment results from the full implementation of FRS17 for the first time. The effect of the implementation on the balance sheet was to reduce reserves brought forward at 1 April 2005 by £6.52m. This is shown in the balance sheet under the heading "Defined Benefits Pension Scheme Liability" reducing Net Assets by an equal amount.

# Notes to the Financial Statements

For the year ended 31 March 2006

## 16. Analysis of Unrestricted Income Funds

	General Reserves £'000	Revaluation Reserve £'000	General Purposes Funds £'000	Other Unrestricted Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000
At 1 April 2005 (restated)	7,581	46,037	53,618	17,671	<b>71,289</b>	70,233
Net incoming/outgoing resources (page 15)	(344)	-	(344)	231	<b>(113)</b>	(1,174)
Increase in investment gains	4,809	-	4,809	2,313	<b>7,122</b>	3,190
Actuarial gains / (losses) on defined benefits pensions schemes (note 27)	(190)	-	(190)	-	<b>(190)</b>	(960)
<b>At 31 March 2006</b>	<b>11,856</b>	<b>46,037</b>	<b>57,893</b>	<b>20,215</b>	<b>78,108</b>	71,289

The Revaluation Reserve relates to the revaluation of the heritage assets.

## 17. Financial Memorandum with the Department of Trade and Industry

	2006 Total £'000	2005 Total £'000
Under the terms of its Financial Memorandum with the Department of Trade and Industry the Society is required to identify in these Financial Statements any income and expenditure not covered by funds provided by the Grant.		
<i>Non Parliamentary Grant</i>		
Income	<b>16,321</b>	16,009
Expenditure	<b>14,154</b>	14,324
	<b>2,167</b>	1,685

## 18. Tangible fixed assets

	Leasehold Improvements £'000	Computers and other equipment £'000	2006 Total £'000	2005 Total £'000
<b>Cost:</b>				
At 1 April 2005	13,325	3,032	<b>16,357</b>	16,064
Additions	204	213	<b>417</b>	619
Disposals	-	(186)	<b>(186)</b>	(326)
<b>At 31 March 2006</b>	<b>13,529</b>	<b>3,059</b>	<b>16,588</b>	16,357
<b>Depreciation:</b>				
At 1 April 2005	1,134	1,337	<b>2,471</b>	1,968
Charge for year	477	337	<b>814</b>	829
Disposals	-	(186)	<b>(186)</b>	(326)
<b>At 31 March 2006</b>	<b>1,611</b>	<b>1,488</b>	<b>3,099</b>	2,471
<b>Net book value at 31 March 2006</b>	<b>11,918</b>	<b>1,571</b>	<b>13,489</b>	13,886
<b>Net book value at 31 March 2005</b>	<b>12,191</b>	<b>1,695</b>	<b>13,886</b>	

All material tangible fixed assets are used for the support of charitable activities and for the administration of the Society.

# Notes to the Financial Statements

For the year ended 31 March 2006

## 19. Capital commitments

	2006 Total £'000	2005 Total £'000
Authorised but not contracted for	Nil	310

## 20. Heritage assets

	2006 Total £'000	2005 Total £'000
Valuation or cost at 1 April 2005	46,048	46,037
Additions at cost	37	11
Revaluation	-	-
<b>Valuation or cost at 31 March 2006</b>	<b>46,085</b>	<b>46,048</b>
<i>The heritage assets comprise:</i>		
Printed books	13,233	13,231
Archives	21,770	21,770
Pictures, sculptures and other works of Art	8,092	8,057
Other artefacts	2,990	2,990
	<b>46,085</b>	<b>46,048</b>

The printed books and archives were valued on 5 August 2003 by Roger Gaskell, a rare book dealer and the pictures and other artefacts by Weller King in May 2004. The valuations are on a fair market/replacement basis. The trustees consider the present market/replacement values are not materially different from those stated.

## 21. Investments

	2006 Total £'000	2005 Total £'000
Valuation at 1 April 2006	70,880	70,145
Additions	23,563	5,255
Disposal proceeds	(22,263)	(10,954)
Investment management costs	(156)	(128)
Gains on valuation at 31 March 2006	14,153	6,562
<b>Valuation at 31 March 2006</b>	<b>86,177</b>	<b>70,880</b>
	<b>2006 Total £'000</b>	<b>2005 Total £'000</b>
<b>The valuation at 31 March 2006 comprises:</b>		
<i>Investments listed on a recognised stock exchange including investments and unit trusts:</i>		
UK	69,131	65,001
Overseas	15,374	4,019
<i>Cash:</i>		
UK	1,672	1,860
	<b>86,177</b>	<b>70,880</b>

# Notes to the Financial Statements

For the year ended 31 March 2006

## 21. Investments (continued)

Overseas investments comprise equities, unit/investment trusts and fixed interest funds.

At 31 March 2006 the following UK equity investments exceeded 5% by value of the invested portfolio.

	%
Landsdowne UK Equity Fund limited Sterling shares	8.74
UBS Triton Property Fund	5.44

The Society owns 100% of the issued share capital of Carlton House Terrace Development Limited (note 28). The principal activity of the company is the redevelopment of 6-9 Carlton House Terrace. This property is occupied by the Society.

	2006 £'000	2005 £'000
<i>Funds are invested:</i>		
General Purposes specific investments	9,033	7,743
Trust & Specific Purposes Specific Investments	41	34
Pooled investments	77,103	63,103
	<b>86,177</b>	70,880

## 22. Debtors

	2006 Receivable within one year £'000	2006 Receivable after one year £'000	2005 Receivable within one year £'000	2005 Receivable after one year £'000
Sales Ledger	1,931	-	916	-
Grants and legacies receivable	2,349	1,406	2,730	1,608
Other debtors	1,446	-	390	-
Prepayments and accrued income	2,390	-	2,524	-
	<b>8,116</b>	<b>1,406</b>	6,560	1,608

The Society has been notified of a substantial legacy which has not yet been recognised as the amount receivable cannot yet be determined with certainty.

## 23. Creditors

	2006 Due within one year £'000	2006 Due after one year £'000	2005 Due within one year £'000	2005 Due after one year £'000
Publications advanced sales	1,659	-	1,502	-
Grants payable	7,118	2,782	7,116	1,511
Other creditors	628	-	580	-
Accruals	582	-	360	-
	<b>9,987</b>	<b>2,782</b>	9,558	1,511

# Notes to the Financial Statements

For the year ended 31 March 2006

## 24. Analysis of net assets between funds

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000
<i>Funds' balances at 31 March 2006 are represented by:</i>						
Tangible fixed assets	13,489	-	-	-	13,489	13,886
Heritage assets	46,085	-	-	-	46,085	46,048
Investments	20,783	16,191	21,942	27,261	86,177	70,880
Net Current assets	(18,104)	4,024	14,573	-	493	1,514
Creditors: Due after one year	-	-	(2,782)	-	(2,782)	(1,511)
Defined benefit pension scheme liability	(4,360)	-	-	-	(4,360)	(6,520)
<b>Net assets</b>	57,893	20,215	33,733	27,261	139,102	124,297

The deficit of creditors over current assets for General Purposes Funds is funded by investments, which can be realised to meet the net liabilities as they fall due for payment.

## 25. Trust and Specific Purposes Funds – at 31 March 2006

The funds comprising the following have been established from grants and contribution, bequests, gifts and other donations received for the use of the Society in promoting and/or advancing natural science. They are broadly classified by the Society's strategic objectives. With the exception of those classified as unrestricted they are subject to restrictions as to the purpose for which capital (where applicable) and/or income may be applied and to conditions imposed by donors.

	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000
<i>Support for individuals and scientific research</i>					
Balance 1 April 2005	11,196	22,266	21,382	54,844	47,780
Income	409	31,342	-	31,751	32,812
Expenditure on activities	(413)	(28,950)	-	(29,363)	(28,945)
Transfers	(61)	(360)	-	(421)	(395)
Net gains on investments	1,794	2,278	3,511	7,583	5,800
<b>Balance 31 March 2006</b>	12,925	26,576	24,893	64,394	57,052
<i>International collaboration between the UK and the rest of the world</i>					
Balance 1 April 2005	-	(2,741)	61	(2,680)	(1,987)
Income	-	6,333	-	6,333	5,093
Expenditure on activities	-	(7,194)	-	(7,194)	(5,744)
Transfers	-	(86)	-	(86)	(110)
Net gains on investments	-	134	9	143	68
<b>Balance 31 March 2006</b>	-	(3,554)	70	(3,484)	(2,680)

# Notes to the Financial Statements

For the year ended 31 March 2006

## 25. Trust and Specific Purposes Funds - at 31 March 2006 (continued)

	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000
<i>Science communication and education</i>					
Balance 1 April 2005	-	3,126	1,124	4,250	3,794
Income	-	2,417	-	2,417	1,982
Expenditure on activities	-	(2,035)	-	(2,035)	(1,639)
Transfers	-	(71)	-	(71)	(100)
Net gains on investments	-	262	185	447	213
<b>Balance 31 March 2006</b>	-	3,699	1,309	<b>5,008</b>	4,250
<i>Provision of independent advice nationally and internationally</i>					
Balance 1 April 2005	-	2,471	-	2,471	2,477
Income	-	289	-	289	391
Expenditure on activities	-	(230)	-	(230)	(414)
Transfers	-	(171)	-	(171)	(169)
Net gains on investments	-	393	-	393	186
<b>Balance 31 March 2006</b>	-	2,752	-	<b>2,752</b>	2,471
<i>Other Funds</i>					
Balance 1 April 2005	6,475	4,470	849	11,794	11,322
Income	754	98	-	852	976
Expenditure on activities	(121)	(331)	-	(452)	(465)
Transfers	(307)	(4)	-	(311)	(352)
Investment management costs	(30)	(40)	(51)	(121)	(114)
Net gains on investments	519	68	191	778	427
<b>Balance 31 March 2006</b>	7,290	4,261	989	<b>12,540</b>	11,794
<i>All funds</i>					
Balance 1 April 2005	17,671	29,592	23,416	70,679	63,386
Income	1,163	40,478	-	41,641	41,254
Expenditure on activities	(534)	(39,740)	-	(40,274)	(37,207)
Transfers	(368)	(692)	-	(1,060)	(1,126)
Investment management costs	(30)	(40)	(51)	(121)	(114)
Net gains on investments	2,313	3,135	3,896	9,344	4,486
<b>Balance 31 March 2006</b>	20,215	32,733	27,261	<b>80,209</b>	70,679

The value of the following fund exceeds 5% of the total of all funds.

	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2006 Total Funds £'000	2005 Total Funds £'000
Brian Mercer Bequest	12,924	-	-	12,924	11,196

There are no funds materially in deficit at 31 March 2006.

# Notes to the Financial Statements

■ For the year ended 31 March 2006

## 26. Contingent liabilities and financial commitments

### **Contingent liabilities:**

Staff who were in the Society's employment on 31 December 1992 are entitled to a contractual payment to compensate them for the consequences of the reduction of the Society's retirement age from 65 to 60. The liability crystallises only on retirement from the Society. Had all eligible staff retired on 31 March 2006 the liability would have been £49k (2005- £49k); of this liability nothing is expected to crystallise in the year to 31 March 2007.

For the above staff, who were members of the Pension Plan, the Society has also undertaken to provide life insurance cover (at three times their salary level at retirement) up to the age of 65. The cost of providing this cover for the year to 31 March 2006 was £1k (2005 - £1k). The future cost is also estimated at £1k per annum.

### **Financial commitments:**

At 31 March 2006 the Society had the following commitments:

- an annual commitment for rent under a non-cancellable operating lease in respect of occupation of 6-9 Carlton House Terrace, London. The future commitment for rent is estimated at £490k (2005-£490k) per annum. The next rent review will be on 5 January 2025.
- agreements and commitments to fund research professorships/fellowships and other grants totalling £61m (2005—£61m). These grants are treated as liabilities of future periods to which they are time related and will be financed by specific grants or other income receivable in those periods.

## 27. Pension obligations

The Society operates a defined benefits Pension Scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Society and are invested in a fund administered by investment managers. Under the terms of the Trust Deed the scheme is administered by Trustees who delegate routine administration to professional administrators. At 31 March 2006 benefits were accruing to 82 (2005 – 80) members of staff. This is the Society's only Pension Scheme.

The contributions and pension costs are determined by a qualified actuary on the basis of a triennial valuation; the most recent valuation being at 1 January 2004. For the purposes of the valuation the actuary assumed that earnings would increase by 5% per annum and the interest earned on future income of the fund would be 7.5% per annum.

The valuation at 1 January 2004 showed that the market value of the scheme's assets was £6.8m, with the actuarial value of those assets representing a MFR funding solvency of 98%. The next valuation is due at 1 January 2007.

Contributions payable by the Society during the year were at the rate of 16% of pensionable salaries. Members contributions were 7%. An additional contribution of £2.5m to reduce the deficit was paid into the Plan by the Society in December 2005. Life cover and dependents' pensions in respect of death in service are provided by additional insurance premiums.

# Notes to the Financial Statements

## For the year ended 31 March 2006

### 27. Pension obligations (continued)

The Society has implemented FRS 17. The additional disclosures required are set out below.

For the purposes of the valuation, the assumptions used for calculating the liabilities as at 31 March 2006, 31 March 2005 and 31 March 2004 were:

	2006 %	2005 %	2004 %
Inflation	2.90	2.90	2.90
Salary escalation	5.90	5.90	5.90
Increase to pensions in payment*			
– subject to LPI minimum 4%	4.25	4.25	4.25
– subject to LPI	2.90	2.90	2.80
Statutory revaluation	2.90	2.90	2.80
Discount rate (pre-and-post-retirement)	4.90	5.30	5.40

\* Pensions in payment increase by the lesser of the annual increase in the retail price index or 5%. For service prior to 1 November 2001 this is subject to a minimum increase of 4%.

	2006		2005		2004		2003	
	Value £'000	Long-term rate of return %						
Equities	10,980	7.5	6,720	8.2	5,750	8.4	4,270	8.2
Property	140	7.9	80	7.3	130	7.3	180	6.9
Bonds	1,380	4.4	860	4.3	840	4.4	680	4.1
Cash and other net assets	1,060	4.4	610	4.2	280	3.4	250	3.1
<b>Total fair value of assets</b>	<b>13,560</b>		8,270		7,000		5,380	
Present value of scheme liabilities	(17,920)		(14,790)		(12,420)		(11,670)	
<b>Net pension liability – deficit in the scheme</b>	<b>4,360</b>		6,520		5,420		6,290	

The scheme has a number of purchased annuities in respect of past retirements. These are understood to fully match the associated liabilities and have been excluded from both the assets and the liabilities at 31 March 2006, 31 March 2005, 31 March 2004 and 31 March 2003.

# Notes to the Financial Statements

For the year ended 31 March 2006

## 27. Pension obligations (continued)

Analysis of the amount chargeable to charitable expenditure\*.

	2006 Total £'000	2005 Total £'000
Operating charge	480	420
<i>Current service cost (excluding death in service)</i>		
Expected return on the asset	730	560
Interest cost	(800)	(680)
Other finance income	(70)	(120)

\*This information has been incorporated into the Statement of Financial Activities on page 14.

Analysis of amounts recognisable within gains and losses categories of the Statement of Financial Activities\*.

	2006		2005		2004		2003	
	£'000	%	£'000	%	£'000	%	£'000	%
Annual return less expected return on Pension Scheme assets	1,550	11.4	250	3.0	820	11.7	(2,150)	(40)
Experience gains and losses arising on the scheme liabilities	(50)	(0.3)	(30)	(0.2)	40	0.4	170	1
Change in assumptions underlying the present value scheme liabilities	(1,690)	(9.4)	(1,180)	(8.0)	320	2.6	(1,750)	(15)
<b>Actuarial gain/(loss) on defined benefits scheme</b>	<b>(190)</b>		(960)		1,180		(3,730)	

\*This information has been incorporated into the Statement of Financial Activities on page 14.

The above percentages for the actual return less expected return are expressed as a percentage of the scheme assets at the end of the period. All other percentages are expressed as a percentage of the scheme liabilities at the end of the period.

The movement in the deficit during the year is as follows based on the assumptions given above.

	2006 Total £'000	2005 Total £'000
Deficit at 1 April 2005	6,520	5,420
<i>Movement in the year</i>		
Current service cost	480	420
Contributions	(2,900)	(400)
Other finance income	70	120
Actuarial (gain)/loss	190	960
<b>Deficit at 31 March 2006</b>	<b>4,360</b>	6,520

# Notes to the Financial Statements

For the year ended 31 March 2006

## 27. Pension obligations (continued)

	2006 £'000	2005 £'000
<i>The deficit comprises:</i>		
Fair value of assets	13,560	8,270
Present value of liabilities	(17,920)	14,790
	4,360	6,520

## 28. Subsidiary undertaking

The Society owns 100% of the £1 called-up and issued share capital of Carlton House Terrace Developments Limited. The principal activity of that company is the redevelopment of the interior of 6–9 Carlton House Terrace, London; the property occupied by the Society. The company did not trade during the year.

## 29. Connected Charities – The Wolfson Research Professorship of the Royal Society

	2006 Total £'000	2005 Total £'000
<b>Restricted Funds</b>		
<i>Incoming resources:</i>		
Dividends and interest	51	50
<i>Resources expended:</i>		
Charitable grants to the Royal Society	(51)	(50)
	-	-
<b>Permanent Endowment Funds</b>		
Balance at 31 March 2006	1,131	1,046
<b>Total Funds as at 31 March 2006</b>	<b>1,131</b>	<b>1,046</b>

## 30. Other funds

	2006 Investment Market Value £'000	2005 Investment Market Value £'000
<i>The Society is the beneficiary of the following funds:</i>		
<b>CURL FUND</b>		
The investments for this fund are held and managed by the New Zealand Public Trust Office	23	23
<b>HORACE LE MARQUAND AND DUDLEY BIGG TRUST</b>		
The investments of the permanent endowment of the Trust are held and managed by Rensberg Sheppards. The Trustees are Investec Trust (Jersey) Limited.	448	389
<b>STEAD FUND</b>		
The Society receives the income from certain investments held by Killik & Co, Stockbrokers, after payment of certain life annuities. On the death of the annuities the capital will revert to the Society.	2	2



THE ROYAL  
SOCIETY

Parliamentary  
Grant-in-Aid

for the year ended  
31 March 2006

## **INDEPENDENT AUDITORS' REPORT TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY ON THE ACCOUNTS OF THE PARLIAMENTARY GRANT-TO-AID PROGRAMME OF THE ROYAL SOCIETY** **For the year ended 31 March 2006**

We have audited the accounts on pages 37-38, which have been prepared on an accruals basis.

### **RESPONSIBILITIES**

The respective responsibilities of the Royal Society and its Executive Secretary as Accounting Officer for the Parliamentary Grant for the preparation of these accounts are set out in a Financial Memorandum dated 31 October 2005, which contains conditions attaching to the Grant-in-Aid including the following:

- any income and expenditure not covered by funds provided by the Secretary of State for Trade & Industry but accounted for within the Parliamentary Grant-in-Aid shall be clearly identified;
- the Society shall comply with any directions given by the Secretary of State for Trade and Industry, approved by the Treasury, as to the information to be contained in the statement, the manner in which the information is to be presented, and methods and principles according to which the statement is to be prepared;
- the Auditors should be qualified under the terms of the Companies Act;
- the Auditors' Report, in addition to giving an opinion on whether the accounts give a true and fair view of the Society's surplus or deficit for the year, should say whether grant monies have been properly applied in accordance with the terms and conditions of grant and for the purposes approved by the Secretary of State.

Our report has been prepared for the purposes stated above and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for those purposes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **BASIS OF 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 accounts. It also includes an assessment of whether the accounting policies are appropriate to the circumstances of the programme, 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 accounts 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 the information in the accounts.

### **OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the programme at 31 March 2006 and of its deficit for the year then ended and that in all material respects the expenditure and income have been applied for the purposes intended by Parliament, which are set out in the Financial Memorandum, and the financial transactions conform to the authorities that govern them.

PKF (UK) LLP  
Chartered Accountants  
Registered Auditors  
London  
6 July 2006

# Parliamentary Grant-in-Aid

## SUMMARY OF INCOME & EXPENDITURE For the year ended 31 March 2006

	Research Appointments £'000	International Relations, Exchanges and Grants £'000	National Scientific Support and Central Expenses £'000	2006 Total £'000	2005 Total £'000
<b>PARLIAMENTARY GRANT-IN-AID</b>					
<i>Income</i>					
Office of Science and Technology grant	20,806	5,924	5,992	<b>32,722</b>	31,698
Refunds	18	138	21	<b>177</b>	192
	20,824	6,062	6,013	<b>32,899</b>	31,890
<i>Expenditure</i>					
<i>Grant and activity costs</i>					
(Outstanding)/prepaid 1 April 2005	1,743	(3,269)	(54)	<b>(1,580)</b>	(1,705)
Out-turn for the year	21,073	5,812	6,014	<b>32,899</b>	31,890
Outstanding/(prepaid) 31 March 2006	(1,952)	4,776	80	<b>2,904</b>	1,580
	20,864	7,319	6,040	<b>34,223</b>	31,765
	(40)	(1,257)	(27)	<b>(1,324)</b>	125
				<b>2006 Total £'000</b>	2005 Total £'000
<i>Deposit interest</i>					
Interest receivable				<b>127</b>	106
Surrenderable to the Office of Science and Technology				<b>127</b>	106
				-	-
<i>Surplus of income over expenditure</i>					
Surplus/(deficit) for the year				<b>(1,324)</b>	125
Balance as at 31 March 2005				<b>(1,580)</b>	(1,705)
<b>BALANCE as at 31 March 2006</b>				<b>(2,904)</b>	(1,580)
				<b>2006 Total £'000</b>	2005 Total £'000
<i>Represented by:</i>					
Grants partly prepaid				<b>2,264</b>	2,361
Grant receivable				<b>35</b>	-
Other debtors				<b>3</b>	-
Balance at bank				<b>190</b>	299
				<b>2,492</b>	2,660
Grants due for payment within one year				<b>(2,385)</b>	(2,706)
Grants due for payment after one year				<b>(2,783)</b>	(1,235)
Other Creditors				<b>(76)</b>	(15)
Amount repayable to the Office of Science and Technology				<b>(152)</b>	(284)
				<b>(2,904)</b>	(1,580)

Stephen Cox  
Accounting Officer  
6 July 2006

# Parliamentary Grant-in-Aid

## SUMMARY OF INCOME & EXPENDITURE For the year ended 31 March 2006

	Parliamentary Grant-in-Aid £'000	Refunds £'000	Grants & Subscriptions £'000	Surplus/ (Deficit) For the year 31 March 2006 £'000
<b>1. RESEARCH APPOINTMENTS</b>				
1.01 Research Professorships	955	-	(955)	-
1.02 University Research Fellowships	11,558	-	(11,558)	-
1.03 Research Fellowships	1,615	4	(1,634)	(15)
1.04 Industry Fellowships	300	-	(300)	-
1.05 Research Support	3,960	14	(4,060)	(86)
1.06 Research Merit Awards	2,000	-	(2,000)	-
1.07 Return Fellowships	196	-	(135)	61
1.09 Relocation Fellowships	193	-	(193)	-
1.10 Scheme evaluation	29	-	(29)	-
	<b>20,806</b>	<b>18</b>	<b>(20,864)</b>	<b>(40)</b>
<b>2. INTERNATIONAL RELATIONS, EXCHANGES AND GRANTS</b>				
<i>A. Exchange visits and Fellowships</i>				
2.01 New Initiatives & New Frontiers	181	-	(181)	-
2.02 Short Visits	1,006	43	(1,041)	8
2.06 Joint Projects	1,429	61	(1,383)	107
2.04 International Fellowships	1,554	34	(2,696)	(1,108)
2.05 International Networking	195	-	(448)	(253)
<i>B. Grants and research projects</i>				
2.06 Conference grants	851	-	(851)	-
2.07 Royal Society research projects	90	-	(90)	-
<i>C. International relations</i>				
2.08 Relations with overseas academies	18	-	(18)	-
2.09 International subscriptions	356	-	(367)	(11)
2.10 International activities	100	-	(100)	-
2.11 International Seismological Centre	69	-	(69)	-
2.12 European Academy	75	-	(75)	-
	<b>5,924</b>	<b>138</b>	<b>(7,319)</b>	<b>(1,257)</b>
<b>3. NATIONAL SCIENTIFIC SUPPORT AND CENTRAL EXPENSES</b>				
<i>A. Grants, studies etc</i>				
3.01 Royal Society research grants	2,148	21	(2,169)	-
3.02 History of science/ science information	82	-	(82)	-
3.03 Science: education and promotion	658	-	(685)	(27)
3.05 Public policy	200	-	(200)	-
3.06 International meetings in the UK	195	-	(195)	-
3.09 Rosalind Franklin Award	34	-	(34)	-
3.13 FEC start up costs	35	-	(35)	-
<i>B. Central (operating) expenses</i>				
3.07 Rent and exterior maintenance of CHT	790	-	(790)	-
3.08 Contribution to salaries and overheads	1,850	-	(1,850)	-
	<b>5,992</b>	<b>21</b>	<b>(6,040)</b>	<b>(27)</b>

## The Royal Society

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The Royal Society has three roles: as the UK academy of science, as a learned society and as a funding agency. It responds to individual demand with selection by merit, not by field.

The objectives of the Royal Society are to:

- strengthen UK science by providing support to excellent individuals
- fund excellent research to push back the frontiers of knowledge
- attract and retain the best scientists
- ensure the UK engages with the best science around the world
- support science communication and education, and communicate and encourage dialogue with the public
- provide the best independent advice nationally and internationally
- promote scholarship and encourage research into the history of science.



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Founded in 1660, the Royal Society is the independent scientific academy of the UK, dedicated to promoting excellence in science

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