



## The Scottish Association for Marine Science

(A Scottish Charitable Company Limited by Guarantee, not having a share capital)

Directors' Report and Group Financial Statements  
For the year ended 31 March 2017

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## Company Information

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### **Directors**

*M T S Batho  
Professor G S Boulton  
S G Cannon*

*Chair of Education Committee  
President  
Completed Tenure & stepped down November 2016  
Chair of Finance Committee*

*Dr M Chierici  
Mr I Dunn  
Professor R C Ferrier  
Professor J E Francis  
M A Jeffcoat*

*Appointed November 2016  
Completed Tenure & stepped down November 2016  
Resigned November 2016  
Chair of Audit Committee  
Resigned 23 June 2016*

*Professor D MacLean*

*Chair of SRS� Board appointed June 2016 and  
Trustee appointed November 2016*

*Professor M Priede  
Commodore A A Ross  
K A Rundle  
Professor A W Tudhope*

*Chair of Research Committee  
Chair of Board  
Completed Tenure & stepped down November 2016*

### **Audit Committee**

*Mr P Brennan  
Dr C Phillips  
Professor B Ferrier*

*Chair of Audit Committee appointed 4 July 2016*

*Appointed 16 November 2016*

### **Secretary**

*Professor A E J Miller*

### **Auditor**

*Johnston Carmichael LLP  
Clava House  
Cradlehall Business Park  
Inverness  
IV2 5GH*

### **Bankers**

*Bank of Scotland  
Station Road  
Oban  
PA34 4LL*

### **Registered Office**

*Scottish Marine Institute  
Oban  
Argyll  
PA37 1QA*

## Council Report (incorporating the Strategic Report)

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The Council, the members of which are also Directors of the Charity for the purposes of the Companies Act, for The Scottish Association for Marine Science (SAMS), present their report and the group financial statements for the year ended 31 March 2017.

SAMS is a company limited by guarantee governed by its Memorandum and Articles of Association. It is registered as a charity with the Office of the Scottish Charity Regulator with a membership. The liability of the members is limited to a maximum of £1 each.

SAMS is not permitted by its Memorandum of Association to become a trade union or to distribute profits to its members.

SAMS has wholly owned active subsidiary companies: SAMS Research Services Limited (SRSL) and SAMS Limited. The registered office of SRSL is Lismore Suite, Suite 4, Malin House, The European Marine Science Park, Dunbeg, Oban, Argyll PA37 1SZ. The registered office of SAMS Limited is C/o Scottish Marine Institute, Dunbeg, Oban, Argyll PA37 1QA.

SAMS is a founding partner of the University of the Highlands and Islands (UHI), an Associated Institution of the United Nations University, a Delivery Partner of the Natural Environment Research Council, and a partner in the Marine Alliance for Science and Technology for Scotland (MASTS) and Scottish Alliance for Geoscience, Environment & Society (SAGES).

The activities of SAMS, SRSL and SAMS Limited are as follows:

- SAMS purpose is to conduct world-leading research and create new knowledge about the seas and oceans, about how they work, their interaction with the rest of the planet and with humanity. SAMS research embraces the great challenges of our time: the provision of sustainable food and energy supply and global climate change, in the face of increasing human population and therefore pressure on the marine environment. SAMS research extends from the atmosphere above the sea to its greatest depths, and from pole to pole. Importantly, a key purpose of SAMS is to promote and make this new knowledge available for society, from school children to world leaders.
- SRSL is a commercial, subsidiary company, wholly owned by SAMS as the single shareholder. It exists to provide knowledge, know-how and services, primarily to commercial entities in order for them to better carry out their business. Increasingly, SRSL operates at the interface between academia and business – the so-called innovation space – which is recognised as an important area to stimulate employment, new businesses and wealth generation.
- SAMS Limited is a second subsidiary company, wholly owned by SAMS. It exists to provide specialist services for diving and decompression activities, the provision of algal cultures and to manage the rental of SAMS infrastructure (rooms etc) for tenants.

# Strategic Report

## *Achievements and Performance*

SAMS prepares an annual report that is made publicly available through the website: this report provides a detailed review and information covering the current and future activities of all areas of the organisation. Below are some of the highlights of the year showcasing the continued excellence of SAMS.

SAMS' scientific outputs continued strongly through the year with 128 papers published in high quality journals, together with a number of reports. The latter included a highly influential Global policy briefing on seaweed, involving a number of international partners and the University of the United Nations.

As well as the seaweed policy briefing, activities concerning seaweed increased considerably through the year, including: popular media articles; academic papers in the learned literature; policy advice on seaweed farming; use of seaweed in a variety of industries; international workshops; through to a number of successful research proposals.

SAMS was highly successful in winning two of four research proposals in the NERC sponsored Arctic research programme; we also were awarded funding to coordinate the project through the establishment of a programme office. A number of research projects involving Arctic sea-ice and remote underwater vehicles were also successfully carried out.

SAMS' international collaborations continued to develop strongly. We signed a Memorandum of Understanding with the University of the Seychelles' Blue Economy Research Institute. In September we hosted over 30 colleagues from the Texas A&M University Corpus Christi and Harte Institute for a SAMS-UHI-HIE workshop on Global Marine Sustainability. A number of new initiatives were instigated, including exchanges of staff and students and new research projects.

We continue to promote SAMS actively in the traditional media and, increasingly, through social media platforms. We attracted around 250 direct media mentions of the "Scottish Association for Marine Science" including 29 mentions on BBC outlets. The overall figure does not include at least 150 media mentions for the SAMS-led policy brief 'Safeguarding the future of the global seaweed aquaculture industry'. These statistics are a minimum because, for cost-saving purposes, SAMS decided to end its subscription to a professional media monitoring service, which undoubtedly would have identified additional media citations.

Publishing more regular news items to the SAMS website gives us more original content for use on social media platforms. As a result we significantly increased our following on social media during the reporting period:

- Facebook - increase in followers from **1,620 to 2,241**
- Twitter – increase in followers from **3,799 to 5,481**
- LinkedIn – increase in connections from **1,359 to 1,702**
- A new Instagram account was created during the reporting year to encourage engagement with prospective undergraduate students.

SAMS' trading subsidiary - SRSL Ltd - had its strongest financial performance to date, in part benefitting from the management changes consolidated during the year. SRSL was successful in obtaining ISO 9001 accreditation for the management of its projects.

Our public outreach activities continued successfully through the year-long daily opening of the SAMS Ocean Explorer Center, which saw approximately 4,160 visitors throughout the year. SAMS also had a major presence in Oban's 'Festival of the Sea' which attracted at least 2,300 visitors to various marine themed stands and displays. The 'Co-Coast' citizen science project introduced last year continued to be active and engaged and trained a further 259 members of the public in seashore identification training.

SAMS' education activities continue to develop strongly and are an increasingly important component of SAMS' portfolio. The undergraduate degree has shown year-on-year growth in numbers. A very strong performance

was demonstrated in the EU Erasmus-Darwin sponsored Aquaculture, Environment and Society (ACES) MSc course which recruited 25 students from 19 countries.

SAMS BSc student Sam Black was UHI undergraduate of the year because of his commitment to charitable fundraising as well as outstanding academic performance, including his undergraduate research project being selected for a prestigious national prize. And not to be outdone SAMS PhD student Laura Hobbs was selected as UHI postgraduate student of the year for her outstanding PhD thesis on zooplankton distributions and behaviour.

Two SAMS staff were honoured by UHI through the award of a Personal Readership to Michele Stanley for her work in marine biotechnology, and the award of a Personal Professorship to Sheila Heymans for her work in marine ecosystem modelling

### Financial Review

The Association made a deficit of £171k in 2016/17 (2015/16 deficit of £632k). This Outturn included a non-recurring exceptional item amounting to a credit of £660k to Income. This was attributable to the settlement of a long running legal dispute with a builder. In addition, the Association benefited from the reduction in its Universities Superannuation Scheme (USS) liability which provided a further credit in year of £250k.

The Group also benefited from the positive contribution of £120k received from the subsidiary company SRSI turning round the previous loss making position and complementing the Science activities carried out across the group.

Positive cash inflows across the Group amounted to £372k.

Recognising the need to remove ongoing deficits in its operation, SAMS has embarked on the delivery of a major Rebalancing and Development Plan aimed at improving the underlying performance of the Group. Central planks of this strategy include:

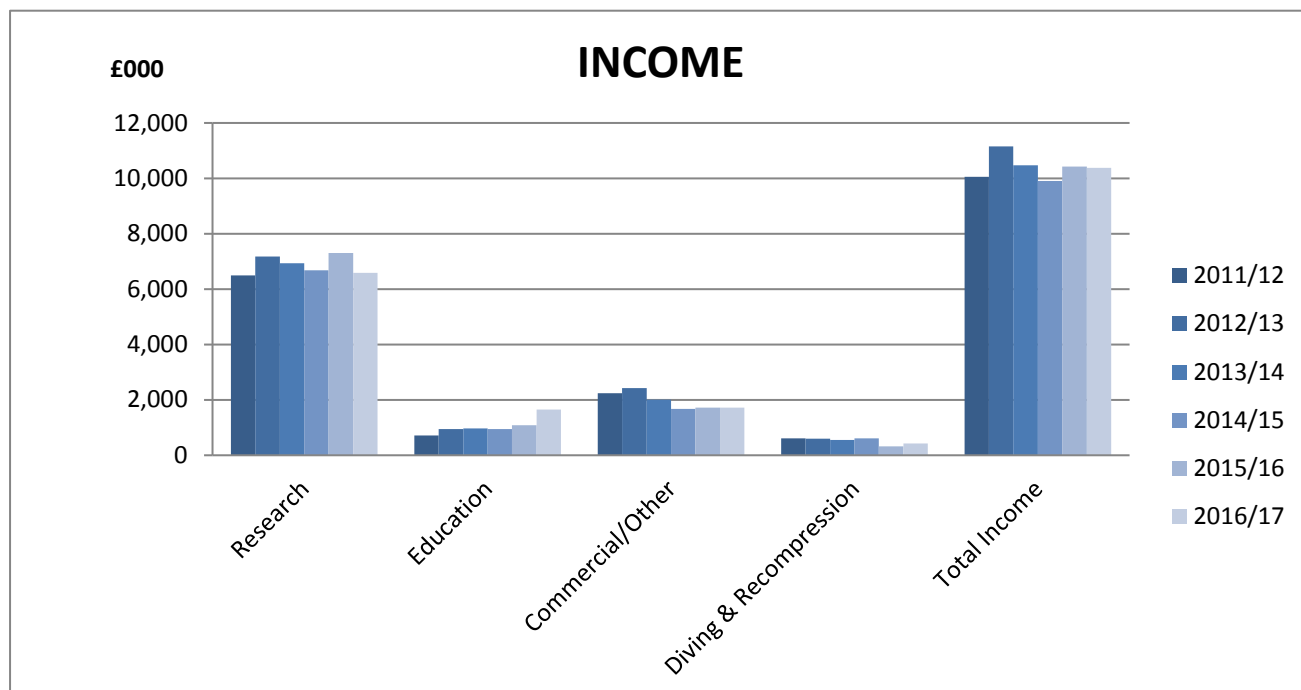
- Improved planning around the assessment and implementation of Science opportunities,
- Strategic Cost reviews and close monitoring of the Establishment,
- Improved Overhead Recovery built into Project Financial Plans.

Strategic Financial Targets have been set by Council to further aid this process with a view to returning SAMS to profitability in 2018/19. In the Current year, 2017/18 the Council has agreed that SAMS delivers a small operating surplus.

The Balance sheet remains strong with modest gearing being eliminated over the next two years. Close monitoring of costs in 2017/18 together with a focus on removing marginal activity will improve liquidity ratios.

Financial Summary	2016/17	2015/16	Change
	£000	£000	%
Summary			
Operating Income	10,382	10,426	-0.4%
Operating Expenditure excluding grant funded depreciation	(10,610)	(10,092)	5.1%
Operating (Deficit)/Surplus before exceptional Item	(228)	334	
Exceptional in year income/exchange rate loss	660	(7)	
Pension Deficit Obligation (FRS 102 requirement)	250	(25)	
Extraordinary items	(174)	(118)	
Depreciation funded by grants received in previous years	(679)	(816)	16.8%
(Deficit)/Surplus transferred to reserves	(171)	(632)	-72.9%

### Total income over five years



### Research grants and contracts

Income from research grants and contracts fell during the year by 11.6%. This was as a result of the continued reduction in funding through the NERC National Capability Funding grants and also through Government funding coming to an end and not being renewed. On the positive side SAMS was successful with 2 large projects through the NERC Arctic call which amounts to £2.7m over the next four years. Income from EU funding increased by 5.7% and the REG increased by 10% year on year.

Research grants and contracts			
Financial summary	2016/17	2015/16	Change
	£,000	£,000	%
Research income			
NERC (including National Capability)	2,947	3,297	-10.6%
EU	1,174	1,111	5.7%
Other	1,338	1,980	-32.4%
REG	924	833	10.9%
Total research income	6,383	7,221	-11.6%

Other Research Income represents Government Commissions and funding from other sources excluding RCUK and the EU. Examples of funding include Government Departments such as SARF, Norwegian Research Council and Innovation Centres.

The Research Excellence Grant (REG) received through UHI helps fund the gap which arises from the fact that research incomes rarely provides full cost recovery for overheads. Typically this gap represents 20-35% of research infrastructure costs. A key challenge for SAMS is to manage its volume of activity with boundaries set by this funding source.

## Education

Following the strong performance of SAMS and UHI in the 2014 Research Excellence Framework (REF) assessment an increase in REG income was achieved. The decision of the Scottish Government to phase this increase over two years (2015/16 and 2016/17) has led to a somewhat lower income in 2016/17 than initially expected, with an income to SAMS of £924k.

SAMS delivers taught undergraduate and both taught and research postgraduate education as a partner of UHI. This now exceeds 10% of SAMS total income.

The major source of income is the undergraduate BSc(Hons) in marine Science. Recruitment continues to increase with a total undergraduate student population of 101 generating an income of £549k (2015/16 £495k).

PhD income is from a variety of funders including the NEXUS CDT and E3 DTP and the ALFF Marie Curie Programme. PhD student numbers remain approximately steady year on year, at 32 students with an income of £351k (2015/16 £290k).

The major income stream at Masters level is the Erasmus Mundus Joint Masters Degree in Aquaculture, Environment and Society (ACES) that is now in its second year of funded studentships. We also offer a research masters programme in Marine Algal Biotechnology and a Joint MSc in Ecosystem Management of Marine Systems with the University of St Andrews.

We also host field courses for a number of external institutions including, making use of SAMS educational facilities at times of lower demand from our own students.

## Enterprise

SAMS Research Services Limited (SRSL), our subsidiary enterprise, strives to enhance SAMS' international reputation for science consultancy and fund the gap in science funding from other sources. Turnover increased from £1.2m to £1.4m and the company generated a surplus in 2016/17 of £120k (2015/16 deficit £216k). Further growth in activity is forecast in 2017/18 as the Group continue to develop resource planning which will offer all SAMS staff the opportunity to participate in the development of Enterprise activities. SRSL is increasingly being seen as a vehicle through which the SAMS Group can access innovation funding – opportunities at the interface between blue-skies discovery science and fully commercial work.

## Effective Management of Resources

Staff costs remain the highest proportion of expenditure representing 66% (2016 - 67%) of operational income. The Board have set a target of 60% for future years. Total staff costs for the year amount to £6.9m (2015/16 £6.74m). This is a movement of 2% from the prior year. Staff utilisation has been monitored through a newly developed Workload Model. This activity will inform further rebalancing of staff through 2017/18. Insights obtained from detailed analysis of the Workload Model underpinned much of a recent report by Delfinity consultants. In addition, UHI shared procurement activities provides Specialist Procurement Support for 4 days a month. Cash savings estimated at £151k (over 4 years) have been made through collaborative procurement of:

- Biofuel
- Multi Facilities Devices
- External Audit

## Capital Investment

Capital Investment funds were received from a number of sources. As an academic Partner of the University of the Highlands and Islands (UHI) money directed by the Scottish Funding Council (SFC) was used to fund the conversion of the unused space in the Sheina Marshall Teaching Building and purchase a Liquid Nitrogen Generator.



### *Plans for Future Periods*

For Research our strategy is to aim for the highest possible quality publications in order to maximise the financial income from the next Research Excellence Framework (REF) exercise. This involves, inter alia, a directed publication strategy internally to ensure the maximum number of FTE's are submitted. Also, within resource constraints a targeted recruitment strategy to attract the best young marine scientists from the UK and beyond. Our science strategy has been focused to provide better alignment between our research and enterprise activities.

For Education we have an ambitious target to increase our undergraduate numbers to 160. We can achieve this by more aggressively marketing, especially in the RUK market and by adding a new final year stream in Marine Robotics.

Our Education income will be enhanced through our partnership with the University of the Highlands and Islands. We shall also look to the possible opportunities afforded by our relationship with the University of Edinburgh to increase our masters provision, where we are actively pursuing new degrees in robotics aquaculture.

For our commercial enterprise, outside of this reporting period, significant changes in the relationship between SAMS and SRSL have taken place. The appointment of the SAMS Director as CEO; the integration of SRSL staff into a SAMS Group 'business delivery team'; formalisation of an effective operational interface between 'delivery' and science; and the development of a new business approach have been designed to generate a step-change in income generation from Enterprise activities. These activities are beginning to 'bear fruit'.

### *Principal Risks and Uncertainties*

The most significant risks facing us over the next 12 to 18 months result from the factors which directly threaten the success of our strategic objectives and they are subject to continuous management attention.

- Risk of lack of robust project management.
- Risk of failure to meet research, education and enterprise performance targets including potential failure to win EU research grants as a consequence of the uncertainty surrounding Brexit.

To mitigate against this we continue to align our research strengths and strategies with the expectations of the funding bodies and enterprises and expand both undergraduate and postgraduate education provision through strategic alliances with higher education institutions.

- Risk of failure to deliver a sustainable, effective and efficient operating model.

Mitigation of these risks is primarily taking place by focusing research in areas of high demand and SAMS high capacity, and by prioritising expenditure across all areas, strengthening project management and tighter financial management.

SAMS has an established risk management strategy which comprises:

- The Council (the ultimate Governing Body) reviews risks which the charity may face by an established system and procedures to mitigate those risks identified in the plan; and the implementation of procedures designed to minimise any potential impact on the charity should any of those risks materialise.

The Risk Register is owned by the Executive Group which up-dates a strategic risk summary to Council, through the Board and relevant sub Committees on a half-yearly basis.

### **Reserves policy**

The primary aim of the reserves policy is to ensure that SAMS hold adequate funds to maintain the longer term sustainability of the marine science research undertaken by our scientists and to manage short term volatility in income or liquidity. The policy is designed to ensure that the Association can:

- Continue to meet its on-going financial commitments within agreed terms of credit.
- Deploy the required funds promptly in a planned way to react to new opportunities and strategic decisions undertaken by the Associations' Executive Group.
- Ensure that the Association is not forced into short term decisions that might impact on its longer term vision and strategy because of any short term setback, whether operational or in key sources of income.

The policy aims for the Association to hold, in future, in unrestricted undesignated reserves a minimum of a minimum of 3 months annualised unrestricted expenditure, amounting to approximately £939k, in order to provide adequate working capital levels for the continued operation of the Association and completion of existing projects. Unrestricted expenditure includes designated expenditure and undesignated general expenditure.

In addition, the Council have set the target of maintaining cash reserves at a minimum level of 2 months salary bill.

The total funds held by the charity at the year end amount to £13,827k (2016 - £13,998k). This consists of unrestricted undesignated funds in deficit of £2,965k (2016 - £2,953k), unrestricted designated funds of £4,914k (2016 - £4,833k) and restricted funds of £11,878k (2016 - £12,118k).

Unrestricted undesignated funds reflect the amount of reserves freely available to spend on any of the charity's purposes, including those stated above. Whilst the total of unrestricted funds is positive, the undesignated element is negative mainly as a result of the fact that unrestricted fixed assets are held within a designated fixed asset fund. A designated fund for fixed assets reflects the need to demonstrate the level of funds required to provide the assets necessary for delivering marine science research for which no ongoing restrictions apply. Restricted funds represents funds received for specific charitable activities. The restricted funds balance at the year end date consists of a fixed asset fund relating to assets acquired with funds for which ongoing restrictions continue to apply. SAMS will aim to achieve the policy aims stated above but in reality the existence of the long term loan will make their achievement also long term in nature. SAMS is satisfied that this does not affect the sustainability of the Group. It is our intention to review the required level of designated funds over the current financial year in order to move towards compliance with the policy aim of a minimum of 3 months annualised unrestricted expenditure.

### **Investment policy and performance**

The Council has considered the most appropriate policy for investing funds and has found that short to medium term investment of funds should be held in a mixture of current and investment accounts to minimise risk associated with term deposits.

### **Remuneration of key management personnel**

The remuneration level of key management personnel is decided by a committee of trustees, independent of those whose remuneration is being agreed. No member of key management personnel forms part of the committee that decides their individual level of remuneration. Remuneration is consistent with other UK academic salary structures for similar positions and the remuneration level agreed is based on the qualifications and experience of the specific individual.

## Directors' Report

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### *The Council*

The members of the Council, who act as trustees and directors, are all guarantors of the company, of an amount not exceeding £1, during the period of their appointment as Council members and for a year after resignation. The Council is appointed in accordance with the Memorandum and Articles of Association, which allows trustees to serve a maximum of two consecutive 3-year terms.

The members of the Governing Council during the year are listed on page 3 with the resignations being for those members retiring from council after their timed appointment.

The Natural Environment Research Council (NERC), the University of the Highlands & Islands (UHI) and the Highlands & Island Enterprise (HIE) all have observer status at SAMS Council meetings.

Any member of SAMS can nominate a new trustee to serve on Council. The SAMS Director has the responsibility to outline the duties and responsibilities to potential trustees. A new trustee is nominated and seconded at the AGM.

New trustees attend a briefing meeting with the SAMS Director or Company Secretary and are provided with the relevant guidance notes from Companies House and the Office of the Scottish Charity Regulator.

SAMS Council meets biannually usually with the addition of an annual retreat. The Council is served by a Board to Council and between them there are four sub-committees; Finance, Audit, Research and Education. In addition there is a separate Board for SRSL. The SAMS Council, the Boards and the Committees approve the Group's strategy and perform the governance function for SAMS. The implementation of the strategy is delegated to the Executive Group led by the SAMS Director.

### *Executive group*

Management of the Charity is delegated by the Council to the Director and the SAMS Executive Group. The members of the Executive Group during the reporting period or at the date of this report were:

Prof Nicholas J P Owens	Director
Prof Axel Miller	Deputy Director
Prof Angela Hatton	Associate Director for Research to 30 November 2016
Prof Mark Inall	Associate Director, Strategic Alliances to 30 November 2016
Dr Tracy Shimmield	Managing Director SRSL to 30 September 2016
Mr John Hausrath	Head of Delivery from 23 May 2016 to 31 March 2017
Prof Keith Davidson	Associate Director for Education
Prof Sheila Heymans	Head of Ecology, then Head of Science Department
Dr Lois Calder	Head of Education to 8 April 2016
Prof David Pond	Head of Microbial & Molecular Biology to 31 August 2016
Dr John Howe	Head of Biogeochemistry to 31 May 2016
Mr Derek Black	Head of Finance until 23 May 2016
Ms Jake McInnes	Head of Finance from 23 May 2016 to 20 March 2017
Ms Michelle Hausrath	Head of Human Resources

### *Equal opportunities*

The company is committed to provide full opportunity for the development of individuals' talents by using criteria based on merit and job performance alone in employment related decisions. It is further committed to ensure it does not discriminate on grounds of gender, marital status, race, colour, ethnic or national origins, age, religious belief, sexual orientation or disability.

### *Directors' statement as to disclosure of information to auditors*

The directors who are members of the Council at the time of approving the directors' report are listed on page 3. Having made enquiries of fellow directors, each of the directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

### *Auditors*

A resolution to reappoint Johnston Carmichael LLP as auditor will be put to the members at the Annual General Meeting.

The Council Report, incorporating the Strategic Report is approved.

Professor G Boulton, OBE, FRS, FRSE Regius Professor

SAMS President

Date:

## **Statement of Council's Responsibilities in Respect of the Financial Statements**

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The Members of Council (who are directors for the purposes of company law) are responsible for preparing the Annual Report including the Strategic Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charitable company and its group; and of its incoming resources and application of resources, including the income and expenditure, of the charitable company and its group for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP 2015 (FRS 102) as amended;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in operation.

The trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and its group and enable them to ensure that the financial statements comply with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charitable company and its group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Independent Auditor's Report

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### *To the Trustees and Members of the Scottish Association for Marine Science*

We have audited the financial statements of the Scottish Association for Marine Science for the year ended 31 March 2017 which comprise the group and parent charitable company Statement of Financial Activities, the group and parent charitable company Balance Sheets, the group Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and to the charitable company's trustees, as a body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### *Respective responsibilities of Members of Council and auditor*

As stated in the Statement of Council's Responsibilities set out on page 14, the members of Council (who are also the directors of The Scottish Association for Marine Science for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### *Scope of the audit of the financial statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Council Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### *Opinion on financial statements*

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the group's and the parent charitable company's affairs as at 31 March 2017 and of the group's and parent charitable company's incoming resources and application of resources, including the group's and parent charitable company's income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

### *Opinion on other matter prescribed by the Companies Act 2006*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Councils' Report, including the Strategic Report, for the financial year for which the financial statements are prepared is consistent with the financial statements, and the Strategic Report and the Councils' Report have been prepared in accordance with applicable legal requirements.

### *Matters on which we are required to report by exception*

In the light of our knowledge and understanding of the group and charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Councils' Report.

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

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

Jamie Waugh (Senior Statutory Auditor)

For and on behalf of:

Johnston Carmichael LLP  
Chartered Accountants  
Statutory Auditor  
Clava House  
Cradlehall Business Park  
Inverness  
IV2 5GH

Johnston Carmichael LLP is eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006.

## Group Statement of Financial Activities

including Income and Expenditure Account  
for the year ended 31 March 2017

		2017	2017	2017	2017	2016
		Unrestricted funds				
	Notes	Undesignated	Designated	Restricted	Total	Total
Income from:		£000	£000	£000	£000	£000
Other trading activities	2a	199	0	0	199	294
Investments	2b	0	0	0	0	5
Charitable activities	2c	3,067	215	6,901	10,183	10,127
Other - exceptional	2e	660	0	0	660	7
Total income		<u>3,926</u>	<u>215</u>	<u>6,901</u>	<u>11,042</u>	<u>10,433</u>
Expenditure on:						
Raising funds	3a	9	0	0	9	8
Charitable activities	4a	4,005	134	7,141	11,280	10,914
Other		0	0	0	0	0
Total expenditure		<u>4,014</u>	<u>134</u>	<u>7,141</u>	<u>11,289</u>	<u>10,922</u>
Net income / (expenditure)		(88)	81	(240)	(247)	(489)
Extraordinary items	4c	0	0	(174)	(174)	(118)
Transfers between funds		(174)	0	174	0	0
Other recognised gains/(losses):						
Pension deficit obligation	14	250	0	0	250	(25)
Net movement in funds		<u>(12)</u>	<u>81</u>	<u>(240)</u>	<u>(171)</u>	<u>(632)</u>
Reconciliation of funds						
Fund balance brought forward						
at 1 April 2016		<u>(2,953)</u>	<u>4,833</u>	<u>12,118</u>	<u>13,998</u>	<u>14,630</u>
Total funds carried forward						
at 31 March 2017		<u>(2,965)</u>	<u>4,914</u>	<u>11,878</u>	<u>13,827</u>	<u>13,998</u>

The statement of financial activities also complies with the requirements of an income and expenditure account under the Companies Act 2006.



**Company Statement of Financial Activities**  
**including Income and Expenditure Account**  
**for the year ended 31 March 2017**

		2017	2017	2017	2017	2016
		Unrestricted funds				
	Notes	Undesignated	Designated	Restricted	Total	Total
		£000	£000	£000	£000	£000
Income from:						
Other trading activities	2a	199	0	0	199	294
Investments	2b	59	0	0	59	5
Charitable activities	2d	1,862	212	6,901	8,975	9,639
Other - exceptional	2e	660	0	0	660	7
Total income		2,780	212	6,901	9,893	9,945
Expenditure on:						
Raising funds	3b	7	0	0	7	5
Charitable activities	4b	2,953	122	7,141	10,216	10,231
Total expenditure		2,960	122	7,141	10,223	10,236
Net income / (expenditure)		(180)	90	(240)	(330)	(291)
Extraordinary items	4c	0	0	(174)	(174)	(118)
Transfers between funds		(174)	0	174	0	0
Other recognised gains / (losses):						
Pension deficit obligation	14	250	0	0	250	(25)
Net movement in funds		(104)	90	(240)	(254)	(434)
Reconciliation of funds						
Fund balance brought forward						
at 1 April 2016		(2,497)	4,779	12,118	14,400	14,834
Total funds carried forward						
at 31 March 2017		(2,601)	4,869	11,878	14,146	14,400

The statement of financial activities also complies with the requirements of an income and expenditure account under the Companies Act 2006.

## Consolidated Balance Sheet

As at 31 March 2017

		March 2017 £000	March 2016 £000
Fixed assets	<i>Notes</i>		
Tangible assets	9	16,725	16,951
Investments	10	0	0
		<u>16,725</u>	<u>16,951</u>
Current assets			
Cash at bank and in hand		1,781	1,409
Debtors	11	2,280	2,225
Stocks		37	29
Total current assets		<u>4,098</u>	<u>3,663</u>
Creditors amounts falling due within one year	12	(5,435)	(4,538)
Net current assets (liabilities)		<u>(1,337)</u>	<u>(875)</u>
Total assets less current liabilities		15,388	16,076
Creditors: amounts falling due after more than one year			
Loans	13	(249)	(516)
Provisions for liabilities	14	(1,312)	(1,562)
Total net assets		<u>13,827</u>	<u>13,998</u>
Funds of the charity			
Restricted funds	15a	11,878	12,118
Unrestricted funds			
Undesignated		(2,965)	(2,953)
Designated	15b	<u>4,914</u>	<u>4,833</u>
Total charity funds		<u>13,827</u>	<u>13,998</u>

The financial statements were approved and authorised for issue by the council and were signed on its behalf on:

Commodore A A Ross RN  
Chair of the Board

Professor G Boulton, OBE, FRS, FRSE  
President of the Council

## Company Balance Sheet

As at 31 March 2017

		March 2017 £000	March 2016 £000
Fixed assets	<i>Notes</i>		
Tangible assets	9	16,677	16,895
Investments	10	<u>39</u>	<u>39</u>
		<u>16,716</u>	<u>16,934</u>
Current assets			
Cash at bank and in hand		1,123	835
Debtors	11	3,018	3,057
Stocks		<u>11</u>	<u>9</u>
Total current assets		<u>4,152</u>	<u>3,901</u>
Creditors amounts falling due within one year	12	<u>(5,161)</u>	<u>(4,357)</u>
Net current assets (liabilities)		<u>(1,009)</u>	<u>(456)</u>
Total assets less current liabilities		15,707	16,478
Creditors: amounts falling due after more than one year			
Loans	13	(249)	(516)
Provisions for liabilities	14	<u>(1,312)</u>	<u>(1,562)</u>
Total net assets		<u>14,146</u>	<u>14,400</u>
Funds of the charity			
Restricted funds	15a	11,878	12,118
Unrestricted funds			
Undesignated		(2,601)	(2,497)
Designated	15b	<u>4,869</u>	<u>4,779</u>
Total charity funds		<u>14,146</u>	<u>14,400</u>

The financial statements were approved and authorised for issue by the council and were signed on its behalf on:

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## Group Statement of Cash Flows

For the year ended 31 March 2017

		2017	2016
	Notes	£000	£000
<b>Cash flows from operating activities</b>			
Cash generated inflow/(outflow) from operations	16	1,311	(149)
Interest paid		<u>(10)</u>	<u>(7)</u>
Net cash inflow/(outflow) from operating activities		1,301	(156)
 <b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		<u>(667)</u>	<u>(692)</u>
Net cash inflow/(outflow) from investing activities		(667)	(692)
 <b>Cash flows from financing activities</b>			
Loan repayments		<u>(262)</u>	<u>(259)</u>
Net cash inflow/(outflow) from financing activities		(262)	(259)
 <b>Net increase/(decrease) in cash and cash equivalents</b>		<b>372</b>	<b>(1,107)</b>
 Cash and cash equivalents at beginning of the year		<u>1,409</u>	<u>2,516</u>
Cash and cash equivalents at end of the year		<u><b>1,781</b></u>	<u><b>1,409</b></u>

## Notes to the Financial Statements

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### 1. Accounting Policies

#### Company information

SAMS is a company limited by guarantee with charitable status, domiciled and incorporated in Scotland. The registered office is Scottish Marine Institute, Oban, Argyll, PA37 1QA.

The financial statements are prepared in sterling, which is the functional currency of the group. Monetary amounts in these financial statements are rounded to the nearest £'000.

#### Accounting convention

These financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015 as amended) - (Charities SORP (FRS102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102), the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The charity has availed itself of S396 of the Companies Act 2006 as permitted in paragraph 4 (1) of schedule S I 2008 no.409, and adapted the Companies Act formats to reflect the special nature of the Charity's Activities.

The Association meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost modified to include fair values where appropriate.

The charity has taken advantage of the relevant exemptions available to qualifying entities within the Reduced Disclosure Framework of FRS 102 from the requirement to disclose certain information in relation to the individual parent company charity, including the statement of cash flows, certain information regarding financial instruments and key management personnel compensation. The consolidated group financial statements present this information for the group only.

#### Going concern

The principal risk facing the Association over the next 12-18 months is the risk of failure to deliver the recently developed Institutional Reform and Development Plan and in particular the initial rebalancing phase of the plan over the coming 12 months. The Council has recognised this risk and has constituted a time limited project committee with delegated powers to ensure the Executive are supported through this process. Central to the Plan is the requirement to rebalance the establishment in line with anticipated work, flowing from secured research contracts. The purpose of this plan is to deliver a sustainable, effective and efficient operating model. The Directors have agreed the two-year action plan and will continue to seek new opportunities to augment profitable business whilst continuing to implement prioritisation of expenditure. The Association has developed two-year cash flow models which are underpinned, in large part, by signed off contracts. The Directors consider that the implementation of the two-year business plan will provide opportunities for the charity to improve its financial position and as a result the directors believe the charity will remain active into the future for at least 12 months from the approval date of the financial statements. As such the financial statements should be and are prepared on a going concern basis.

#### Basis of consolidation

The consolidated statement of financial activities and balance sheet include the financial statements of the Association and its subsidiary undertakings for the year ended 31 March 2017. Intra-group income, expenditure, surpluses and deficits are eliminated fully on consolidation.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. Cost is calculated using the first in first out method. Net realisable value comprises the net sales price of stock.

Tangible Fixed Assets

All tangible fixed assets are stated at cost less accumulated depreciation. Individual items of capital equipment are included in the balance sheet only if their cost exceeds £5,000 (including irrecoverable value added tax where appropriate). Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Property	15-50 years
Vessels & Vehicles	5-30 years
Scientific instruments and equipment	2-20 years
IT & Computer equipment	2-10 years
Fixtures and fittings	2-20 years
Assets under construction	Not depreciated - on completion the assets are transferred to the relevant asset category and depreciated accordingly.

Impairment of Tangible Fixed Assets

At each reporting end date the Association reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

Value added tax

As the group is registered partially exempt for VAT purposes, expenditure and fixed assets are shown inclusive of irrecoverable value added tax where applicable.

Investments

Investments in subsidiaries and associates are all held at cost less impairment in the separate financial statements of the Association. Impairment is considered at each reporting end date. Any impairment is recognised in the Statement of Financial Activities.

Foreign Currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the date of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the Statement of Financial Activities for the period.

Leasing commitments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases are recognised on a straight line basis over the term of the relevant lease.

Pensions

The Association participates in the Universities Superannuation Scheme (USS). With effect from 1 October 2016, the scheme changed from a defined benefit only scheme to a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The Association is therefore exposed to the actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by Section 28 of FRS 102 "Employee benefits", accounts for the scheme as if it were a

defined contribution scheme. As a result, the amount charged to the SOFA represents the contributions payable to the scheme in respect of the accounting period. Since the Association has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the Association recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in the SOFA.

### Income

Income represents NERC core grants receivable in the year, other research income receivable from outside bodies, teaching income through UHI and other miscellaneous income. Income is recorded when the charity becomes entitled, its receipt becomes probable and the amount can be measured reliably. Income includes funds receivable from government bodies, as defined in the SORP.

Other funds received of a revenue nature are recognised in income on a systematic basis over the periods in which the Association recognises the related costs for which the income is intended to compensate. Grants and other funds that are subject to performance-related conditions are recognised to the extent that the Association has obtained the right to consideration through its performance under its contracted obligations. Where performance-related conditions are unmet, amounts received in advance are recorded within payments received in advance (deferred income). Deferred income is released to income in the reporting period in which the performance-related or other conditions that limit recognition are met. The percentage of income received from outwith the UK is 13% (2016 - 13%).

### Expenditure

Direct charitable expenditure represents the full cost of the research performed. It includes the cost of direct staff, consumable stocks, indirect costs, the cost of compliance with statutory and constitutional requirements and other apportioned support costs. Support costs have been apportioned to direct charitable expenditure on a percentage basis of total charitable expenditure. Fundraising and publicity expenditure represents the cost of obtaining funds for research, promoting the work of the Association and recruitment of staff. Restructuring costs are recognised when the decision has been committed to and communicated formally to the relevant employee. The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received. All expenditure is recognised when there is a present legal or constructive obligation at the reporting date as a result of a past event, a transfer of economic benefits is probable and the amount can be measured or estimated reliably.

### Financial assets

The charity has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' in full.

Financial assets are recognised in the charity's balance sheet when the charity becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets are initially measured at transaction price and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

### Financial assets - impairment

Financial assets are assessed for indicators of impairment at each reporting date.

### Financial assets - derecognition

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

### Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand and deposits held at call with banks.

Financial liabilities

The charity has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' in full.

Financial liabilities are recognised in the charity's balance sheet when the charity becomes party to the contractual provisions of the instrument. Financial liabilities are classified into specified categories. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of recognition.

Basic financial liabilities are initially measured at transaction price and are subsequently carried at amortised using the effective interest rate method, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Financial liabilities - derecognition

Financial liabilities are derecognised when the company's obligations are discharged, cancelled, or they expire.

Critical accounting estimates and judgements

In the application of the charity's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying values of assets and liabilities are noted below.

Pension deficit obligation

The calculation of the pension deficit obligation for SAMS involves judgements including the determination of discount rates, assumptions for salary inflation, staff changes, estimated retirement dates and mortality rates. These assumptions are based on the current environment and they may vary from year to year, which would affect the value of the obligation and impact on the net movement in funds in the SOFA. Pension deficit obligations, including the underlying assumptions, are reviewed and will continue to be reviewed by the directors on an annual basis. The carrying value of the pension deficit obligation at the year end is £1,312k.

Recoverability of intra-group balances and investments

The recoverability of balances arising from transactions between group entities and the carrying value of the investments held in subsidiary companies are subject to judgements and estimates of the future financial performance and financial position of each group entity. The directors regularly review the expected future performance of each company and have strategic business plans in place. The directors would provide against any balance they believe to be irrecoverable. The carrying value at company level at the year end for investments in group companies is £39k and the net carrying value of intra-group balances is a debtor of £1,002k.



## 2a Income from other trading activities

Total group income from other trading activities in 2016 was £294,000 and total company income from other trading activities in 2016 was £294,000. This income was undesignated general in full.

## 2b Income from investments

There was no group income from investments during the year. Total group income from investments in 2016 of £5,000 was undesignated general in full.

Company income from investments during the year consists of profits of subsidiary SAMS Limited gift aided to SAMS. Total company income from investments in 2016 of £5,000 was undesignated general in full.

## 2c Group Income from Charitable Activities

	Unrestricted		Restricted	Total	Total
	Undesignated	Designated			
Group income from charitable activities	2017	2017	2017	2017	2016
	£000	£000	£000	£000	£000
Education and knowledge transfer grants	1,097	0	556	1,653	1,391
Research income, national capability and facilities	1,558	215	6,345	8,118	8,122
Recompression	229	0	0	229	248
SIMBA units and components	183	0	0	183	223
	<u>3,067</u>	<u>215</u>	<u>6,901</u>	<u>10,183</u>	<u>10,127</u>

Total group income from charitable activities in 2016 was £10,127,000, of which £2,550,000 was undesignated general, £666,000 was designated and £6,911,000 was restricted.

## 2d Company Income from Charitable Activities

	Unrestricted		Restricted	Total	Total
	Undesignated	Designated			
Company income from charitable activities	2017	2017	2017	2017	2016
	£000	£000	£000	£000	£000
Education and knowledge transfer grants	1,097	0	556	1,653	1,391
Research income, national capability and facilities	765	212	6,345	7,322	8,248
	<u>1,862</u>	<u>212</u>	<u>6,901</u>	<u>8,975</u>	<u>9,639</u>

Total company income from charitable activities in 2016 was £9,639,000, of which £2,062,000 was undesignated general, £666,000 was designated and £6,911,000 was restricted.

## 2e Other income - exceptional

Other income of £660,000 consists of amounts receivable in relation to a settlement agreement. Total other income in 2016 of £7,000 was undesignated general in full.

### 3a Group Expenditure on Raising Funds

	Unrestricted		Restricted	Total	Total
	Undesignated	Designated			
Group expenditure on raising funds	2017	2017	2017	2017	2016
	£000	£000	£000	£000	£000
Marketing, publications and newsletters	9	0	0	9	8

Total group expenditure on raising funds in 2016 was £8,000 which was undesignated general in full.

### 3b Company Expenditure on Raising Funds

	Unrestricted		Restricted	Total	Total
	Undesignated	Designated			
Company expenditure on raising funds	2017	2017	2017	2017	2016
	£000	£000	£000	£000	£000
Marketing, publications and newsletters	7	0	0	7	5

Total company expenditure on raising funds in 2016 was £5,000 which was undesignated general in full.

### 4a Group Expenditure on Charitable Activities

	Unrestricted		Restricted	Total	Total
	Undesignated	Designated			
	2017	2017	2017	2017	2016
	£000	£000	£000	£000	£000
Staff costs (note 7)	2,888	0	4,020	6,908	6,739
Governance costs	73	0	0	73	186
Other costs (everything other than governance & marketing)	1,044	134	3,121	4,299	3,989
	4,005	134	7,141	11,280	10,914

Total group expenditure on charitable activities in 2016 was £10,914,000, of which £3,373,000 was undesignated general, £375,000 was designated and £7,166,000 was restricted.

	Unrestricted				
	Undesignated	Designated	Restricted	Total	Total
	2017	2017	2017	2017	2016
	£000	£000	£000	£000	£000
Staff costs	2,438	0	4,020	6,458	6,615
Governance costs	21	0	0	21	101
Other costs (everything other than governance & marketing)	494	122	3,121	3,737	3,515
	2,953	122	7,141	10,216	10,231

Total employee benefits paid by the charity during the year in relation to key management personnel constituted:

	2017 £000	2016 £000
Key management personnel	<u>1,041</u>	<u>1,046</u>

There are no additional related party transactions to be disclosed.

## 7 Staff Costs

	2017 £000	2016 £000
Wages and salaries	5,606	5,482
Social security costs	434	406
Other pension costs	<u>868</u>	<u>851</u>
	<u>6,908</u>	<u>6,739</u>

Included within staff costs are £36,000 (2016 - £95,000) of restructuring costs.

The average number of persons employed by the group during the year was as follows:

No.	No.	2017	2016
Administration		57	58
Research		61	61
Technical		<u>50</u>	<u>51</u>
		<u>168</u>	<u>170</u>

Remuneration of higher paid staff earning in excess of £60,000, excluding employer's pension contributions were in the following ranges:

	SAMS 2017 No.	SAMS 2016 No.
£60,000-£69,999	2	7
£70,000-£79,999	0	1
£90,000-£99,999	1	0

All employees earning more than £60,000 accrued benefits under a defined benefit scheme during the year.

## 8 Expenditure

	2017	2016
	Total	Total
	£000	£000
<u>Activities in furtherance of charitable objectives</u>		
Administration	2,198	2,193
Research	3,340	3,170
Technical	<u>1,370</u>	<u>1,376</u>
	6,908	6,739
Scientific consumables	2,679	2,400
Support costs	1,558	1,401
Depreciation unfunded	134	375
Interest	<u>10</u>	<u>7</u>
Total	<u>11,289</u>	<u>10,922</u>

### Support Costs

Utilities	455	347
Property maintenance, service & cleaning	335	286
Business development	21	97
Communications	17	20
Company Secretary, Finance & HR	191	167
Directorate	145	45
Health & Safety	5	9
ITC costs	72	81
Library	93	91
Ocean Explorer Centre	7	9
Vehicles	12	10
Vessels	11	79
Other	<u>194</u>	<u>160</u>
Total	<u>1,558</u>	<u>1,401</u>

## 9 Tangible Fixed Assets

	Assets under Construction	Property	Vessels & Vehicles	Fittings & Equipment	Total
	£000	£000	£000	£000	£000
<u>Group</u>					
Cost:					
At 1 April 2016	358	19,642	640	10,006	30,646
Disposals	0	0	0	0	0
Additions	217	0	31	419	667
Reclassifications	(575)	555	0	20	0
At 31 March 2017	0	20,197	671	10,445	31,313
Depreciation:					
At 1 April 2016	0	4,798	577	8,319	13,694
Disposals	0	0	0	0	0
Charge for year	0	407	33	454	894
At 31 March 2017	0	5,205	610	8,773	14,588
Net book value:					
At 31 March 2017	0	14,992	61	1,672	16,725
At 1 April 2016	358	14,844	63	1,686	16,951
<u>Company</u>					
Cost:					
At 1 April 2016	358	19,643	640	9,707	30,348
Disposals	0	0	0	0	0
Additions	217	0	31	416	664
Reclassifications	(575)	555	0	20	0
At 31 March 2017	0	20,198	671	10,143	31,012
Depreciation:					
At 1 April 2016	0	4,798	577	8,078	13,453
Disposals	0	0	0	0	0
Charge for year	0	407	33	442	882
At 31 March 2017	0	5,205	610	8,520	14,335
Net book value:					
At 31 March 2017	0	14,993	61	1,623	16,677
At 1 April 2016	358	14,845	63	1,629	16,895

Assets under construction: This relates to part completed Scientific Equipment.  
The value of the capital commitments at 31 March 2017 was £nil (2016 - £351,967).

## 10 Investments

	31 March 2017 £000	31 March 2016 £000
<u>Group</u>		
Subsidiaries	0	0
Other Fixed Asset Investment	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>

	31 March 2017 £000	31 March 2016 £000
<u>Company</u>		
Subsidiaries	39	39
Other Fixed Asset Investment	<u>0</u>	<u>0</u>
	<u>39</u>	<u>39</u>

(a) Subsidiaries	Group 2017 £000	Group 2016 £000
Cost at 1 April 2016	0	0
Additions	0	0
Impairment	<u>0</u>	<u>0</u>
Net Book Value at 31 March 2017	<u>0</u>	<u>0</u>

(b) Other fixed asset investment	Group 2017 £000	Group 2016 £000
Cost at 1 April 2016	53	53
Impairment	<u>(53)</u>	<u>(53)</u>
Net Book Value at 31 March 2017	<u>0</u>	<u>0</u>

Company

Subsidiary Undertakings	<u>Voting holding</u>	<u>Shares held</u>	<u>Nature of the business</u>
SAMS Research Services Ltd (SC224404)	Ordinary shares	100%	Consultancy
The European Centre for Marine			
Biotechnology (SC205318)	Limited by Guarantee	Sole member	Non Trading
West Scotland Centre for Diving			
and Hyperbaric Medicine Limited (SC474606)	Ordinary shares	100%	Non Trading
SAMS Commercial Services Ltd (SC389871)	Ordinary shares	100%	Non Trading
Scottish Marine Institute (SC394197)	Ordinary shares	100%	Non Trading
Marine Bioenergy Scotland Ltd (SC389873)	Ordinary shares	100%	Non Trading
SAMS Limited (SC306912)	Ordinary shares	100%	Commercial

	SAMS Research Services Limited		SAMS Limited	
	2017	2016	2017	2016
	£000	£000	£000	£000
Turnover	1,421	1,220	395	401
Cost of Sales	<u>(1,128)</u>	<u>(1,154)</u>	<u>(303)</u>	<u>(327)</u>
Gross (Loss) / Profit	293	66	92	74
Administrative expenses	(173)	(288)	(32)	(43)
Other operating income	0	0	0	0
Exceptional item-foreign exchange loss	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Operating (loss) / profit	120	(222)	60	31
Interest receivable	0	0	0	0
Interest payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(Loss) / profit on ordinary activities before taxation	120	(222)	60	31
Tax on (loss) / profit on ordinary activities	0	0	0	(1)
Group relief receipt / (payment)	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>
(Loss) / profit for the year	<u>120</u>	<u>(222)</u>	<u>60</u>	<u>24</u>
Net assets / (liabilities)	<u>(308)</u>	<u>(428)</u>	<u>28</u>	<u>27</u>

SAMS Limited gift aided its profits for the year to SAMS. Total gift aid payment amounted to £59,000.



## 11 Debtors

	SAMS	Group	SAMS	Group
	2017	2017	2016	2016
	<u>Company</u>	<u>Group</u>	<u>Company</u>	<u>Group</u>
Trade Debtors	0	152	0	194
Prepayments & Accrued income	1,401	1,504	1,186	1,256
Intercompany	1,002	0	1,147	0
Other Debtors	<u>615</u>	<u>624</u>	<u>724</u>	<u>775</u>
	<u>3,018</u>	<u>2,280</u>	<u>3,057</u>	<u>2,225</u>

## 12 Creditors: amount falling due within one year

	SAMS	Group	SAMS	Group
	2017	2017	2016	2016
	<u>Company</u>	<u>Group</u>	<u>Company</u>	<u>Group</u>
Current instalment due on bank loan (note 13)	268	268	263	263
Payments received in advance	3,425	3,573	2,986	2,986
Intercompany	0	0	0	0
Taxation & Social Security	127	129	149	149
Sundry creditors & accruals	<u>1,341</u>	<u>1,465</u>	<u>959</u>	<u>1,140</u>
	<u>5,161</u>	<u>5,435</u>	<u>4,357</u>	<u>4,538</u>

Analysis of group payments received in advance:

Brought forward	Released during the year	Deferred this year	Carried forward
£2,986k	(£2,290k)	£2,877k	£3,573k

Deferred income represents amounts received in relation to the core activities of the charity for which entitlement to the income falls in future periods.

### 13 Loans

		Group & SAMS	
		2017	2016
		£000	£000
<u>Wholly repayable within 5 years:</u>			
£1,147k bank loan @1.25% above LIBOR per annum, repayable in monthly instalments of £22,932 commencing November 2014.		517	779
Less: included in creditors: amounts falling due within one year		<u>(268)</u>	<u>(263)</u>
		<u>249</u>	<u>516</u>
 <u>Amounts repayable:</u>			
Within 1 year		268	263
In 1 to 2 years		249	267
In 2 to 5 years		<u>0</u>	<u>249</u>
		517	779
Over 5 years		<u>0</u>	<u>0</u>
		<u>517</u>	<u>779</u>

The bank loan and overdraft facilities are secured by a bond and floating charge over the whole assets of the company and a standard security over Scottish Marine Institute, Oban in favour of the Bank of Scotland, HIE Argyll and the Islands and the University of the Highlands and Islands.

### 14 Provisions for liabilities

		SAMS	Group	SAMS	Group
		2017	2017	2016	2016
	<u>Notes</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>	<u>Group</u>
Pension deficit obligations	17	<u>1,312</u>	<u>1,312</u>	<u>1,562</u>	<u>1,562</u>

**15a Restricted Funds**

	01 Apr 2016	Income	Expenditure	Extraordinary	Transfer	31 Mar 2017
<u>Group</u>	£000	£000	£000	£000	£000	£000
Fixed asset funds	12,118	450	(760)	0	0	11,808
Glider fund	0	70	0	0	0	70
EU grant clawback	0	0	0	(174)	174	0
Research Projects	0	6,381	(6,381)	0	0	0
	<u>12,118</u>	<u>6,901</u>	<u>(7,141)</u>	<u>(174)</u>	<u>174</u>	<u>11,878</u>

	01 Apr 2016	Income	Expenditure	Extraordinary	Transfer	31 Mar 2017
<u>Company</u>	£000	£000	£000	£000	£000	£000
Fixed asset funds	12,118	450	(760)	0	0	11,808
Glider fund	0	70	0	0	0	70
EU grant clawback	0	0	0	(174)	174	0
Research Projects	0	6,381	(6,381)	0	0	0
	<u>12,118</u>	<u>6,901</u>	<u>(7,141)</u>	<u>(174)</u>	<u>174</u>	<u>11,878</u>

Capital grants are recognised as restricted income in the year in which they are received and the depreciation on all fixed assets funded by capital grants is recognised as an expense against the restricted fund.

The Glider fund represents funds received from NERC during the year towards the purchase of a new Glider. The Glider was purchased post year end.

An extraordinary item has been recognised within restricted funds at the year end in relation to potential EU grant clawback provisions. The charity has taken a prudent approach to recognising the potential liability at the year end. A transfer of £174,000 from unrestricted funds has taken place in relation to this amount.

Research Projects fund represents funding which has been received in relation to the completion of specific projects in accordance with the core activities of the charity.

### 15b Designated Funds

	01 Apr 2016	Income	Expenditure	Transfer	31 Mar 2017
<u>Group</u>	£000	£000	£000	£000	£000
Fixed asset funds	4,833	215	(134)	0	4,914
	<u>4,833</u>	<u>215</u>	<u>(134)</u>	<u>0</u>	<u>4,914</u>

	01 Apr 2016	Income	Expenditure	Transfer	31 Mar 2017
<u>Company</u>	£000	£000	£000	£000	£000
Fixed asset funds	4,779	212	(122)	0	4,869
	<u>4,779</u>	<u>212</u>	<u>(122)</u>	<u>0</u>	<u>4,869</u>

SAMS has designated a reserve for fixed assets. A restricted reserve already exists for fixed assets and this reflects the level of grant funding received for the asset held by SAMS. The restricted reserve does not, however, reflect the full amount of funds held in tangible fixed assets held for the charity's use. The designated fixed asset fund represents the balance between the net book value of fixed assets held and the restricted reserve.

### 16 Notes to the Statement of Cash Flows - cash generated from operations

	2017	2016
	£000	£000
Net income / (expenditure) (excluding interest paid)	(237)	(482)
Extraordinary items outwith net income / (expenditure)	(174)	(118)
Depreciation	894	967
Loss/(gain) on disposal of fixed assets	-	2
Decrease/(Increase) in stock	(8)	18
Decrease/(Increase) in debtors	(55)	36
(Decrease)/Increase in creditors	<u>891</u>	<u>(572)</u>
Net cash (outflow) / inflow from operating activities	<u>1,311</u>	<u>(149)</u>

## 17 Pensions

The Association participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The company is required to contribute a specified percentage of payroll costs to the pension scheme to fund the benefits payable to the company's employees. In 2017, the percentage was 18% (2016: 16%). The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, in accordance with Section 28 of FRS 102 "Employee benefits", accounts for the scheme as if it were a defined contribution scheme.

The total cost charged to the statement of financial activities is £868k (2016: £851k) included as part of note 7. There was neither a prepayment nor an accrual at the end of the financial year in respect of these contributions. Since the Association cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings. The triennial valuation of USS is currently taking place, based on the position of the scheme at 31 March 2017.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2017		2016
Discount rate	2.57%		3.6%
Pensionable salary growth	n/a		n/a
Price inflation (CPI)	2.41%		2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality                      98% of S1NA ["light"] YoB tables - No age rating

Female members' mortality                      99% of S1NA ["light"] YoB tables - rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate was also adopted. The current life expectancies on retirement at age 65 are:

	2017	2016
Males currently aged 65 (years)	24.4	24.3
Females currently aged 65 (years)	26.6	26.5
Males currently aged 45 (years)	26.5	26.4
Females currently aged 45 (years)	29.0	28.8

	2017	2016
<b>Existing benefits</b>		
Scheme assets	£60.0bn	£49.8bn
Total scheme liabilities	£77.5bn	£59.8bn
FRS 102 total scheme deficit	£17.5bn	£10.0bn
FRS 102 total funding level	77%	83%

In accordance with Section 28 of FRS 102, "Employee Benefits" the Association has recognised a liability relating to its obligation towards funding the pension scheme deficit. In order to calculate the obligation the Association has used a modeller created by the British Universities Finance Directors Group (BUFDG) with the support of USS. The Association has entered the relevant assumptions into the modeller to calculate the present value of the obligation at the year end date. The assumptions and other relevant information used include the discount rate of a high quality corporate bond, expected future salary inflation, expected future staff changes, current and future employers' contribution rates, current and future deficit contribution rates and base pensionable payroll amount. The obligation recognised on the balance sheet at 31 March 2017 amounted to £1,312k (2016 - £1,562k) and the current agreed Recovery Plan end date is 31 March 2031.

## 18 Other Financial Commitments

At 31 March 2017 the company had commitments under non-cancellable operating leases as set out below:

	<u>Group</u>		<u>Company</u>	
	<u>2017</u>	2016	<u>2017</u>	2016
<u>Operating leases:</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Within one year	62	103	27	61
Within 2 to 5 years	60	100	13	18
	<u>122</u>	<u>203</u>	<u>40</u>	<u>79</u>

## 19 Financial assets and liabilities

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
<b>Carrying amount of financial assets</b>		
Measured at amortised cost	<u>3,785</u>	<u>3,379</u>
<b>Carrying amount of financial liabilities</b>		
Measured at amortised cost	<u>1,983</u>	<u>1,919</u>
Measured at fair value	<u>1,312</u>	<u>1,562</u>