

Watershed Arts Trust Limited
(a company limited by guarantee)

Report of the Board and consolidated
financial statements

Registered company number 01608779

Registered charity number 284188

Year ended 31 March 2018

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Strategic report

The Board of Trustees presents its annual report and audited consolidated financial statements for the year ended 31 March 2018. This report consolidates the results of Watershed Arts Trust Limited and its subsidiaries, Watershed Trading Limited and Watershed Ventures CIC, collectively referred to here as Watershed. The financial statements comply with current statutory requirements, the memorandum and articles of association and 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) – Charities SORP (FRS 102), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006.

Objectives and Activities

Watershed Arts Trust Limited was incorporated in 1982. The charity is established to advance education and skills in and increase appreciation and understanding amongst organisations and members of the public of the arts. In January 2015 Watershed revised its Articles to include the use of digital technologies which are increasingly integrated into Watershed's creative practice and a key focus for the future.

“Watershed displays a passion for high quality, diverse and challenging art and culture, combined with a hunger for the new and an agitation for the next”

Tom Fleming, Creative Consultant

Watershed's mission is to develop cultural engagement, imagination and talent.

Watershed is recognised for its internationally distinctive programme of invention and talent development; as a leading centre for film culture and as Bristol's city centre cultural meeting and debating place of choice.

Watershed has well established values, authored through cross departmental workshops, owned and meaningfully applied by its staff:

- Inclusive: We are people led. We listen to and engage with the broadest range of people.
- Open and Honest: We provide a culture and environment that is trusting, trusted and trustworthy.
- Make Things Happen: We approach opportunity and challenge creatively, collaboratively and with a can do attitude.
- Entrepreneurial: We are inventive, try new ideas, experiment, learn and share.
- Celebratory: We celebrate culture, creativity and wonder.

The Trustees confirm that they have given regard to the Charity Commission's guidance on public benefit in directing the activities of the charity.

Achievements and performance

- 1.5 million people visited us on the web
- 174,000 people bought tickets for our venue screenings and events
- 36,000 young people engaged with our programme
- 104,000 people engaged with projects beyond the venue
- 153 artists and creatives are resident in the Pervasive Media Studio
- 91 full time equivalent jobs at Watershed
- 6 continents hosted Watershed events or collaborations
- Watershed Group turnover in 2017/18 is £5.87 million
- Watershed's economic impact in 2017/18 is £16.2 million
- Pervasive Media Studio residents reported turnover in excess of £5.4 million
- Pervasive Media Studio residents reported in excess of £5 million in secured research funding

Strategic report *(continued)*

Programme Highlights and Report on 2017/18 Priorities

2017/18 was a positive year in which Watershed strengthened its role as an internationally influential leader in talent development, invention and cultural engagement. The figures presented in Achievements and performance (page 2) demonstrate the strong cultural and economic impact of our work during this period, with some notable areas of growth in comparison to the previous year. For example, venue screenings and events were attended by 174,000 people (13% increase), engagement activities reached 36,000 young people (44% increase), and 104,000 people engaged with us beyond the venue (420% increase). The cinema programme enjoyed a particularly successful year, generating an unprecedented 13-months of business activity during the 12-month period.

It was also a key year for Pervasive Media Studio, our world-leading research lab which houses a thriving community of resident artists, technologists, start-ups, researchers and industry partners. The studio turned 10 in February 2018 – an event that was marked with a party and public open day. More than 500 people attended the celebration which featured exhibitions, games and drop-in workshops drawing from the work of current and past residents.

However, Watershed's approach and impact is not characterised in a specific project or event, but an ethos of openness, responsibility, partnership and passion. These attributes are shared across our whole programme and lead to engaged audiences, flourishing talent and a competitive creative sector:

Talent Development

Watershed identifies, supports and networks the talent of tomorrow, encouraging their creativity, ability and curiosity as artists and audiences.

Our inclusive young people's programmes provides stepping stones into the creative and cultural sectors. The centre piece of our young people's offer is **Rife Magazine** which is made by the young people of Bristol for the young people of Bristol, covering arts, culture, social issues and politics in the online spaces where they have existing presence. Rife Magazine has a considerable success rate - our paid content creators (of whom 59% are from a BAME background), have gone on to freelance or work for The Guardian, Bristol 24/7, Crack Magazine, BAFTA, Radio 1xtra, BBC, Calumet, Galdem and Watershed.

"more than anything, my time at Rife has opened up a world of opportunities"
Jasmine Thompson, Rife Content Creator

Our **Creative Technology programmes** scan the changing horizon for new opportunities, responding to emerging technologies, societal challenges and new partnerships. Our Creative Technology talent development support includes funded residency programmes and gifted studio space.

"I'm two months into an experience that is significantly changing my life." Aidan Moesby, Artist in Residence

Progress against 2017-18 priorities in this area:

Increase the engagement of people of BAME background in our creative technology programme

During this period we employed a dedicated Inclusion Producer to increase participation from artists of colour. We supported three artists with funded, application-free micro residencies to decrease barriers to joining Pervasive Media Studio, and saw representation from BAME creatives rise to 21% of the Studio community (as compared to our target of 16% which matches the city's population).

Develop a coherent pathway for the young people we work with from school through to employment opportunities

Rife - Bristol's youth led online magazine continued to give young people a platform from which they can inspire and engage other young people. This year we had 126,636 users to the site and 75 young people created content.

We piloted a youth-delivered work experience offer, targeting pupils from low socio-economic backgrounds from every school in Bristol. We engaged 23 students over three weeks, in workshops on idea generation, creative writing, filming and editing, social media and progression routes into the creative industries.

Commission, curate and edit a collection of essays from young people across the UK

In May 2017, we completed a successful crowd funder for Rife: Twenty Stories from Britain's Youth. The book will be published in late 2018.

In addition:

We also expanded our role in designing and delivering innovative talent development programmes within Higher Education by launching two new MA programmes in partnership with University of the West of England (UWE) Bristol. The **Creative Producing MA/MFA** is inspired by the work of Pervasive Media Studio and equips producers with the skills required to lead and support cross artform projects that specialise in innovation. The **MA in Contemporary Film Culture** combines critical, professional and cultural approaches to film with a focus on independent cinema and industry connections within Watershed's network.

"This course is just absolutely perfect. I cannot recommend it highly enough. The perfect balance of practical, theoretical, vital, innovative and inspirational learning" Lukus Robbins, Creative Producing MA participant, 2017

Strategic report *(continued)*

Sector development

Watershed acts as a hub and anchor for the city's cultural and creative economy – raising its profile, developing connections and creating opportunity to globally share its strengths.

Space

Through our residents programme we offer artists and organisations free desk and meeting space in the Pervasive Media Studio in order to support individuals and companies to explore new ideas and access a range of creative and technical support.

Skills and advocacy

Watershed team members act as mentors/advisors to creative organisations across the city, and advocate for their needs on forums from the Combined Authority, Europa Cinemas to the Business Improvement District.

Knowledge and data

Our free and open Studio talks series offer weekly opportunities for the culture sector to engage with research around art and technology. In addition we open-source methodology, code and learning from projects and share it with the wider sector.

In the past year Watershed team members have presented at over 86 culture sector events to a combined audience of over 8,200 people.

Progress against 2017-18 priorities in this area:

Develop audiences regionally for British Independent and world film through leadership of BFI Film Hub South West

Film Hub South West is a growing network led by Watershed which consists of over 140 cinemas, film festivals, cross-arts venues and other film exhibition organisations. In this period, we worked with our members to develop a thriving and inclusive cultural film exhibition sector, reaching more than 1,084 sector beneficiaries and a total audience of over 93,000 through Film Hub supported activity.

"We would not be the cinema we are today without Hub support" Exeter Phoenix.

Launch a VR Lab in Bristol

Bristol VR Lab was launched in partnership with Opposable, University of Bristol and UWE Bristol, securing £295k Local Growth Fund support from the West of England Joint Committee, LEP and WECA.

Explore the potential of major new technologies for the creative sector

Watershed and the Smart Internet Lab at the University of Bristol created Layered Realities - featuring the world's first public 5G testbed, attracting 3000 people over two days. We supported artists and creatives to test 5G's capability and potential through four new artist commissions and a programme of critical talks.

In addition:

Through partnership and a process of producer development, our Network for Creative Enterprise programme has supported 427 participants and 65 resident business across four creative hubs.

Audience Development

Reaching audiences and meeting demand

We judge our success on the quality and quantity of our engagement with people. It is this engagement, care, authenticity and attention to detail, that is absolutely central to Watershed, and totally embedded in all our areas of work. Our audience development targets over this period continue to be:

- Young People (24 and under)
- People from BAME backgrounds
- Deaf and hard of hearing customers/audiences

Our focus on pricing and social media promotions in relation to the 24 and under target has continued to have a positive effect. Over the past three years cinema ticket sales for the 24 and under age group have steadily increased as a percentage of overall cinema ticket sales, seeing the substantial rise from 3% to 12% of all cinema ticket sales in year 1, and from 12% to 18% in year 2 and in this current year.

Strategic report *(continued)*

Our audience development work includes introducing new work/artforms to our audiences.

For example, Virtual Reality is still in its infancy and audiences see it as a new way to interact, communicate and consume content. Last year we communicated this emerging art-form to audiences for Lumina, VR Weekender and we were careful to foreground the story rather than the technology. We treated each VR experience as we would anything else from our creative programme - a film, event or talk. The copy we developed focused on the story each VR piece was trying to tell, how audiences would feel doing it, and its aesthetic qualities. We positioned the whole season as an experiment (we know that Bristol audiences are incredibly experimental and will give things a go), emphasised that feedback was incredibly important, and that each experience showcased a different part of VR's artistic potential - we invited them to "open their senses" to an emerging new world of creative potential.

We contacted previous bookers for our first VR Sessions and attendees for the VR events at Encounters Festival and placed social media and online advertising focused on telling the stories of the curated packages and each of the individual experiences, inviting people to experiment. The weekend was a sell-out success and received good press coverage, particularly in the tech press, which focused on being the UK's first dedicated VR arts festival.

Our public programme acts as the regulating heartbeat of the organisation - fuelling new ideas, engagements and conversations. We celebrate film as an art form which informs popular culture, politics, society and cultural identity. We programme collaboratively across communities and art forms to amplify themes and to bring new audiences into the venue, and we produce artist events, installations and performances linked to our art and technology programme.

Progress against 2017-18 priorities in this area:

Expand audience engagement with archive and film heritage

The second edition of Cinema Rediscovered (27 – 30 July 2017) took place in cinemas including Watershed, Curzon Clevedon Cinema & Arts and sold over 7,600 tickets. Festival Highlights included a 40th anniversary screening of Network and Becoming Cary Grant Preview, and a national tour of 12 films.

Watershed also commissioned Compass Presents to present On the Rocks, an archive trail and special outdoor expanded cinema screening of Jamaica Inn in the iconic location of Cornwall's Minack Theatre.

Shape national strategies to support independent distribution and exhibition

- A key mechanism for this has been Watershed instigating the New Release Strategy for the BFI Film Audience Network. This is a scheme that supports distributors and films which might otherwise struggle to reach wide audiences in the competitive UK wide film exhibition environment. The success of the pilot programme has resulted in Watershed leading on a continued New Release Strategy project for the next four years as part of our new settlement with the BFI for Film Audience Network 2018-2022.
- Watershed's partnership with ICA in London and HOME in Manchester has brought films into exhibition in the UK which would otherwise not be available to audiences. These have included the documentary on Influential German artist Joseph Beuys and Raoul Peck's The Young Karl Marx.
- Our support of Come The Revolution has provided national exhibition and distribution partners with Black perspective on cinema curation, audience development and support for film release strategies. These have included input into BFI National Blockbuster programmes, and support for niche films like Patti Cake\$.

Improve the effectiveness of our strategy to engage new young audiences (under 24) from all areas of Bristol

Developing engagement with young people is one of Watershed's strategic priorities. Over the period of this report, the number of young people coming to see world moving image culture with us has increased by 48%. We have achieved this by working in partnership with young people, and with a strong network of partners across the arts, education, specialist youth organisations and creative businesses on initiatives including Rife and BFI Film Academy Bristol.

In addition:

We continued to develop BAME audiences, artists and curators and co-presented six BAME specific film events with partners including Black South West Network, Ujima and Come The Revolution during 2017-18. A major highlight of the year was a packed premiere of a new local production, The Mayor's Race, which features Bristol Mayor Marvin Rees' attempt to win the Bristol Mayoral elections.

International Development

Watershed is rooted in Bristol but has international reach and ambition, connecting artists and audiences with creative, cultural and commercial constituencies across the world.

Progress against 2017-18 priorities in this area:

Increase the reach of Playable City internationally

In this period we delivered work in Kazakhstan and South Korea for the first time which included commissioning five new pieces of work for the Seoul Biennale of Architecture in partnership with the British Council. We staged Shadowing - a previous Playable

City Award winner - in Austin, Texas which received 76,992 interactions across the city over six weeks and launched Oxford as our first UK Playable City outside of Bristol.

Strategic report *(continued)*

In addition:

Watershed launched Creative Producers International, a new global talent development programme featuring a group of 15 exceptional Creative Producers from all over the world. The programme runs until December 2019 and participants will gain the skills and abilities to have a new kind of conversation with city leaders around creative city change making.

Organisational Development

Watershed has an ambitious approach to building long term resilience and sustainability.

Progress against 2017-18 priorities in this area:

Launch a campaign for a major capital development project

We are continuing to develop a major capital programme that will transform and extend our building for our next phase of development. The redeveloped building will provide additional grow-on space for resident companies and additional cinema and events capacity. This will increase Watershed's capacity and respond to growing demand, enabling Watershed to play a stronger role in developing the cultural and creative economy. Full plans will be confirmed in 2018/19.

We refitted our box office area in 2017/18 as part of our ongoing commitment to continuously investing in the fabric of our building to ensure that it is fit for purpose welcoming and accessible. This has created a more contemporary and effective reception space for our customers, audience and staff and has significantly improved our ground floor presence.

Establish an Inclusivity Working Group

Watershed is committed to the promotion of inclusivity (rather than diversity) and in this period, we explicitly extended how we apply this thinking across programmes, audiences, participants and staffing.

We focused on inclusion over this period and embedded it across our entire organisation and culture. This includes the formation of an Inclusivity Working Group, chaired by Nikesh Shukla (Editor of RIFE). This cross organisational working group draws membership from across the organisation and includes Board Members. The group meets once a month to address issues including recruitment, staff development, venue and online access, language, data collection, talent and programme development.

The group looks at how we remove physical, social, economic, cultural and attitudinal barriers to engaging with Watershed across all aspects of what we do with the aim to champion inclusivity rather than diversity.

Over this period we have been learning from each other and from external partners about what best practice looks like, and as a result we are introducing new working practices and reaching new people.

Some examples of the small interventions that we have been making that are now embedded in our practice and process include:

- Recruitment – use of consistent language and clear signposting for alternative formats of applications and making reasonable adjustments are now part of the recruitment pack for ALL positions.
- Continuing regular training in Deaf Awareness and basic British Sign Language (BSL) to ensure new and existing staff have ongoing opportunities to learn and develop skills.
- Providing BSL Practice sessions organised by the Managers of FOH and Cafe/Bar teams, to help maintain knowledge and gain confidence for customer facing staff.
- Planning for the development of our facilities to increase provision of inclusive toilets.
- Descriptive Subtitles at Cinebabies screenings every time DS is available and a more consistent, delivery of DS screenings across a range of times and dates.
- Creation of a new Partial Subtitling / Subtitling / Descriptive Subtitling key for access purposes.
- A new cinema etiquette trailer with BSL interpreter.

Use data more effectively to inform our decision making

Our percentage level of data capture at booking has increased year on year by 8% thanks to our focus on online booking and our loyalty card scheme. We make use of the insight gained from Audience Finder, the national audience data and development programme. This in turn enables us to gather, share and compare audience statistics with other cultural organisations. We continue to gain further insight through our regular (three times a year) demographics survey that is completed through face to face interviews in the venue. We have sampled over 2,500 customers over this period. We regularly:

- Monitor our competitive position in the market place.
- Interrogate our relationship with our audiences.
- Identify gaps in our market offer and explore ways of filling them.
- Improve our customer experience.
- Provide progression pathways for our customers.

Strategic report *(continued)*

2018 - 2019 Organisational Priorities

In 2018/19 we will focus the organisation on a strategic plan for Watershed's next phase of development. The past 10 years have been transformational in cementing our leadership role and increasing impact and engagement locally, nationally and internationally. During this time and particularly over the past 2-3 years, we have reviewed capacity and focus and we are now ready to consolidate and build on our success with renewed energy and vision.

Following a period of self-evaluation, external consultancy and capacity building, the Executive and Board have developed a new strategic plan for 2018-2022 that supports our mission and vision, sets clear objectives for all of our business areas and ensures that our values are reflected in everything we do.

In our next phase we will expand our leadership and creative capacity and will deepen our work in inclusion, innovation and talent development. Watershed is truly local and global and we will build on this through developing an organisation wide international strategy, while continuing to build on our strong brand, developing our services and expanding our venue. In 2018/19 we will deliver the first year of activity towards our overarching priorities for 2018-22. The main priorities for the year are listed below:

- **Audiences** – Develop a new communications and brand strategy to position Watershed for the next phase of development.
- **Advocacy** - Continue to develop dialogue around new work, reaching new audiences in our key areas of 24 and under, people of colour and Deaf community.
- **People and culture** - Embed new leadership approach to create an inclusive and responsible team.
- **International** – Deliver an international conference in Japan to build relationships and opportunities for Tokyo 2020.
- **Venue and brand** – Confirm our Capital Plan to support creative and commercial growth.
- **Innovation** - Build South West Creative Technology Network to strengthen cluster and increase opportunity.
- **Talent and networks** - Further integrate our talent development offer to create links and efficiencies across engagement, Studio residencies and inclusion.
- **Finance** - Secure funds to support Rife for the next 3 years to develop a model with long term sustainability and raise funds to support our capital development programme.

Monitoring and Evaluation

Watershed uses data (e.g. from Audience Finder), self-evaluation and research to reflect on its programme and make decisions. Our Evaluation Working group tracks progress within projects as well as through an annual Autumn Review and the regular demographic profiling and post event evaluation and research. In the year we also undertook an anonymous staff survey to help us understand the demographics of our workforce and inform the continued development of fair and equal recruitment and staff development systems.

Watershed's Creative Team and Producers also employ an iterative, reflective approach to designing and delivering programmes, capturing feedback from participants and audiences in the moment and amending programme design to match changing needs and expectations. Our close collaboration with UWE Bristol allows us to co-design high quality research around our programmes through both formal partnership and development of our own skills.

Significant examples this year include:

- Full survey of past and present residents of the Pervasive Media Studio analysing demographic make-up, economic impact and network activity.
- Focus groups and interviews with participants of the Network for Creative Enterprise.
- Questionnaire and review of pilot Artful Innovation programme to identify effective business interventions for artists and creative companies.
- Impact and evaluation workshops with all participants in Creative Producers International to explore common goals and associated data sets for international public space work.

Risk Management

Watershed invests significant attention on risk management, ensuring the organisation can make calculated investments in new and speculative areas without undermining the coherence and sustainability of the organisation.

We have in place a risk register to assess the risks we face in delivering our development programme and the actions required in order to minimise the impact of a risk should it materialise. Our risk register is created and reviewed by the Board and the Executive team, and our risk management strategy involves maintaining:

- Procedures to effectively mitigate identified risks;
- Procedures to ensure early detection of identified and emergent risks;
- Procedures to minimise the impact on the organisation should identified risks materialise;
- An annual review of the risks facing the organisation.

Strategic report *(continued)*

To achieve the balance of risk and stability Watershed has a mixed business model with diverse income streams, an effective governance system, develops long-term partnerships to leverage funding, builds creative capacity and regularly evaluates its positioning.

The Trustees consider that adequate controls are in place to mitigate the key risks identified in its risk register. Watershed's risk register was reviewed and updated in March 2017.

Financial review

Overview

The consolidated balance sheet set out on page 21 shows an increase in unrestricted income funds (excluding the head lease unrestricted designated fund) of £145,696 in the year (2017: £119,117). This is an exceptional outcome, bringing Watershed's reserves close to target level.

Some of the increase is attributable to timing differences between the recognition of income and expenditure in respect of fundraising designated for the RIFE programme and income receivable in respect of Film Hub activity. In 2017/18 two additional designated funds (Rife designated fund and Film Hub designated fund) have been established to ring-fence these surpluses. These funds will be called upon to support these areas of activity in 2018/19.

Designated funds established in the previous year to ring fence surpluses for specific areas of activity were fully utilised in the year (Capital programme designated fund and Playable City designated fund).

The consolidated results set out on pages 19 to 21 show a surplus of £69,881 (2017: deficit of £52,550) for the year. The surplus on unrestricted funds for the year totalled £89,950 (2017: £63,372). Further details are set out in notes 20 and 21.

Financial performance in 2017/18 exceeded budget expectations across the organisation. Cinema, Café/bar and Conference sales exceeded budget expectations by a wide margin producing Watershed's best financial performance to date. In addition, direct costs were maintained well within budget throughout the year, maximising profit in these areas.

The result for the year has been achieved through a clear focus on driving efficiency across the business and ensuring that structures and processes are fit for purpose. This combined with stringent financial controls and careful performance monitoring has enabled Watershed to generate increased sales whilst staying well within budgeted margins.

Subsidiary Company Results

The charity's wholly owned subsidiary, **Watershed Trading Limited**, continued to operate Watershed's café/bar and conference facilities.

Not only do these activities provide a valuable income stream to support the charitable activities of the Arts Trust, but also form a key part of the Watershed offer as a whole, providing a welcoming, open and inclusive meeting place for all to enjoy. The café/bar and conference events business generate significant footfall and revenue which contribute to Group resource.

Watershed Trading Limited made donations of £205,848 (2017: £132,000) through gift aid to the Charity and generated profits before tax of £986 (2017: £2,251). The two main sources of income generation for the Trading Company are:

- Café/bar food and liquor sales generated £1,273,442 (2017: £1,163,902). This is a 9.4% increase on the previous year demonstrating that Watershed has successfully maintained its position in a highly competitive market.
- Conference sales generated £461,904 (2017: £433,079), an increase of 6.7% on the previous year. Watershed continues to drive its conference business through new initiatives and taking a flexible approach to meeting the needs of clients.

The charity's wholly owned subsidiary, **Watershed Ventures CIC**, supports the development of talent, providing support to explore the potential of new technologies, and undertook projects to promote collaboration between artists and the creative industries.

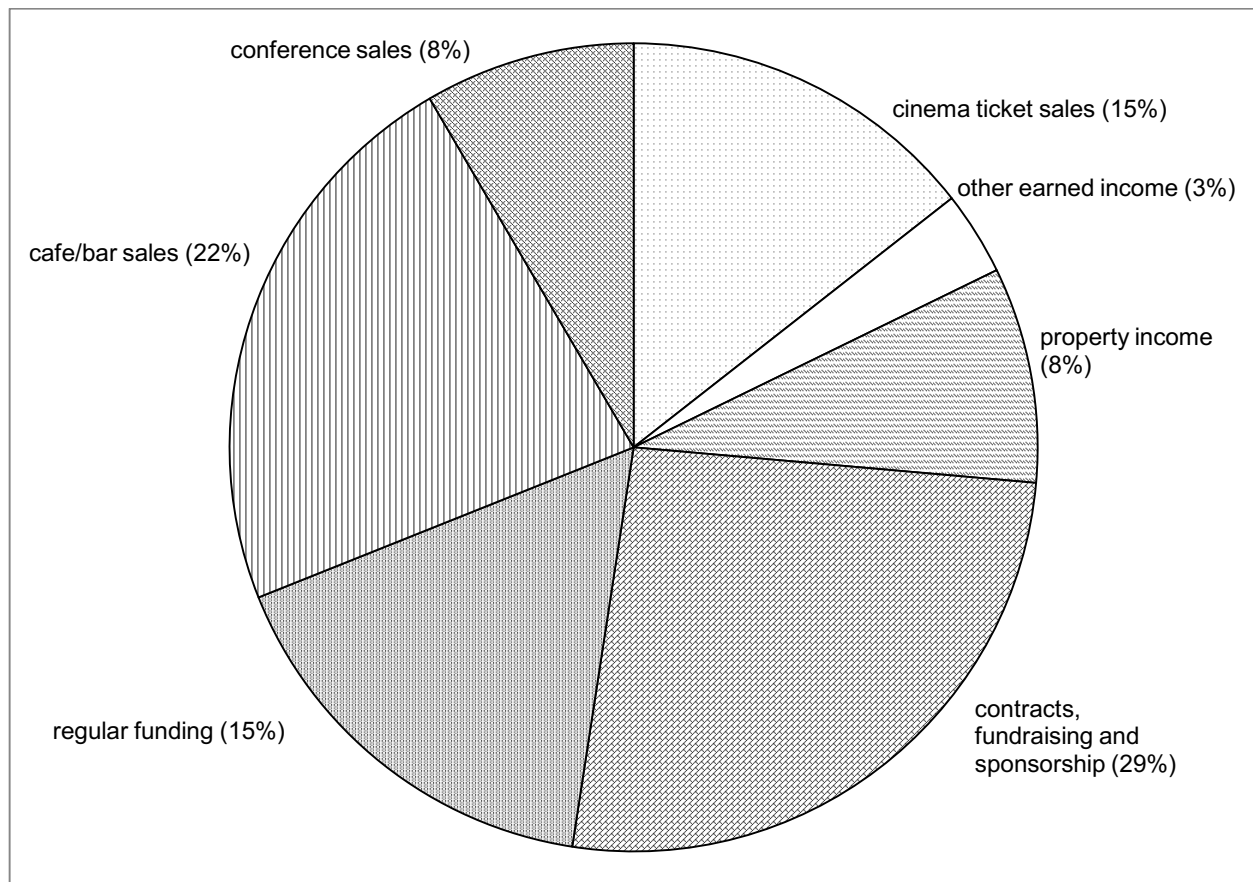
In the year, **Watershed Ventures CIC** made no donations (2017: £22,000) through gift aid to the Charity and generated a loss before tax of £1,420 (2017: profit of £1,865) and total revenue of £750 (2017: £100,175).

No significant activity was undertaken by Watershed Ventures in 2017/18. The focus in 2017/18 was to build on the experience of the recently completed REACT programme to develop a new model for Watershed Ventures. The focus will be on supporting emerging creative talent, establishing pathways to exploit ideas and grow businesses. Plans will be further developed in the coming year.

Strategic report *(continued)*

Principal Funding Sources

The principal funding sources of the Watershed Group are shown in the pie chart below.



Whilst Watershed's financial model is complex, drawing on a wide range of income streams, it is designed to provide Watershed with the flexibility and resilience it needs to both respond quickly to opportunities and to mitigate the impact of a downturn in business. The model aims to achieve growth in income whilst maintaining key margins.

Café/bar and Conference sales

A large proportion of Watershed's income portfolio (30%) comes from sales generated by Watershed's trading subsidiary through its café/bar and conference operations. This income is vital to supporting the charitable activities of the Arts Trust.

The café/bar is the social heart of the organisation and the catering experience is a key part of defining the ambience. The food and beverage offer is designed to meet the needs of the full range of Watershed's visitors from snacks to full meals, from herbal tea to speciality spirits, with a corresponding range of prices.

Watershed also provides an award winning events/conference service. This enables organisations and companies to create their own events using Watershed's facilities and expertise. It also provides the expert service which enables Watershed to host festivals and events programmed by the Arts Trust and its partners which form an important part of the creative programme. However, there is a fine balance to strike between generating commercial revenue through the trading subsidiary and delivering the creative outputs which are key to Watershed's success in meeting its charitable objectives.

Cinema Programme

The cultural cinema programme is at the heart of Watershed's operation and cinema ticket sales accounted for 15% of Group turnover in 2017/18. Audience numbers and sales generated in 2017/18 hit an all-time high with audiences increasing by 13% and sales by 17%. Watershed's pricing policy reflects market value whilst providing an accessible offer for those who are economically disadvantaged. In the year we continued our policy of reduced ticket prices for the under 25's to encourage younger audience members and build audiences for the future.

Strategic report *(continued)*

One-off Programme Funds

Much of Watershed's charitable activities are supported by one-off or short term programme funds comprising partnership agreements, restricted project grants and contracts for services. Funding from these sources increased from £1.2 million in 2016/17 to £1.5 million in 2017/18.

Major partners include Arts Council England (ACE), the British Film Institute (BFI), University of the West of England (UWE), Bristol University (UoB), Bristol City Council (BCC), and the British Council.

Key developments in the year include:

- **BFI National Film Audience Initiative** - Watershed continues to develop its long term relationship with the BFI to act as a Hub Lead Organisation (HLO) as part of the national film audience initiative. With funding secured for the current year, 2017/18 marked a transition year in the development of this initiative and Watershed successfully renewed its agreement with the BFI for a further 4 years of funds from 2018/19 to 2021/22. In addition, further awards were secured for this 4 year period in respect of a national exhibition/distribution project and a lead role in developing talent across the Hub region.
- **University Collaborations** - The Pervasive Media Studio collaboration agreement with UWE and UoB continues to enable Watershed to invest in new strategic/talent development programmes and opportunities.

In September 2017 this collaboration was extended into a new Virtual Reality (VR) initiative in the form of a VR Lab. The lab is housed in the Leadworks building for which Watershed has taken a lease for an initial period of 3 years. Set-up costs of the VR Lab are supported by capital funding secured in the year from the West of England Local Enterprise Partnership (LEP).

This extends our capacity into Virtual Reality creating new specialist capacity in a new technology crossing cultural, creative and technology sectors. Watershed will receive a small revenue stream from its role in managing the lab.

In the year Watershed commenced a major collaboration with UWE to develop an initiative to create The Network for Creative Enterprise providing incubation support for creative talent to develop entrepreneurial ideas for market. A total of £1 million (from the ERDF and ACE) has previously been secured for this 3-year project.

Watershed also entered into a major £200,000 collaboration with UoB in the year to deliver a project engaging members of the public in testing experimental technologies.

Unrestricted Grants

Watershed receives regular funding in the form of National Portfolio funding from Arts Council England and Key Arts Provider funding from Bristol City Council. Both of these arrangements reached the final year of their 3 year funding term in 2017/18. Unrestricted funding from ACE and BCC accounts for 15% of Group turnover and, although forming a relatively small percentage of overall turnover, these funds form a vital part of Watershed's financial equation.

In the year, Watershed successfully renewed its NPO funding agreement with ACE for a further 4 years. This will enable Watershed to move forward with its business plan and continue to deliver an exceptional cultural offer.

A 4 year funding offer was also secured from BCC through its new Openness scheme. However, funding in 2018/19 will be reduced by 35% on current levels with a further 25% cut in year 4 of the agreement. This outcome was as anticipated and Watershed will work to mitigate the impact of this cut by making efficiency savings.

These funds are always susceptible to changes in government policy and Watershed is mindful that other in-year cuts may be incurred over the duration of these agreements and Watershed must position itself to be able to respond and adapt accordingly.

Fundraising

In the 2017/18 financial year Watershed secured £88,069 (2017: £63,179) from fundraising through individual giving and private sponsorship. Of this amount the sum of £63,631 was secured to support Rife, Watershed's on line magazine for young people, and a designated fund has been established to ring-fence these funds for investment in the coming year.

This is a promising result for the year and Watershed will continue to develop its fundraising options with a focus on raising funds to support our work with young people and in particular Rife. To this end we will build on our reputation for quality and innovation to seek out funds from a range of Trusts and Foundations in the coming year. In the longer term our focus will shift towards our Capital development programme.

Property Income

Rental income received from Watershed's head lease tenancies continue to be applied to the charitable objectives of the Arts Trust, with all units remaining fully occupied in the year. These rentals provide a vital income stream enabling us to continue to invest in the creative programme.

Strategic report *(continued)*

Cost efficiency

Watershed is constantly seeking to make efficiency savings without compromising the quality of its offer.

In 2017/18 Watershed underwent a major restructure of its front of house operation. This involved the creation of a new role of Front of House General Assistant which replaces the existing role of Usher.

The new role provides cinema audience customer care and also works as part of the wider General Assistant team creating increased flexibility to meet customer demand across the organisation. The new role came into effect in October 2017 and the benefits in terms of both cost and customer care is clearly demonstrated in the year.

Future resilience

Watershed operates in an environment of ever increasing commercial competition from new café/bars and conference facilities locally and strong competition for limited one-off programme funds. In addition, there remains a strong likelihood of cuts to public funding in the future.

In order to thrive in this environment, Watershed aims to be as self-sustaining, flexible and robust as possible, maximising income streams and reaching out for new opportunities as they arise.

In order to achieve long term resilience and sustainability we continue to work towards implementing an ambitious capital project. The project will result in a redeveloped and extended building that will provide additional incubation grow-on space for resident companies and additional cinema and café/bar/events capacity.

This will increase Watershed's capacity and respond to growing demand enabling Watershed to play a stronger role in developing the cultural and creative economy. We anticipate that the investment will result in additional net income of around £200,000 per annum.

Feasibility study and design to RIBA Stage 1 were completed in 2016 supported by funding from Bristol City Council. In 2017/18 we continued to develop our plans and investigate potential funding opportunities.

Financial monitoring and control

Watershed has rigorous financial systems in place to ensure that Watershed's financial position is carefully monitored and controlled. Systems are in place to identify potential problems early on and make necessary changes to mitigate them.

A careful and prudent budgeting process, led by the Head of Finance and engaging key budget holders, ensures that financial targets (income and costs) are realistic and achievable.

Overhead and administration costs are reviewed each year to ensure that quality and value for money are maintained at an appropriate level. Suppliers are selected on the basis of quality of service and value for money.

The production of monthly management accounts and weekly sales reports ensures that progress against financial targets is closely monitored. Food and liquor sales margins are tracked weekly and are verified by a monthly stock take. Other key margins are reviewed on a monthly basis to ensure that income streams are maximised.

Financial performance is reviewed monthly by Watershed's executive team and bimonthly by Watershed's Board.

The application of restricted funds is carefully monitored through individual profit and loss accounts which are established for each project to which a restricted fund relates. This ensures the correct application of restricted programme funds and ensures that activities remains within the budget parameters set.

Cash flow is tracked through a rolling annual forecast which is reviewed and updated on a weekly basis.

Strategic report *(continued)*

Reserves policy

Watershed's reserves form part of the organisation's strategic planning process informing business planning, budget and risk management, ensuring that Watershed remains sustainable, has the capacity to manage unforeseen financial circumstances and is able to invest in its future.

In establishing its policy, Watershed has considered the day-to-day operational requirements of the Arts Trust, the key areas of risk to the business and the need for future investments to improve services and resilience.

Watershed holds reserves for the purpose of:

Meeting the day-to-day operational requirements of the Arts Trust

- managing variations in cash flow requirements.

Managing the key areas of risk to the business

- protecting the Arts Trust against the uncertainty of future income streams/costs, including:
 - loss of rental income from the head lease units in E & W sheds as a result of unpaid rent or units becoming vacant;
 - a decline in unrestricted regular funding from key stakeholders, in particular in-year cuts in public subsidy;
 - a decline in revenue from Watershed's trading subsidiary due to adverse trading.

Requirements for future investment

- providing the necessary capital to ensure that E & W sheds are maintained in an excellent state of repair;
- enabling the Arts Trust to undertake new, unplanned activities required to sustain the business;
- enabling the Arts Trust to respond to unexpected opportunities;
- providing resources to invest in long-term future developments (eg. capital projects, staff capacity).

Current level of reserves

Watershed currently holds reserves in a general fund (to support the day-to-day operational requirements of the Trust and mitigate risk) and a Bristol + designated fund held for the purpose of:

- preserving the heritage of E & W sheds;
- making improvements to E & W sheds and the immediate public realm;
- delivering outputs to develop the Bristol cultural and creative economy, including Watershed.

In 2016/17 two additional designated funds (Capital programme designated fund and Playable City designated fund) were established to ring-fence surpluses attributable to timing differences in these areas. These funds were fully utilised to support these areas of activity in the year. In 2017/18 two additional designated funds (RIFE designated fund and Film Hub designated fund) were established to ring-fence surpluses attributable to timing differences in these areas. These funds will be called upon to support these areas of activity in 2018/19.

Watershed's reserves currently comprise*:

General fund	£497,861
Designated fund – Bristol +	£319,889
RIFE designated fund	£ 63,631
<u>Film Hub designated fund</u>	<u>£ 23,019</u>
Total	£904,400

**note – net current assets available at 31 March 2018 stand at £641,217*

In 2011/12 a designated fund was established to ring fence the balance of the head lease purchased with a capital grant from SWRDA in 2007. These funds became unrestricted in 2011/12. Watershed has £5,560,601 held in this fund at the end of 2017/18. With Board approval, each year the sum of £55,746 is transferred from this designated fund to the general fund to match the depreciation on the head lease.

This fund represents a tangible fixed asset from which Watershed operates, which is fundamental to the delivery of the business plan. This fund is therefore not included in Watershed's reserves.

Strategic report *(continued)*

Future targets

In establishing the level of reserves appropriate to its business, Watershed has considered:

- forecast levels of income and expenditure for the coming years as projected in its business plan;
- the obligations and operational requirements of the Charity and the likelihood and consequences of these requirements not being met;
- the likelihood and financial impact of key areas of risk on the business;
- the future developmental needs of the organisation.

The amount deemed appropriate to meet the day-to-day operational requirements of the Arts Trust and protect the Arts Trust against the uncertainty of future income streams is 10% of Group turnover. This translates to a current target of £500,000 for the General Fund. General Fund reserves will be built up over coming years, in line with projections outlined in Watershed's current business plan.

The level of reserves currently held in the Bristol + fund (£319,889) is deemed appropriate for Watershed's needs at the current time. This will enable Watershed to maintain E & W sheds in a good state of repair in line with current maintenance plans and bridge the costs of unplanned emergency repairs which may be required.

Watershed currently has no funds held in reserve for future investment. The ability to make strategic investments and maximise opportunity is key if Watershed is to continue to move forward and increase its sustainability.

To this end, Watershed continues to develop plans for future development and investment. This includes a proposed major capital project to make the organisation more resilient and sustainable, financially and environmentally.

Watershed's reserves policy is reviewed annually by the Board as part of the organisation's strategic planning process.

Trustees' report

Structure, governance and management

Watershed is structured as a group of three companies, the parent company Watershed Arts Trust Ltd and two wholly owned subsidiaries, Watershed Trading Ltd and Watershed Ventures CIC. The Arts Trust delivers the core programme, Watershed Trading Ltd manages hospitality and Watershed Ventures is a CIC with a mission to support enterprise in the creative economy.

Watershed's governance structure reflects and supports the Group structure and its organisational core values, culture and needs. It provides the management capacity and expertise to deliver Watershed's overall aims and objectives.

The Board, which administers the Charity, meets 5 times a year. Potential members are invited to attend Board meetings as observers for a short period of time. In due course official appointment is made by serving members if deemed appropriate. Prior to appointment new members are familiarised with Watershed's memorandum and articles of association, business plan and recent financial performance. Watershed's Board of Trustees are voluntary and receive no remuneration.

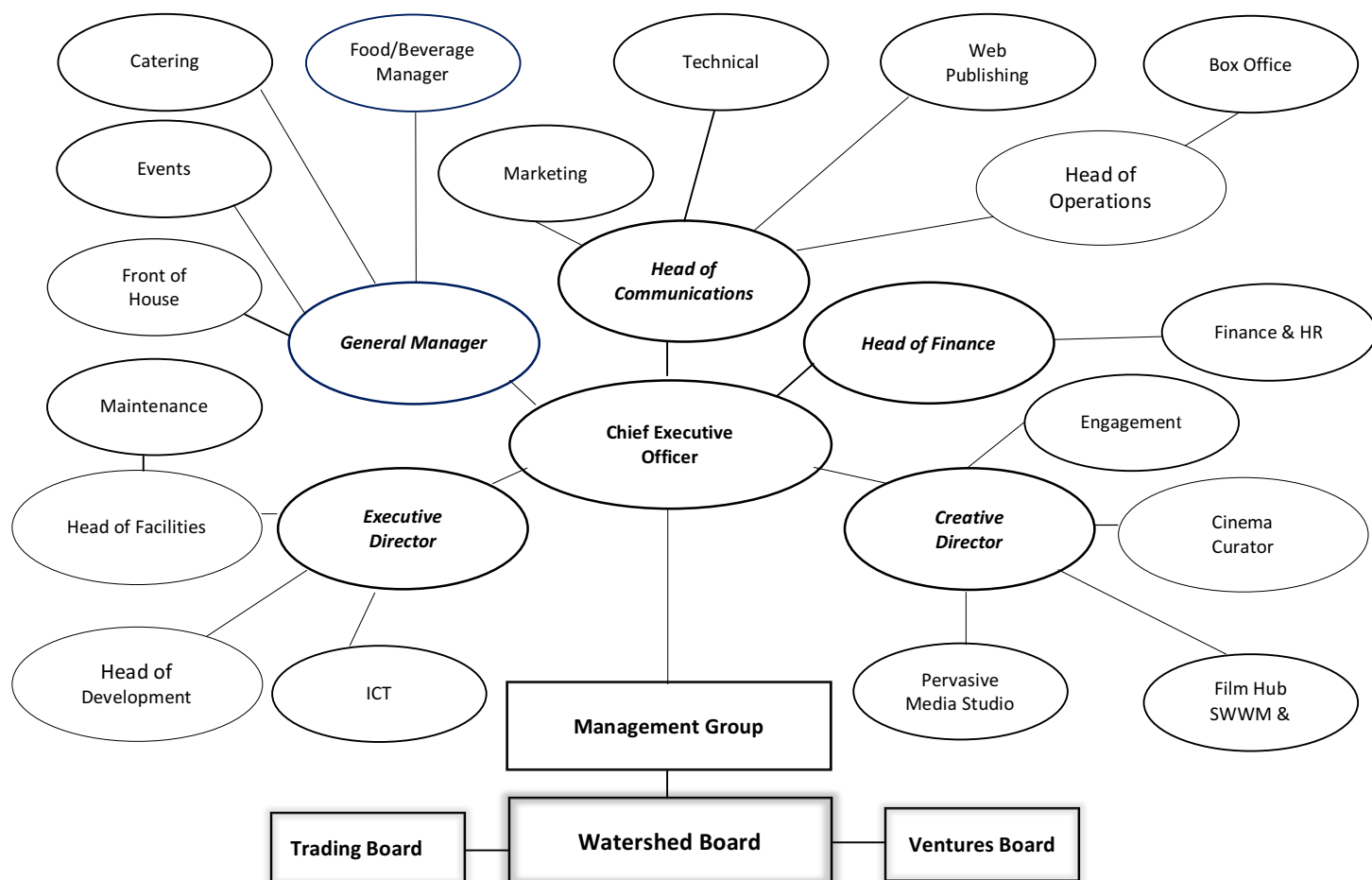
A separate Management Group provides a forum for executive managers to informally discuss areas of activity and development with Board Chairs. The group meets shortly after each Board meeting to review outcomes of the meeting and to discuss actions arising from it. It is not a decision-making body.

Watershed's organisational structure in 2017-18 is shown in the diagram below. As part of our succession strategy and to strengthen the leadership team a new Executive Director was appointed in August 2017. At the end of 2017-18 Watershed's executive group, comprising 5 senior managers, reports to the Chief Executive Officer. The Executive Director will take on increased line management responsibility in the coming year as we continue to develop our executive structure. Other senior managers report to the Head of Communications, Executive Director and Creative Director as shown below. The Executive Team meets once a fortnight with meetings of the wider Senior Management Team taking place fortnightly between these meetings.

The Executive Team take responsibility for the day-to-day operation of the Arts Trust, Watershed Ventures and Trading company. The CEO, Executive Director and Creative Director focus on strategy and co-ordination across the group.

Senior managers take responsibility for the day-to-day operation of the Arts Trust, Watershed Ventures and Trading company. The CEO, Executive Director and Creative Director focus on strategy and co-ordination across the group.

Watershed Group Staffing Structure



Trustees' report *(continued)*

Statement of responsibilities of the Trustees of Watershed Arts Trust Limited in respect of the Board of Trustees report and the financial statements

The Trustees, who are also directors of the charitable company for the purposes of company law, are responsible for preparing the Report of the Board of Trustees and the financial statements in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law).

Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period.

In preparing the 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;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the charitable company will continue its activities.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and the 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Reference and administrative details

Watershed Arts Trust Limited was incorporated as a company limited by guarantee on 19 January 1982. The company was registered with the charity commission on 18 March 1982. The wholly owned subsidiary Watershed Trading Limited was incorporated on 12 March 1982. Watershed Ventures CIC (previously iShed CIC) was incorporated on 12 February 2007.

The members of the Board of Trustees who served during the year and post year end and who constitute directors for Companies Act purposes are listed below.

Trustees

J. Touzel (Chair)

S. Ahmed

P. Appleby

D. Bunyan

S. Cooper

J. Durrant

L. Gardner

S. Gatfield

S. Johnson

S. Wilson

Councillor E. Tincknell

S. Eugene-Hart

D. Whitehead (appointed 21 June 2017)

Trustees' Report *(continued)*

Secretary: Lisa Gardner
Chief Executive Officer: Dick Penny
Charity number: 284188
Company number: 01608779
Registered Office: 1 Canon's Road, Harbourside, Bristol, BS1 5TX
Auditors: Saffery Champness LLP, St. Catherines Court, Berkeley Place, Clifton, Bristol, BS8 1BQ
Bankers: HSBC Bank, 62 George White Street, Cabot Circus, Bristol, BS1 3BA
Solicitors: TLT LLP, 1 Redcliff Street, Bristol, BS1 6TP

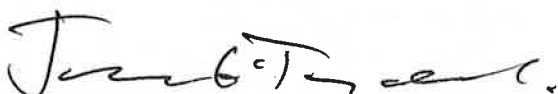
Disclosure of information to auditors

The Trustees who held office at the date of approval of this Board of Trustees' report confirm that, so far as they are each aware, there is no relevant audit information of which the charitable Company's auditors are unaware; and each Trustee has taken all the steps that he/ she ought to have taken as a Trustee to make himself/ herself aware of any relevant audit information and to establish that the charitable Company's auditors are aware of that information.

Auditors

Watershed's Board of Trustees re-appointed auditors Saffery Champness LLP at its Board meeting held on

By order of the Board



J Touzel
Chair of the Board

Date

19/9/18

1 Canon's Road
Bristol
BS1 5TX

Independent auditors' report to the members and Trustees of Watershed Arts Trust Limited (a company limited by guarantee)

Opinion

We have audited the financial statements of Watershed Arts Trust Limited for the year ended 31 March 2018 which comprise the Group Statement of Financial Activities, the Group Summary Income and Expenditure Account, the Group and Parent Charitable Company Balance Sheets, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the charitable company's state of affairs as at 31 March 2018 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006.

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. 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 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 charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditors' report to the members and Trustees of Watershed Arts Trust Limited (a company limited by guarantee) (continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of trustees

As explained more fully in the Trustees' Responsibilities Statement set out on page 15, the trustees (who are also directors of the charitable company 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, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditors under the Companies Act 2006 and report in accordance with that Act.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Michael Strong (Senior Statutory Auditor)
For and on behalf of Saffery Champness LLP

Chartered Accountants
Statutory Auditors

St Catherine's Court
Berkeley Place
Clifton, Bristol
BS8 1BQ

Date: 9/10/18

Saffery Champness LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Consolidated statement of financial activities (including an income & expenditure account)

for the year ended 31 March 2018

	<i>Note</i>	Unrestricted Funds £	Restricted Funds £	Total Funds 2018 £	Total Funds 2017 £
Income					
Voluntary income					
<i>Donations and legacies</i>					
Individual giving		88,067	-	88,067	63,179
Donated services		-	35,647	35,647	14,462
Regular grant funding	4	849,249	-	849,249	935,249
<i>Other trading activities</i>					
Commercial trading operations	6/7	1,765,338	-	1,765,338	1,630,516
<i>Investment income</i>					
Interest receivable		110	-	110	74
		<u>2,702,764</u>	<u>35,647</u>	<u>2,738,411</u>	<u>2,643,480</u>
Income from charitable activities					
Earned income from cinema activities		965,928	-	965,928	843,487
Rental income		218,056	-	218,056	218,056
Service charges		110,001	-	110,001	119,768
Other earned income		134,638	-	134,638	194,133
Programme funds	4	85,537	1,480,733	1,566,270	1,189,180
		<u>1,514,160</u>	<u>1,480,733</u>	<u>2,994,893</u>	<u>2,564,624</u>
Other income					
Capital grants		-	133,767	133,767	-
Total income		<u>4,216,924</u>	<u>1,650,147</u>	<u>5,867,071</u>	<u>5,208,104</u>
Expenditure					
Costs of raising funds					
Fundraising costs	8	(53,354)	-	(53,354)	(54,855)
Commercial trading operations	6	(1,362,923)	-	(1,362,923)	(1,317,489)
		<u>(1,416,277)</u>	<u>-</u>	<u>(1,416,277)</u>	<u>(1,372,344)</u>
Charitable activities					
Operation of cinema, engagement and creative media projects	9	(2,754,293)	(1,480,733)	(4,235,026)	(3,689,671)
Donated services		-	(35,647)	(35,647)	(14,462)
CIC operation	7	(1,898)	-	(1,898)	(62,910)
Property management costs		(108,342)	-	(108,342)	(121,267)
Total expenditure		<u>(4,280,810)</u>	<u>(1,516,380)</u>	<u>(5,797,190)</u>	<u>(5,260,654)</u>
Net income/(expenditure) before transfers and		(63,886)	133,767	69,881	(52,550)
Net income/(expenditure) for the year					
Transfers between funds	20	153,836	(153,836)	-	-
Net movement in funds		<u>89,950</u>	<u>(20,069)</u>	<u>69,881</u>	<u>(52,550)</u>
Reconciliation of funds					
Total funds brought forward		6,375,051	1,632,594	8,007,645	8,060,195
Total funds carried forward		<u>6,465,001</u>	<u>1,612,525</u>	<u>8,077,526</u>	<u>8,007,645</u>

Incoming resources and resulting net movement in funds in each year arise from continuing operations. The group has no recognised gains or losses for the current or previous year other than those shown above.

Consolidated cash flow statement

for the year ended 31 March 2018

	2018	2017
	£	£
Cash flows from operating activities		
Net (outgoings)/income	69,881	(52,550)
Depreciation of tangible assets	329,662	274,742
Loss on disposal of fixed assets	-	-
Taxation	(2,599)	(2,612)
Change in trade and other debtors	(149,620)	(102,359)
Change in stocks	4,120	(999)
Change in trade and other creditors	111,837	89,536
	<hr/>	<hr/>
Net cash flow generated from operating activities	363,281	205,758
Cash flows from investing activities		
Purchases of tangible assets	(332,631)	(71,000)
	<hr/>	<hr/>
Net cash from investing activities	(332,631)	(71,000)
Cash flows from financing activities		
Decrease in loan/long term creditors	-	(60,000)
	<hr/>	<hr/>
Net cash flows from financing activities	-	(60,000)
	<hr/>	<hr/>
Cash at bank and in hand at beginning of year	1,005,709	930,951
	<hr/>	<hr/>
Cash at bank and in hand at end of year	1,036,359	1,005,709
	<hr/> <hr/>	<hr/> <hr/>

Consolidated and company balance sheets
 at 31 March 2018

	Note	Group		Charity	
		2018 £	2017 £	2018 £	2017 £
Fixed assets					
Tangible assets	13	7,474,021	7,471,052	7,451,818	7,446,381
Investments	14		-	50,101	50,101
		7,474,021	7,471,052	7,501,919	7,496,482
Current assets					
Stocks	15	16,633	20,753	-	-
Debtors	16	657,191	507,287	808,222	587,495
Cash at bank and in hand		1,036,359	1,005,709	589,636	631,775
		1,710,183	1,533,749	1,397,858	1,219,270
Creditors: due within one year	17	(1,068,966)	(959,444)	(866,189)	(752,430)
Net current assets		641,217	574,305	531,669	466,840
Total assets less current liabilities		8,115,238	8,045,357	8,033,588	7,963,322
Creditors: due after more than one year	18	(29,690)	(29,690)	(29,690)	(29,690)
Provisions for liabilities and charges	19	(8,022)	(8,022)	-	-
Net assets		8,077,526	8,007,645	8,003,898	7,933,632
Unrestricted income funds - general	20	497,861	364,394	424,233	338,040
Capital – unrestricted designated fund	20	-	27,739	-	27,739
Playable City – unrestricted designated fund	20	-	23,148	-	23,148
Rife – unrestricted designated fund	20	63,631	-	63,631	-
Film Hub – unrestricted designated fund	20	23,019	-	23,019	-
Bristol + unrestricted designated fund	20	319,889	343,423	319,889	295,764
Head lease unrestricted designated fund	20	5,560,601	5,616,347	5,560,601	5,616,347
Restricted capital funds	21	1,612,525	1,632,594	1,612,525	1,632,594
Total funds		8,077,526	8,007,645	8,003,898	7,933,632

A separate Statement of Financial Activities and Income and Expenditure Account for the charity has not been presented because Watershed Arts Trust Limited has taken advantage of the exemption afforded by section 408 of the Companies Act 2006.

For the parent charity net movement in funds is a surplus of £478,265 (2017: surplus of £302,757).

These financial statements were approved by the Board on 14/4/18 and were signed on its behalf by:



J Touzel
 Chair of the Board

Notes

(forming part of the financial statements)

1 Accounting policies

Company information

Watershed Arts Trust Limited is a charitable company limited by guarantee incorporated in England and Wales. The registered office is 1 Canons Road, Harbourside, Bristol, BS1 5TX.

Basis of preparation

The 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) – (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006, which have been applied consistently.

Watershed Arts Trust Limited meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy note.

There are no material uncertainties about Watershed Arts Trust Limited and its subsidiaries' ability to continue as a going concern.

Basis of consolidation

These consolidated financial statements include the financial statements of The Watershed Arts Trust Limited ("the charitable company"), Watershed Trading Limited and Watershed Ventures CIC, its wholly owned trading subsidiaries made up to 31 March 2018.

These financial statements consolidate the results of the charity and its wholly owned subsidiaries on a line by line basis.

The trading results of the subsidiaries are disclosed in notes 6 and 7 to these financial statements.

Income

Voluntary income

Income from government and other grants is recognised when the charity has entitlement to the funds, any performance conditions are met, the amount can be measured reliably, and in line with the timing implied by any multi-period grant agreements.

Grants received in respect of revenue expenditure are credited to income in the period to which they relate. One off non-specific revenue grants which support core activities are categorised as voluntary income. Revenue grants received for specific creative projects are also categorised as income from charitable activities.

Grants received to fund capital expenditure are recognised in the Statement of Financial Activities in the year of receipt and held as appropriate in restricted or unrestricted funds. Where restricted, the balance in restricted funds is transferred to unrestricted funds in future years at the same rate so as to match the depreciation of the related assets.

Income from charitable activities

Earned income from cinema activities represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year in respect of cinema ticket sales and is accounted for on a receivable basis. Deposits received in respect of cinema tickets for the next accounting period are included in deferred income in creditors on the balance sheet until the criteria for income recognition are met.

Rentals receivable under operating leases, including any lease incentives, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Turnover in respect of the restaurant, shop and bar takings is in the form of cash and credit cards and is accounted for on a receipts basis. Turnover in respect of the conferencing activities is accounted for on a receivable basis with income recognised in the profit and loss account for conferences completed in the current accounting period.

Non-refundable deposits received in respect of conferences in the next accounting period are held as deferred income in creditors on the balance sheet.

Earned income in respect of Watershed Ventures CIC represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year in respect of events and consultancies and is accounted for on a receivable basis.

Donated services and facilities

Where services are provided to the charity as a donation that would normally be purchased from our suppliers, this contribution is included in the financial statements as value to the charity, at an estimate provided by the donors.

Notes (continued)

1 Accounting policies (continued)

Expenditure

All expenditure is accounted for on an accruals basis.

Costs directly attributable to a specific expense heading are allocated to that heading.

Expenditure is recognised when a liability is incurred:

- costs of generating funds are those costs incurred in attracting voluntary income, and those incurred in trading activities that raise funds;
- charitable activities include expenditure associated with the cinema exhibition programme and digital studio programmes and include both the direct costs and support costs relating to these activities;
- governance costs include those incurred in the governance of the charity and its assets and are primarily associated with constitutional and statutory requirements;
- support costs include central functions and have been allocated to activity cost categories on a basis consistent with the use of resources, e.g. allocating property costs by floor areas, staff costs by the time spent and other costs by their usage.

Leases

Operating lease rentals are charged to the statement of financial activities on a straight line basis over the period of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value where cost is determined with reference to current prices. Stocks are assumed to be used on a first in first out basis.

Taxation

The Trust was registered as a charity in March 1982. Under s505 ICTA 1988 the Charity is not subject to taxation on its charitable activities. The majority of the profits of the non-charitable subsidiary are normally gift aided to the parent charity thus reducing the group's exposure to corporation tax.

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax is provided in full in respect of timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

Fund accounting

The Charity has various types of funds for which it is responsible, and which require separate disclosure. These are as follows:

Restricted funds

These funds are earmarked by the donor for specific purposes. Grant income received to fund capital expenditure is held in restricted funds. The balance is transferred to unrestricted funds in future years at the same rates as to match the depreciation charges of the related assets.

Revenue funds restricted by the donor are matched against expenditure as appropriate.

Unrestricted funds

Funds that are expendable at the discretion of the Board in furtherance of the objects of the charity. In addition to expenditure on the principal activities of the Trust, such funds may be held in order to finance capital investment and working capital.

Designated funds

The Bristol + contingency fund is a designated development fund specifically to ring fence surpluses associated with the rental income from E & W sheds. Other surpluses may also be transferred to this fund at the discretion of the Board. This designated fund is for the purpose of:

- preserving the heritage of E & W sheds;
- making improvements to E & W sheds and the immediate public realm;
- delivering outputs to develop the Bristol Cultural and creative economy, including Watershed.

In 2017/18 the sum of £23,534 was utilised from the Bristol + fund to support to development of Watershed's capital project.

Notes (continued)

1 Accounting policies (continued)

Two new designated funds were established in the year:

- Rife designated fund – ring-fences funds raised in 2017/18 through Watershed’s individual giving campaign that are targeted towards the Rife young people’s programme.
- Film hub designated fund – ring-fences surplus BFI funds attributable to timing differences to be utilised in 2018/19 to support Film hub activity.

Subsidiaries

Details of subsidiary undertakings owned by the charity are disclosed in notes 6 and 7.

Fixed assets and depreciation

Assets under £1,000 are not capitalised unless they form part of an asset with a combined value of over £1,000.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Furniture and fittings	10% - 20% per annum
Plant and equipment	10% - 33% per annum

In December 2002 Watershed purchased a new lease on the existing premises for the sum of £650,000 on the same terms as the existing lease excepting the term is for 99 years from 25 March 1982 and the rental is peppercorn.

Depreciation is provided on a straight line basis over a 79 year period (the unexpired term of the lease).

Leasehold improvements

The Board re-assessed the useful economic lives of leasehold improvements in 1992. All leasehold improvements are depreciated over 25 years on a straight line basis.

In December 2002 Watershed commenced a programme of capital development which created new administration and event spaces, a third cinema screen, refurbished the existing two screens, created an extension to the café/bar area and provided a fully accessible lift. The programme was completed in March 2006.

In March 2009 Watershed constructed a balcony extension to the café/bar area.

In August 2011 Watershed refurbished its events spaces. It is considered likely that further refurbishment work will be required in 10 years’ time and consequently the costs of this work are being depreciated over a 10 year period.

In December 2015 Watershed undertook a programme of refurbishment to upgrade its computer facilities, kitchen equipment and lighting to more energy efficient and environmentally friendly equivalents. The costs of these upgrades are being depreciated over a 10 year period to reflect the useful life of these improvements.

In June 2017 Watershed undertook a programme of refurbishment to update its Front of House facilities, making them fit for purpose and accessible. The costs of these upgrades are being depreciated over a 10 year period to reflect the useful life of these improvements.

Acquisition of the head lease to E & W sheds

In March 2007 Watershed purchased the head lease to E & W sheds for its unexpired term of 111 $\frac{3}{4}$ years. The final price paid was £5.95 million. Depreciation is provided on a straight line basis over a 111 $\frac{3}{4}$ year period (the unexpired term of the lease).

As the useful economic life of some of the above assets exceeds 50 years the Trustees review the assets for impairment on an annual basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors, are initially measured at transaction price including transaction costs 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.

Basic financial liabilities

Basic financial liabilities, including trade creditors, other creditors and loans from fellow group companies, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as 'creditors: amounts falling due within one year' if payment is due within one year or less. If not, they are presented as 'creditors: amounts falling due after more than one year'. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, bank overdrafts or other short-term liquid investments with original maturities of three months or less.

Foreign currency policy

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income and expenditure account.

2 Critical accounting judgments and key sources of estimation uncertainty

The head lease to E&W sheds is held by the Charity for the purposes of direct use of the Charity. It is Watershed's intention to impact positively on the immediate public realm and create an external environment around Watershed that is both welcoming and inclusive. Rental income generated by the head lease tenancies is applied directly to the charitable objectives of the Arts Trust. It is therefore deemed appropriate to base valuation of the head lease on its value in use as opposed to the net realisable value.

Voluntary income is recognised at the point at which the Charity deems it has entitlement to those funds. Decisions around the timing of entitlement are based on the terms and conditions of the particular grant or contract, past precedents around funder's accountability requirements and the need to show a true and transparent picture of the Charity's activities.

Grant income is often offered to Watershed in advance of the activity it supports. In these instances no entitlement is assumed until the funded activity commences. Up to this point funds are held as deferred restricted income. Income is then credited to the profit and loss account to match the related expenditure as the funded activity progresses.

3 Legal status of the charity

The Watershed Arts Trust Limited is a company limited by guarantee and, as such, has no share capital. In the event of winding up, each member is liable to contribute a maximum of £1. As at 31 March 2018 there were 13 members.

Notes (continued)

4 Grant and project income receivable

	Deferred as at 1 April 2017 £	Cash received & receivable 2017/18 £	Credited to income & expenditure 2017/18 £	Transferred to capital grants 2017/18 £	Deferred as at 31 March 2018 £
Income from donations and legacies					
Unrestricted					
Regular grant funding					
Arts Council England	-	744,289	(744,289)	-	-
Bristol City Council	-	104,960	(104,960)	-	-
Total regular grant funding	-	849,249	(849,249)	-	-
Income from charitable activities					
Unrestricted grants					
Europa Cinemas	-	10,337	(10,337)	-	-
Unrestricted other project funding					
Other	-	75,200	(75,200)	-	-
Total other grants	-	85,537	(85,537)	-	-
Restricted					
Programme funding - grants					
Arts Council England	237,685	290,000	(356,640)	-	171,045
British Film Institute	2,131	422,923	(425,054)	-	-
HE Sector	25,000	25,000	(29,278)	-	20,722
Other grants	7,187	38,909	(46,096)	-	-
Programme funding - other					
British Council	-	180,000	(180,000)	-	-
Other project funds	10,000	441,998	(443,665)	-	8,333
Total project funds	282,003	1,398,830	(1,480,733)	-	200,100
Total	282,003	2,333,616	(2,415,519)	-	200,100

5 Financial activities of the charity

The financial activities shown in the consolidated statement includes those of the charity's wholly owned subsidiaries, Watershed Trading Limited and Watershed Ventures CIC.

The gross incoming resources for the year ended 31 March 2018 for the charity was £4,509,732 (2017: £3,843,781). The overall net incoming resources for the year was a surplus of £70,266 (2017: deficit of £54,116), with a surplus of £90,335 (2017: surplus of £61,806) on unrestricted reserves.

Notes (continued)

6 Trading subsidiary's results (Watershed Trading Limited)

	2018 Total £	2017 Total £
Turnover	1,771,673	1,638,663
Cost of sales	(1,193,613)	(1,167,167)
	<hr/>	<hr/>
Gross profit	578,060	471,496
Administration and other costs	(169,075)	(148,379)
	<hr/>	<hr/>
Trading profit	408,985	323,117
Other income	-	-
	<hr/>	<hr/>
Net income	408,985	323,117
Gift aid payment to Watershed Arts Trust Limited	(205,848)	(132,000)
Management charge from Watershed Arts Trust Limited	(202,151)	(188,866)
Tax on profit on ordinary activities	(235)	(1,943)
	<hr/>	<hr/>
Retained profit for the year	751	308
Retained profit brought forward	60,781	60,473
	<hr/>	<hr/>
Retained profit carried forward	61,532	60,781
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities of the subsidiary were:

	2018 Total £	2017 Total £
Fixed assets	22,203	24,671
Current assets	459,943	385,803
Creditors: amounts falling due within one year	(412,492)	(341,571)
Provisions for liabilities and charges	(8,022)	(8,022)
	<hr/>	<hr/>
Net assets	61,632	60,881
	<hr/> <hr/>	<hr/> <hr/>
Equity shareholders' funds	61,632	60,881
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

7 Trading subsidiary's results (Watershed Ventures CIC)

	2018	2017
	Total	Total
	£	£
Turnover	750	100,175
Cost of sales	-	(51,665)
	<hr/>	<hr/>
Gross profit	-	48,510
Administration and other costs	(2,182)	(10,638)
	<hr/>	<hr/>
Trading profit	(1,432)	37,872
Other income	12	-
	<hr/>	<hr/>
Net income	(1,420)	37,872
Gift aid payment to Watershed Arts Trust Limited	-	(22,000)
Management charge from Watershed Arts Trust Limited	-	(14,007)
Tax on profit on ordinary activities	284	(607)
	<hr/>	<hr/>
Retained profit for the year	(1,136)	1,258
Retained profit brought forward	13,232	11,974
	<hr/>	<hr/>
Retained profit carried forward	12,096	13,232
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities of the subsidiary were:

	2018	2017
	Total	Total
	£	£
Current assets	63,110	93,918
Creditors: amounts falling due within one year	(1,013)	(30,685)
	<hr/>	<hr/>
Net assets	62,097	63,233
	<hr/> <hr/>	<hr/> <hr/>
Equity shareholders' funds	62,097	63,233
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Allocation of support costs

The Trust allocates its support costs as shown in the table below and then further apportions those costs between the two charitable activities undertaken (see note 9). Support costs are allocated on a basis consistent with the use of resources.

	Charitable activities	Fundraising costs	Governance	Total
	£	£	£	£
Support cost				
General office	87,047	1,761	15,117	103,925
Finance office	148,483	2,196	39,713	190,392
External audit	-	-	13,013	13,013
Professional services	2,175	-	7,443	9,618
Fundraiser costs	-	49,397	-	49,397
	<u>237,705</u>	<u>53,354</u>	<u>75,286</u>	<u>366,345</u>

9 Analysis of charitable expenditure

	Audience Engagement Programme	Creative technology and talent development projects	2018 Total	2017 Total
	£	£	£	£
Cinema Screening – direct costs	998,570	-	998,570	853,727
Direct programme/project costs	431,000	815,168	1,246,168	1,092,882
Arts programme management and marketing	381,872	308,242	690,114	641,833
Premises costs	362,333	310,901	673,234	510,943
General support costs	190,164	47,541	237,705	256,378
Governance costs	60,229	15,057	75,286	72,230
Depreciation	232,839	81,110	313,949	261,678
	<u>2,657,007</u>	<u>1,578,019</u>	<u>4,235,026</u>	<u>3,689,671</u>

Notes *(continued)*

10 Staff numbers and costs

The average headcount in the year for the group was 131 (2017: 140).

The full time equivalent average number of persons employed by Watershed during the year, including directors, analysed by category, was as follows:

	Number of employees	
	2018	2017
Cultural engagement programme	50	50
Administration	11	11
Catering	13	14
Bar	13	13
Conference	4	4
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	91	92
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

The aggregate payroll costs of these persons were as follows:

Group	2018	2017
	£	£
Directors' emoluments	-	-
Wages and salaries	2,448,203	2,256,096
Social security costs	216,768	188,928
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	2,664,971	2,445,024
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

During the current and previous year, the Trustees were not paid any remuneration or reimbursed for expenses. One Trustee made a donation to the charity (none in the previous year).

Key management compensation in total for the year was £105,566 (2017: £105,231).

The emoluments of one employee, including benefits in kind, are within the range of £100,000 to £110,000 (2017 - the emoluments of one employee, including benefits in kind, was within the range of £100,000 to £110,000).

Notes (continued)

11 Net movement on funds is stated after charging

	2018	2017
	£	£
Auditors' remuneration – audit (Charity: £13,000)	22,950	24,050
Depreciation and other amounts written off tangible fixed assets	329,662	274,742
Inventories recognised as an expense	(1,197,733)	(1,166,168)
	<hr/>	<hr/>
	1,550,345	(867,376)
	<hr/> <hr/>	<hr/> <hr/>

12 Taxation

The company, which is a registered charity, is not liable to taxation on the net income from its primary activity. Stated below are the tax details of the subsidiaries Watershed Trading Limited and Watershed Ventures CIC. The current year figures are for Watershed Trading Limited only, as there was no corporation tax due for 2018 by Watershed Ventures CIC, just a refund of £284 as shown in note 17.

	2018	2017
	£	£
Current tax		
UK corporation tax on results of the year	235	2,550
Deferred tax (see note 19)		
Origination/reversal of timing differences	-	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	235	2,550
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the tax charge for the current period

The tax assessed for the period differs from the standard rate of corporation tax in the UK (19%), (2017: 20%). The differences are explained below:

	2018	2017
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	986	4,116
	<hr/>	<hr/>
Current tax at 19% - Watershed Trading Ltd 19% - Watershed Ventures CIC 19%	187	823
<i>Effects of:</i>		
Depreciation for period in excess of capital allowances	321	1,312
Other timing differences	(273)	181
Expenses not deductible for tax purposes	-	234
	<hr/>	<hr/>
Total current tax charge (see above)	235	2,550
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

13 Tangible fixed assets

Group	Head lease	Leasehold improvements	Furniture and equipment	Total
	£	£	£	£
<i>Cost</i>				
At beginning of year	6,214,399	3,085,385	1,301,352	10,601,136
Disposals in the year	-	(2,814)	(74,160)	(76,974)
Additions	-	103,196	229,435	332,631
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,214,399	3,185,767	1,456,627	10,856,793
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	598,053	1,549,757	982,274	3,130,084
Depreciation on disposals	-	(2,814)	(74,160)	(76,974)
Charge for year	55,746	109,374	164,542	329,662
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	653,799	1,656,317	1,072,656	3,382,772
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2018	5,560,600	1,529,450	383,971	7,474,021
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	5,616,346	1,535,628	319,078	7,471,052
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

13 Tangible fixed assets (continued)

	Head lease	Leasehold improvements	Furniture and equipment	Total
Charity	£	£	£	£
<i>Cost</i>				
At beginning of year	6,214,399	3,085,385	1,194,558	10,494,342
Disposals in the year	-	(2,814)	(63,670)	(66,484)
Additions	-	103,196	216,190	319,386
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,214,399	3,185,767	1,347,078	10,747,244
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	598,053	1,549,757	900,151	3,047,961
Depreciation on disposals	-	(2,814)	(63,670)	(66,484)
Charge for year	55,746	109,374	148,829	313,949
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	653,799	1,656,317	985,310	3,295,426
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2018	5,560,600	1,529,450	361,768	7,451,818
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2017	5,616,346	1,535,628	294,407	7,446,381
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Trustee's review of the fixed assets has concluded that their value is not impaired. The head lease qualifies as a 'long leasehold' as it has over 50 years to run.

14 Fixed asset investments

Shares	Charity 2018 £	Charity 2017 £
At the beginning of the year	50,101	50,101
	<hr/>	<hr/>
At the end of the year	50,101	50,101
	<hr/> <hr/>	<hr/> <hr/>

The above shares represent equity investments in group undertakings.

The company owns 100% of the issued share capital of Watershed Trading Limited (company registration number: 01621620), a company incorporated in England and Wales. The principal activities of this company are the operation of the café/bar, and conference facilities at Watershed.

The company owns 100% of the issued share capital of Watershed Ventures CIC (company registration number: 06097013), a company incorporated in England and Wales. The principal activities of this company are to promote participation by individuals, groups and organisations in the creative industries in the South West of England and elsewhere.

15 Stocks

	Group		Charity	
	2018 £	2017 £	2018 £	2017 £
Finished goods and goods for resale	16,633	20,753	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

16 Debtors

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Trade debtors	198,245	200,559	143,509	134,099
Prepayments and accrued income	452,246	305,219	447,797	286,791
Other debtors	6,700	1,509	6,188	1,363
Amounts owed by group undertakings	-	-	210,728	165,242
	<u>657,191</u>	<u>507,287</u>	<u>808,222</u>	<u>587,495</u>

All debtors are recoverable within one year.

17 Creditors: amounts falling due within one year

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	465,780	213,903	411,902	166,070
Other creditors including taxation and social security	155,856	197,781	62,416	106,702
Accruals and deferred income	447,330	547,760	391,871	479,658
	<u>1,068,966</u>	<u>959,444</u>	<u>866,189</u>	<u>752,430</u>

Other creditors includes £127,954 (2017: £159,740) an amount owed for other taxes and social security.

Accruals and deferred income includes accruals of £108,362, deferred income comprising £6,968 of advance cinema sales, £34,338 of conference and café/bar deposits, £97,562 of rental income received in advance, and £200,100 of grant and project income (note 4).

Deferred income comprises advance cinema sales, conference deposits, rental income received in advance. Grant and project income received in advance is detailed separately in note 4.

	Group	Charity
	£	£
Balance as at 1 April 2017	120,828	79,095
Amount released to income earned from charitable activities	(482,890)	(441,158)
Amount deferred in the year	500,930	466,593
	<u>138,868</u>	<u>104,530</u>
Balance as at 31 March 2018	138,868	104,530

Notes *(continued)*

18 Creditors: amounts falling due after more than one year

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Other loans	(29,690)	(29,690)	(29,690)	(29,690)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Analysis of loans				
Wholly repayable within 5 years	(29,690)	(29,690)	(29,690)	(29,690)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The balance of £29,690 relates to rental deposits being held in respect of tenancies to E & W sheds.

19 Provisions and liabilities

Group	Deferred tax
	£
At beginning of year	8,022
Release in the year (note 12)	-
	<u> </u>
Add back deferred tax asset (held in debtors)	-
	<u> </u>
Deferred tax liability at end of year	8,022
	<u> </u>

The elements of deferred taxation are as follows:

	2018	2017
	£	£
Difference between accumulated depreciation and capital allowances	8,022	8,022
Other short term timing differences	-	-
	<u> </u>	<u> </u>
	8,022	8,022
	<u> </u>	<u> </u>

The charity has no deferred taxation liabilities.

Notes (continued)

20 Unrestricted income funds

	Group £	Charity £
At beginning of year	6,375,051	6,301,038
Movement in year before transfers	(63,886)	(63,501)
Transfer from restricted funds (note 21)	153,836	153,836
	<u> </u>	<u> </u>
At end of year	6,465,001	6,391,373
	<u> </u>	<u> </u>

	At beginning of year	Incoming resources	Expenditure	Transfers	Balance at 31 March 2018
	£	£	£	£	£
Unrestricted income funds					
General fund	364,394	4,216,924	(4,280,810)	197,353	497,861
<i>Designated Funds</i>					
Bristol+ contingency fund	343,423	-	-	(23,534)	319,889
Capital grants fund	5,616,347	-	-	(55,746)	5,560,601
Capital Fund	27,739	-	-	(27,739)	-
Playable City Fund	23,148	-	-	(23,148)	-
Rife Fund	-	-	-	63,631	63,631
Film Hub Fund	-	-	-	23,019	23,019
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	6,375,051	4,216,924	(4,280,810)	153,836	6,465,001
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The transfer from restricted funds represents the annual release of the capital grants which matches the annual depreciation charge of these funded fixed assets.

The Bristol + contingency fund is a designated development fund specifically to ring fence surpluses associated with the rental income from E & W sheds. Other surpluses may also be transferred to this fund at the discretion of the Board. This designated fund is for the purpose of:

- preserving the heritage of E & W sheds;
- making improvements to E & W sheds and the immediate public realm;
- delivering outputs to develop the Bristol Cultural and creative economy, including Watershed.

In 2017/18 the capital and playable city designated funds were fully utilised;

In 2017/18 the sum of £63,631 was transferred from the general fund to the Rife fund;

In 2017/18 the sum of £23,019 was transferred from the general fund to the Film hub fund.

In 2011/12 the sum of £5,925,688 was reclassified as unrestricted funds. This represents the head lease purchased via a capital grant of £6,400,000 provided to Watershed by South West Regional Development Agency (SWRDA) in March 2007. At the time, a legal charge was placed on the property as a condition of acceptance of the grant funding. In the year 2011/12 SWRDA closed due to government cuts and the Trust and SWRDA mutually agreed to terminate the agreement entered into relating to the legal charge on the property. As a result, the head lease is now deemed to be unrestricted and a designated fund has been established to ring fence the balance of the grant as the intention is to hold the asset for the long-term benefit of the Trust. Therefore, it does not form part of the freely available reserves of the Trust. In 2017/18 the sum of £55,746 was transferred from this fund to undesignated income funds to match the depreciation on the asset the grant originally funded.

Notes (continued)

21 Restricted funds: Group and Charity

	At beginning of year	Incoming resources	Transfer to unrestricted income funds	Re- classification to unrestricted funds	Outgoing resources	At end of year
	£	£	£	£	£	£
Capital grants						
Deferred capital grant	26,579	-	(1,601)	-	-	24,978
Deferred capital refurbishment grants	774,281	-	(67,426)	-	-	706,855
Lottery lease purchase grant	557,567	-	(8,712)	-	-	548,855
ACE GforA capital grant	44,487	-	(2,798)	-	-	41,689
ACE small capital grant	229,680	-	(28,710)	-	-	200,970
LEP – capital grant	-	133,767	(44,589)	-	-	89,178
	<u>1,632,594</u>	<u>133,767</u>	<u>(153,836)</u>	<u>-</u>	<u>-</u>	<u>1,612,525</u>

Transfer to unrestricted income funds is in respect of the annual release to the SOFA in respect of capital grants. Sufficient resources are held to enable each fund to be applied in accordance with any restrictions.

Deferred capital grant

Grant support to fund refurbishments undertaken prior to 2002/03 has been transferred to deferred capital grants and is being taken to income over the same period of time as the depreciation of the assets funded by the grants (8 to 25 years).

Deferred capital refurbishment grants

Grant support to enable refurbishment of the existing cinemas and the construction of new administration spaces, a third cinema screen, an extended café/bar facility and a new lift has been transferred to deferred capital grants and is being taken to income over a period of 25 years. The work commenced in December 2002.

Lottery lease purchase grant

Lottery Grant support from Arts Council England Stabilisation scheme to enable the Watershed's lease purchase has been transferred to deferred capital grants and is being taken to income funds over a period of 79 years to match the unexpired period of the lease.

LEP capital grant

Grant support from West of England Local Enterprise Partnership to facilitate Watershed in setting up a new virtual reality lab has been transferred to deferred capital grants and is being taken to income over the same period of time as the depreciation of the assets funded by the grants (3 – 5 years).

Other capital grants

Grant support from various sources to enable the purchase of equipment for specific projects have been transferred to deferred capital grants and are being taken to income over a period of 3 years to match the depreciation of the assets funded by the grants.

Voluntary income and project funding from charitable activities

Donated services and one off grants received which are restricted by the donors are spent in accordance with the donors' restrictions.

Revenue grants received for specific creative projects are categorised as income from charitable activities and the grants are spent in accordance with the donors' restrictions.

Notes (continued)

22 Analysis of fund balances - group

	Unrestricted funds £	Restricted funds £	2018 Total £	2017 Total £
Fixed assets	5,861,496	1,612,525	7,474,021	7,471,052
Net current assets	641,217	-	640,217	574,305
Long term liabilities	(29,690)	-	(29,690)	(29,690)
Provisions for liabilities and charges	(8,022)	-	(8,022)	(8,022)
	<u>6,465,001</u>	<u>1,612,525</u>	<u>8,077,526</u>	<u>8,007,645</u>

23 Operating leases as a lessee

The future minimum lease payments under non-cancellable operating leases expected to be paid by the Charity and Group will fall due as follows:

	2018 Group and Charity plant and equipment £	2017 Group and Charity plant and equipment £
Within one year	11,011	10,919
Between one and five years	38,325	20,313
After five years	-	6,974
	<u>49,336</u>	<u>38,206</u>

24 Operating leases as a lessor

The future minimum lease payments under non-cancellable operating leases expected to be received by the Charity and Group are due to be received as follows:

	2018 Group and Charity leasehold property £	2017 Group and Charity leasehold property £
Within one year	255,856	255,856
Between one and five years	841,222	907,388
After five years	867,899	1,057,589
	<u>1,964,977</u>	<u>2,220,833</u>

In March 2007 Watershed purchased the unexpired term of the head lease to E and W Sheds. In addition to Watershed's own occupied space, E and W sheds also house five rental units. Tenants occupying these units hold under leases of varying lengths. Each under lease contains provision for a five yearly rent review. One of the units is rented at peppercorn to Destination Bristol and houses the Tourist Information Centre. This lease contains a break clause allowing each party to terminate the lease at any time by giving the other party six months' notice. No unusual terms are contained within any of the other lease arrangements.

In October 2011 Watershed entered into a collaboration agreement with the UWE and the University of Bristol to undertake collaborative technologies activities. As part of this arrangement Watershed granted a licence to occupy the PM Studio to both universities on a shared collaborative basis. The initial agreement expired on 31 July 2016 and has subsequently been renewed for a further period of five years.

Notes *(continued)*

25 Related party transactions

During the year legal fees of £22,630 (2017: £19,978) were paid to TLT LLP in respect of legal services provided to the Watershed Group. In addition, pro bono services to the value of £35,647 (2017: £14,462) were provided to the Watershed Group. James Touzel is a trustee of Watershed Arts Trust Limited and a partner of TLT LLP.

Watershed has a non-exclusive arrangement with TLT LLP for the provision of legal services. This arrangement has previously been approved by the Board and was reconfirmed in June 2016.

The Board has delegated authority to the Chief Executive Officer to instruct TLT LLP, or any other law firm, on matters where the total fee charged on that transaction does not exceed £10,000. Transactions above this limit are approved by the Board. James Touzel absents himself from any discussion of any proposal to instruct TLT LLP or to approve fee proposals submitted by TLT LLP.

During the year the sum of £4,124 (2017: £3,650) was paid to Shamil Ahmed for the provision of services in respect of individual one-off creative projects. Shamil Ahmed is an independent artist and a trustee of Watershed Arts Trust Limited.

Notes (continued)

26 Comparative statement of financial activities

	Unrestricted Funds £	Restricted Funds £	Total Funds 2017 £
Income			
Voluntary income			
<i>Donations and legacies</i>			
Individual giving	63,179	-	63,179
Donated services	-	14,462	14,462
Regular grant funding	935,249	-	935,249
<i>Other trading activities</i>			
Commercial trading operations	1,630,516	-	1,630,516
<i>Investment income</i>			
Interest receivable	74	-	74
	2,629,018	14,462	2,643,480
Income from charitable activities			
Earned income from cinema activities	843,487	-	843,487
Rental income	218,056	-	218,056
Service charges	119,768	-	119,768
Other earned income	194,133	-	194,133
Project funds	55,913	1,133,267	1,189,180
	1,431,357	1,133,267	2,564,624
Total income	4,060,375	1,147,729	5,208,104
Expenditure			
Costs of raising funds			
Fundraising costs	(54,855)	-	(54,855)
Commercial trading operations	(1,317,489)	-	(1,317,489)
	(1,372,344)	-	(1,372,344)
Charitable activities			
Operation of cinema, engagement and creative media projects	(2,619,314)	(1,070,357)	(3,689,671)
Donated services	-	(14,462)	(14,462)
CIC operation	-	(62,910)	(62,910)
Property management costs	(121,267)	-	(121,267)
	(4,112,925)	(1,147,729)	(5,260,654)
Total expenditure	(4,112,925)	(1,147,729)	(5,260,654)
Net income/(expenditure) before transfers and Net income/(expenditure) for the year	(52,550)	-	(52,550)
Transfers between funds	115,922	(115,922)	-
Net movement in funds	63,372	(115,922)	(52,550)