

**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 2017

## Contents

Strategic report	2 - 12
Trustees' report	13 - 16
Independent auditors' report to the members of Watershed Arts Trust Limited (a company limited by guarantee)	17 - 18
Consolidated statement of financial activities (including an income & expenditure account)	19
Consolidated cash flow statement	20
Consolidated and company balance sheets	21
Notes	22 - 41

## Strategic Report

The Board of Trustees presents its annual report and audited consolidated financial statements for the year ended 31 March 2017. 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 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 delivers a diverse programme of films, events, festivals, artists' commissions, workshops and conferences placing audiences and participation at the heart of the organisation whilst responding to changing cultures, audience expectations and operating environments. In the last four years we have cemented our reputation as a leading cultural centre and creative hub, delivering inclusive innovation and sustainable development in the following areas:

#### Art and Technology

The Pervasive Media Studio at Watershed is a world-leading centre developing talent and emergent practice in the cultural and creative economy. It is a partnership with UWE Bristol and University of Bristol.

#### Young People

The next generation of creative talent is developing its voice through Watershed's ground-breaking engagement programmes such as Rife Magazine, Bristol's youth-led online platform.

#### Cultural Cinema

We are an internationally renowned cultural cinema and the Hub Lead Organisation for BFI Film Audience Network developing film culture across the South West of England.

#### Venue

Watershed and the Pervasive Media Studio occupy the first floor of a historic Grade II listed building at the gateway to Bristol's Harbourside.

We are a welcoming, accessible destination for cultural, creative, social and business visitors. Our home is many things to many people, a meeting place of preference for the creative community and a place to come and socialise for the whole community.

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

### Watershed's Mission

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

### Watershed's Values

Watershed has well established brand values, authored through cross departmental workshops, owned and meaningfully applied by our 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.

## Strategic report *(continued)*

### Achievements and performance

- 1 million people visited us on the web
- 450,000 people visited our building
- 154,000 people bought tickets for our venue screenings and events
- 25,000 young people engaged with our programme
- 20,000 people engaged with projects beyond the venue
- 139 artists and creatives benefited from the support of the Pervasive Media Studio
- 90 full time equivalent jobs at Watershed
- 4 continents hosted Playable City events
- Watershed's economic impact in 2016/17 is in excess of £18 million
- Watershed Group turnover in 2016/17 is £5.2 million
- PM Studio residents reported turnover of £13.7 million in 2016/17

### Our priorities for 2016 - 2017 were to:

- 1) Increase investment in emergent talent through developing unrestricted fundraising
- 2) Develop partnerships to support talented people into economic self-sustainability
- 3) Grow audiences for cultural cinema
- 4) Increase engagement from young people (24 or under) and BME communities
- 5) Strengthen resilience by improving margins and reducing energy consumption

### Engagement: reaching and working with young people (priorities 1 and 4)

*"But more than anything, my time at Rife has opened up a world of opportunities. I now have a much clearer idea of my direction, and the kind of work I want to make."*

Rife magazine - young content creator

Engaging Bristol's growing (and increasingly diverse) young population is a core part of Watershed's mission and one of the key ways we deliver on our commitment to talent development. We identify, support and network the talent of tomorrow, enabling young people from all communities to grow and flourish. We achieve this through targeted projects and public programmes that have a strong online presence, developing young people's creativity and curiosity, both as artists and audiences.

Alongside cinema our focus for individual giving this year was the talent development activities supported through this Engagement work. By identifying and targeting specific segments of our audience, connecting them to compelling stories of change and inviting them to become more engaged with our purpose we have grown a community of over 1,000 individual givers. We have received a one off gift of £15,000 and total pledges of over £112,000.

For example:

- Rife, Bristol's youth led online magazine continues to give young people a platform from which they can inspire and engage other young people. This year we had 135,876 users to the site, 119 individual young people created content and 109 young people took part in partnership projects. We trained 14 Rife Alumni in creative workshop facilitation so that they could deliver content creation workshops in schools and youth groups across the city. This has developed their skills base and also extended our capacity to deliver.
- The Link, our networking event for young people, gave young people the opportunity to network with other young creatives, hear from industry professionals and find out about other creative placements and volunteering opportunities in the city.
- Our inclusive family programme gave children and young people the opportunity to learn new skills. We have developed our family offer and, with Arnolfini, Architecture Centre and Scrapstore, won the Best Family Event at the Family Arts Conference.
- Through the BFI Film Academy young people aged 16 -19 were given the opportunity to design and deliver a youth take-over day (Inside Film) at Watershed – developing leadership and event production skills.

## Strategic report *(continued)*

### Talent: from emerging ideas to self-sustainability (priority 2)

*“One of the best funding schemes I’ve ever been involved with... it combines meaningful financing, sensitive support and input, and a laser focus on good commercial product design. It has enabled me to create real momentum and excitement around my new business from industry partners and investors alike.”*

Alex Fleetwood, Creator of Beasts of Balance (referring to the Play Sandbox scheme)

Talent development at Watershed continues in the Pervasive Media Studio which hosts an emergent community of practice for people who are creating content, tools and experiences for the first time. Our focus this year has been on supporting artists to become financially sustainable, ensuring our talent development offer is inclusive and sharing our approach more widely with the sector.

For example:

- The Pervasive Media Studio continues to grow. It now hosts a community of 139 residents, offering them the rare gift of free space to take risks and experiment with new ideas across the cultural, commercial spectrum. The producing team in the Pervasive Media Studio, along with law firm TLT Solicitors, support residents through monthly time bank surgeries as well as ongoing responsive advice.
- Watershed is leading the Network for Creative Enterprise. Working with The Guild (Coworking Bath), Knowle West Media Centre, Spike Island and UWE Bristol to support creatives across the West of England to make a sustainable living from their ideas. We are each offering residency opportunities with free space and a package of business development support.

### Cultural Cinema: growing our audience (priority 3)

*“This event was VERY refreshing. So lovely to see so many talented people doing incredible things and celebrating Black British Culture. More of this please.”*

Watershed audience member

The screening of a film connects audiences to a wider dialogue about ideas, creativity, diversity and the world around us.

We are an internationally renowned cultural cinema and the Hub Lead Organisation for BFI Film Audience Network (BFI FAN HLO) developing film culture across the South West of England. We profile and platform new films and filmmakers from the UK and across the world that would otherwise not be given exposure and we celebrate the history and creativity of film with thematically curated seasons and archive screenings. We produce an inclusive programme of talent development, cinema exhibition, events and festivals with audiences and participation at our heart.

Our cultural cinema programme and events are presented in partnership with a diverse range of individuals, communities and organisations. In 2016/17, these included Queer Vision, Afrika Eye, BBC See Hear, BAFTA, Bristol Health Partners, Japan Foundation and black curators collective Come The Revolution. We work with film exhibition and distribution colleagues nationally to develop audiences for UK independent film and film from across the world. In our role as BFI FAN HLO we supported films from Chile (The Pearl Button), Turkey (Mustang) and Iran (Sonita) to reach audiences across the UK.

This year we presented:

- 482 films from 52 countries.
- 55 British Independent films with 12 director’s events.
- 153 archive and repertory screenings with 15 seasons ranging from a focus on composer Johnny Greenwood to New Korean Cinema.
- 50 screenings and events for BAME and LGBT audiences.

We are always striving to grow our audience and an increasing number of bookers, subscribers and supporters demonstrates continuing demand for our work. 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 central to Watershed and totally embedded in all our work. We build trust and goodwill by nurturing relationships with our audiences, in an open, genuine, human way – this is priceless and is the core of our brand value.

## **Strategic report** *(continued)*

- In the past year 63.1% of our audience have booked once, 36% have booked more than once, 6.3% have booked for 7 or more events.
- We saw an increase of 5,000 more subscribers to our weekly email. Subscribers totalled 29,478 in March 2017.
- Our Twitter account has attracted nearly 20,000 new followers over the last 12 months. Twitter followers totalled 64,699 at the end of March 2017.
- Watershed staff share learning, ideas and methodology at conferences across the UK and the world, presenting to combined audiences of 23,587.

### **Becoming more inclusive (priority 4)**

*“One of the reasons I chose to do this interview at Watershed is because of how fantastic it is as a venue, it’s brilliantly accessible... You don’t have to ask staff, it’s second nature of them to ask the question whether or not do you want to stay in your chair or not stay in your chair. I think that little things like that make a big difference.”*

Stephen Lightbown, customer and wheelchair user

Watershed’s emphasis on interdisciplinarity, accessibility and open innovation ensures that diversity is a driving force within our work. This year we have shifted from thinking solely about diversity of audience to recognising the importance of inclusivity across the organisation. Specifically we have had a particular focus on increasing engagement with young people, the BAME population and disabled artists and audiences.

For example:

- We collaborated with Come The Revolution a collective of black curators, programmers and creatives to produce Black Star Bristol. The team worked with Bristol partners Colston Hall, Trinity Centre, Ujima Radio, BIMM, BCFM, Upfest and Live Cinema UK. Through the Film Hub SWWM, Watershed also led the national Black Star programme which included 60 participating organisations, delivered 380 screenings in 92 different locations, with a ticketed audience of 16,394 across the UK.
- We ran Unfixed, an international creative research project in collaboration with The Australian Network for Art & Technology, Access2Arts and Unlimited which supported ten Australian and UK Deaf and disabled artists to investigate arts, disability and technology.
- We have established a Deaf Conversations About Cinema Film Club, a monthly collaboration with Deaf Artist David Ellington which has developed our relationship with the Deaf community.
- Staff are trained to meet customer needs. Last autumn saw us shortlisted in the ‘Training Initiative Award’ category at the Signature Awards, a celebration of ‘those who are breaking down the barriers for deaf and deafblind people’. We were recognised for our work to increase Deaf awareness, and have 60 trained team members.

### **Resilience: planning for the future (priority 5)**

Watershed has an ambitious approach to building long term resilience and sustainability. We are working towards a redeveloped and extended building that will provide additional incubation 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. The redeveloped Watershed will be a stronger cultural engagement and creative growth engine for Bristol and UK - an international beacon for creative talent and ideas. It is estimated 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. Work on the next stages of project development and fundraising will continue in the coming year.

The building project will also reduce the energy requirement and carbon emissions associated with our building, improving our overall environmental performance.

In the meantime we continue to review and identify ways of increasing the flexibility of our existing assets (e.g. cinema screens, conference spaces, festival programme) to streamline workflow and increase profit, especially in response to emergent opportunities.

## Strategic report *(continued)*

### Programme highlights 2016 - 2017

**Playable City** puts people and play at the heart of future cities around the world. The Playful Welcome was a week-long creative lab in Tokyo produced by Watershed in collaboration with British Council Japan and Rhizomatiks. In 2020, the world will focus on Japan for the Olympic and Paralympic Games. The Lab brought together seven Japanese and four UK participants to develop playful ideas to connect visitors and local people to each other and to the city, during this exciting time. Watershed has also developed new partnerships for Playable City with Seoul in Korea, Montreal in Canada, Astana in Kazakhstan, Dublin in Ireland and Sao Paulo in Brazil.

**Being There** was a three-year EPSRC funded project, which brought a group of creative practitioners, technologists and academics together to explore how cutting-edge robotics can enable people to participate in public space. Watershed produced the project through a series of labs, micro-residencies, and commissions. The showcase brought together 140 people to discuss the emergent research and experience the six prototypes.

We established the inaugural **Cinema Rediscovered** festival which builds on our record of engaging audiences for the culture and history of film. The festival celebrates and brings focus and context to the past, present and future of film. This is a partnership with Il Cinema Ritrovato in Bologna and Bristol based organisations South West Silents and 20th Century Flicks and achieved 3000 admissions.

The sold-out **Purple Rain** takeover was the Black Star Bristol highlight, including a rare stage invasion, at Colston Hall with pre-film entertainment c/o Paisley Child, a band specially curated by BIMM graduate Alex Penfold and Bristol-based street dance group, Funk Supreme and followed by an after party with legendary DJ Norman Jay MBE (in partnership with the UK wide Live Cinema UK tour.)

### Priorities for 2017/18

#### Art and Technology

- Increase the engagement of people of BAME background in our creative technology programme
- Launch a VR Lab in Bristol (in partnership)
- Increase the reach of Playable City internationally
- Explore the potential of major new technologies for the creative sector

#### Young People

- Develop a coherent pathway for the young people we work with from school through to employment opportunities
- Improve the effectiveness of our strategy to engage new young audiences (under 24) from all areas of Bristol
- Commission, curate and edit a collection of essays from young people across the UK

#### Cultural Cinema

- Expand audience engagement with archive and film heritage
- Profile Bristol and British creativity and expertise in animation
- Develop audiences regionally for British Independent and world film through leadership of BFI Film Hub South West
- Shape national strategies to support independent distribution and exhibition

#### Organisational Capacity and Venue

- Launch a campaign for a major capital development project
- Increase the flexibility of building use and front of house (including a redevelopment of the box office space)
- Establish an Inclusivity Working Group
- Use data more effectively to inform our decision making

## **Strategic report** *(continued)*

### **Monitoring and Evaluation**

In their recent work with Watershed, leading cultural consultants Caroline Felton and John Knell identified the reflective culture of Watershed as a key asset: “The sense of commitment to a clearly defined shared vision and values is palpable... Decisions are made using a shared database of evidence and staff see themselves as stewards of a vision and ecology.”

Watershed uses data (e.g. from Audience Finder), self-evaluation (e.g. Culture Counts) and research (e.g. REACT Report) to reflect on our programme and make decisions. Our Evaluation Working group tracks progress within projects well as through an annual Autumn Review.

Watershed’s Creative Team and Producers employ an iterative 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.

We also regularly employ consultants to gather feedback from Stakeholders and to interrogate our model and programmes to ensure they deliver our vision. In May 2016, Watershed commissioned Dr Tom Fleming to undertake a set of ‘Watershed conversations’ to explore how Watershed is understood and valued, its core strengths and its potential role going forward. These conversations are part of an ongoing process of critical reflection for the organisation, a constant renewal necessary to remain relevant, to drive change and to deliver value to the culture and economy of Bristol.

See [http://www.watershed.co.uk/sites/default/files/publications/2016-10-19/tom\\_fleming\\_conversations.pdf](http://www.watershed.co.uk/sites/default/files/publications/2016-10-19/tom_fleming_conversations.pdf)

### **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.

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.

## Strategic report *(continued)*

### Financial review

The consolidated balance sheet set out on page 21 shows an increase in unrestricted income funds (excluding the head lease unrestricted designated fund) of £119,117 in the year (2016: £213,770). This is a good out-turn, and will assist Watershed in progressing towards achieving its target reserves.

Some of the increase is however attributable to timing differences between the recognition of income and expenditure in respect of the capital development programme and the Playable City initiative.

In 2016/17 two additional designated funds (Capital Programme designated fund and Playable City designated fund) have been established to ring-fence these surpluses which will be called upon to support these areas of activity in 2017/18.

Following Board approval, the sum of £47,659 has been transferred into the Bristol + designated fund to ring-fence reserves for future investment as outlined in Watershed's reserves policy (page 11).

Financial performance across the Group in 2016/17 exceeded budget expectations. The anticipated negative impact of the opening of the Everyman Cinema in the locality did not transpire and audience numbers remained in line with the previous year.

Watershed secured £1.2 million in project funds (grants and contracts for services) to support its charitable activities. This compares with approximately £2 million in 2016/17. The reduction in funds is due to some of our larger funded programmes coming to an end in the year.

Stringent financial controls have enabled Watershed to effectively control costs, maintaining budgeted margins on sales and maximising its income streams.

The consolidated results set out on pages 19 to 21 show a deficit of £52,550 (2016: surplus of £329,202) for the year. The surplus on unrestricted funds for the year totalled £63,372 (2016: £158,024). Further details are set out in notes 20 and 21.

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

Watershed Trading Limited made donations of £132,000 (2016: £133,881) through gift aid to the Charity and generated profits before tax of £2,251 (2016: £5,000). The two main sources of income generation for the Trading Company are:

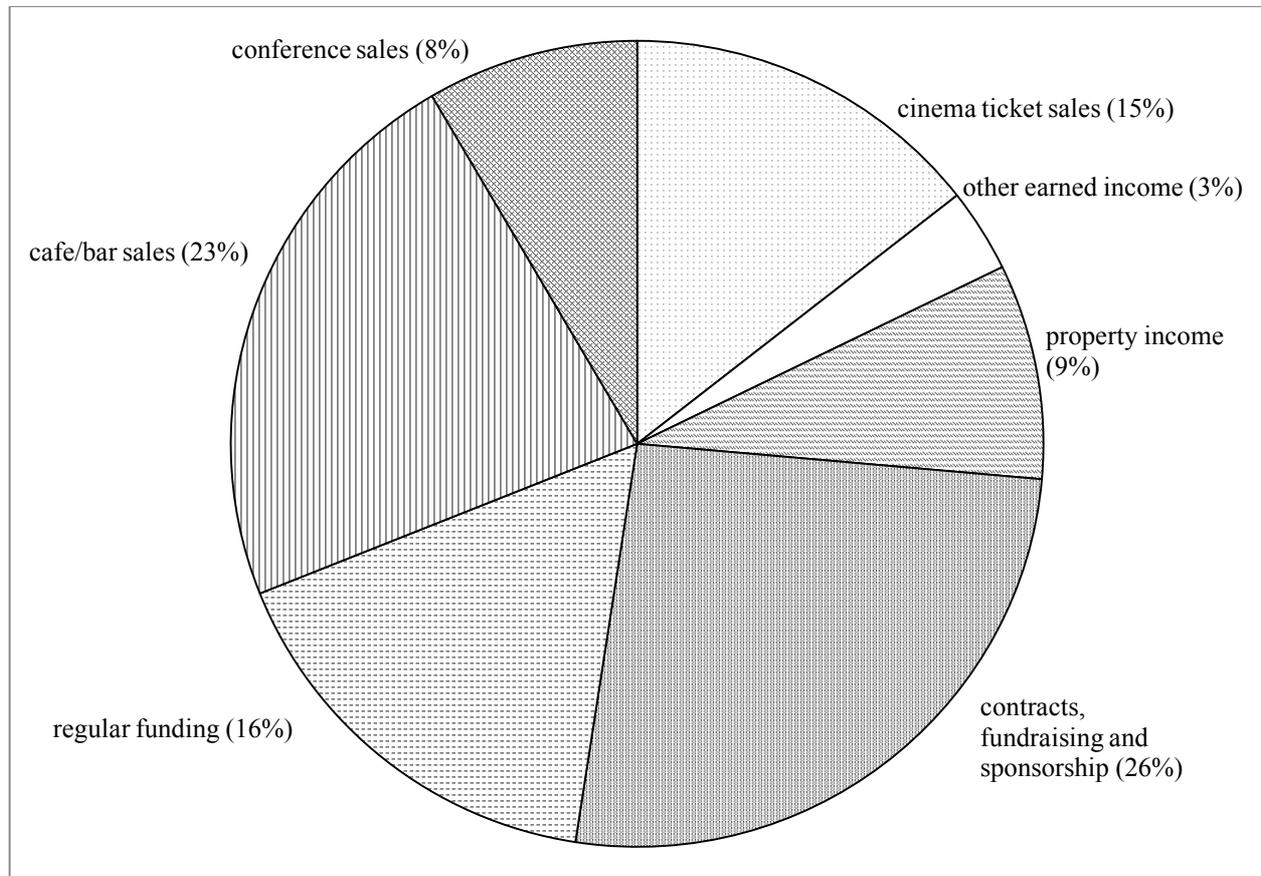
- Café/bar food and liquor sales totalled £1,163,902 (2016: £1,129,726). This is a 3% increase on the previous year. Watershed has succeeded in maintaining its position amidst increasing competition by designing its offer to meet the needs of its full range of visitors. A continued focus on cost control, taking a flexible, responsive approach to staffing and careful menu planning has enabled Watershed to maintain sales margins in line with the previous year.
- Conference sales totalled £433,079 (2016: £442,806), a small decrease on the previous year, where performance was exceptional. Watershed continues its drive to increase conference business through new initiatives and taking a flexible approach to meeting the needs of clients. This approach has enabled us to develop good client relations and retain key clients.

The charity's wholly owned subsidiary, **Watershed Ventures CIC**, continued to support 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.

Watershed Ventures CIC made donations of £22,000 (2016: £nil) through gift aid to the Charity and generated profits before tax of £1,865 (2016: £4,581) and total revenue of £100,175 (2016: £531,940). Turnover in the year reduced significantly as two major projects, the REACT and Being There robotics projects came to an end in the year. Both were a huge success and we will build on the outcomes and learnings from these projects in the future.

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

**Strategic report** *(continued)*



Watershed's financial model is designed to provide the organisation with both the flexibility and resilience it needs to meet the challenges and respond to opportunities of the dynamic environment in which it operates. The model aims to achieve growth in income whilst maintaining key margins.

Watershed's income portfolio is diverse and draws on a wide range of sources from commercial sales generated by its Trading subsidiary to grants and contracts for services from public funding bodies.

Sales revenue from cinema ticket sales, head lease tenancies and from Watershed's trading subsidiary (café/bar and conference sales) account for 58% of Watershed's total turnover in 2016/17. Of this sum a total of 53% of sales revenue is generated by the Trading subsidiary and is vital to supporting the activities of the Arts Trust. Managing the fine balance between commercial income generating activities undertaken by the Trading subsidiary and the creative outputs which are key to Watershed's success in delivering its charitable remit is crucial.

A significant proportion of Watershed's charitable activities are supported by one off funds raised through partnership agreements, restricted project grants and contracts for services. In 2016/17 funding from these sources totalled £1.2 million, accounting for 22% of Watershed's total turnover. These one-off funds are vital in order to sustain Watershed's creative and cultural output. Competition for funding of this nature is increasingly competitive and Watershed continues to nurture existing partnerships and seek out new ones.

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

Watershed continued to develop its long term relationship with the British Film Institute (BFI) to act as a Hub Lead Organisation (HLO) as part of the national film audience initiative. In addition to receiving BFI support as an HLO Watershed also received substantial one-off funding to co-ordinate "Black Star" – a series of screenings and events presented nationally celebrating black screen actors.

## **Strategic report** *(continued)*

Watershed continues to grow its University collaborations. The renewed 5 year Pervasive Media Studio collaboration agreement with UWE and UoB provides Watershed with opportunities to invest in new strategic/talent development programmes. This collaboration is being extended into a new Virtual Reality initiative from July 2017, running for an initial minimum period of 2 years. This extends our capacity into VR creating new specialist capacity in a new technology crossing cultural, creative and technology sectors and provides a small revenue stream for Watershed's role in managing the lab.

This arrangement has also enabled Watershed to enter into 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 been secured for this 3-year project which will commence in the coming year.

These continuing partnerships have a significant impact on Watershed's delivery of a wide public benefit across key areas of activities in support of Watershed's charitable objectives.

Watershed continues to actively engage with its regular funders Arts Council England (ACE) and Bristol City Council (BCC). 2016/17 is the second year of a three year "National Portfolio" funding arrangement with ACE as a national cultural provider and of a three year funding arrangement with Bristol City Council as a Key Arts Provider for the City. Discussions for renewing these relationships for further periods will commence in the coming year.

Unrestricted funding from ACE and BCC accounts for 16% of Group turnover. Whilst this is a relatively modest percentage of overall turnover it is a vital part of Watershed's financial equation enabling the organisation to progress its business plan and deliver its cultural offer. These funds are always susceptible to changes in government policy and Watershed is mindful that in-year cuts may be incurred over the duration of these agreements and must position itself to be able to respond and adapt accordingly.

Watershed continued to explore fundraising through individual giving and private sponsorship in the year. In the 2016/17 financial year Watershed secured £63,000 from this source (2016: £38,258).

Watershed aims to be as self-sustaining as possible and maintains a resilient and flexible financial model in order to do so. However, with ever increasing commercial competition from new café/bars and venues in the locality, strong competition for one-off programme funds and the strong likelihood of cuts to local authority funds in the future it is essential that Watershed continues to maximise its income streams and grasp new opportunities as they arise.

Watershed is progressing plans for a major capital project to increase financial resilience (see page 5).

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.

### **Financial monitoring**

Watershed has stringent financial processes. Careful monitoring of budget and cashflow positions throughout the year ensure that potential problems are identified and mitigated at an early stage.

A prudent budgeting process ensures that income projections and margins are realistic and achievable. Overhead and administration costs are reviewed each year to ensure maximum cost efficiency and value for money. Suppliers are selected on the basis of quality of service and value for money. Watershed is constantly seeking to make efficiency savings without compromising the quality of the offer.

Progress against financial targets is monitored closely through the production and analysis of monthly management accounts and weekly sales reports. Food and liquor sales margins are tracked weekly and 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 set up for each project to which restricted funds relate. This ensures that funds are correctly applied and project activity 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) have been 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 2017/18.

Watershed's reserves currently comprise\*:

General fund	£364,394
Designated fund – Bristol +	£343,423
Capital programme fund	£ 27,739
<u>Playable City fund</u>	<u>£ 23,148</u>
<b>Total</b>	<b>£758,704</b>

\*note – net current assets available at 31 March 2017 stand at £574,305

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 £5,616,347 held in this fund at the end of 2016/17 With Board approval, each year the sum of £55,745 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 (£343,423) 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.

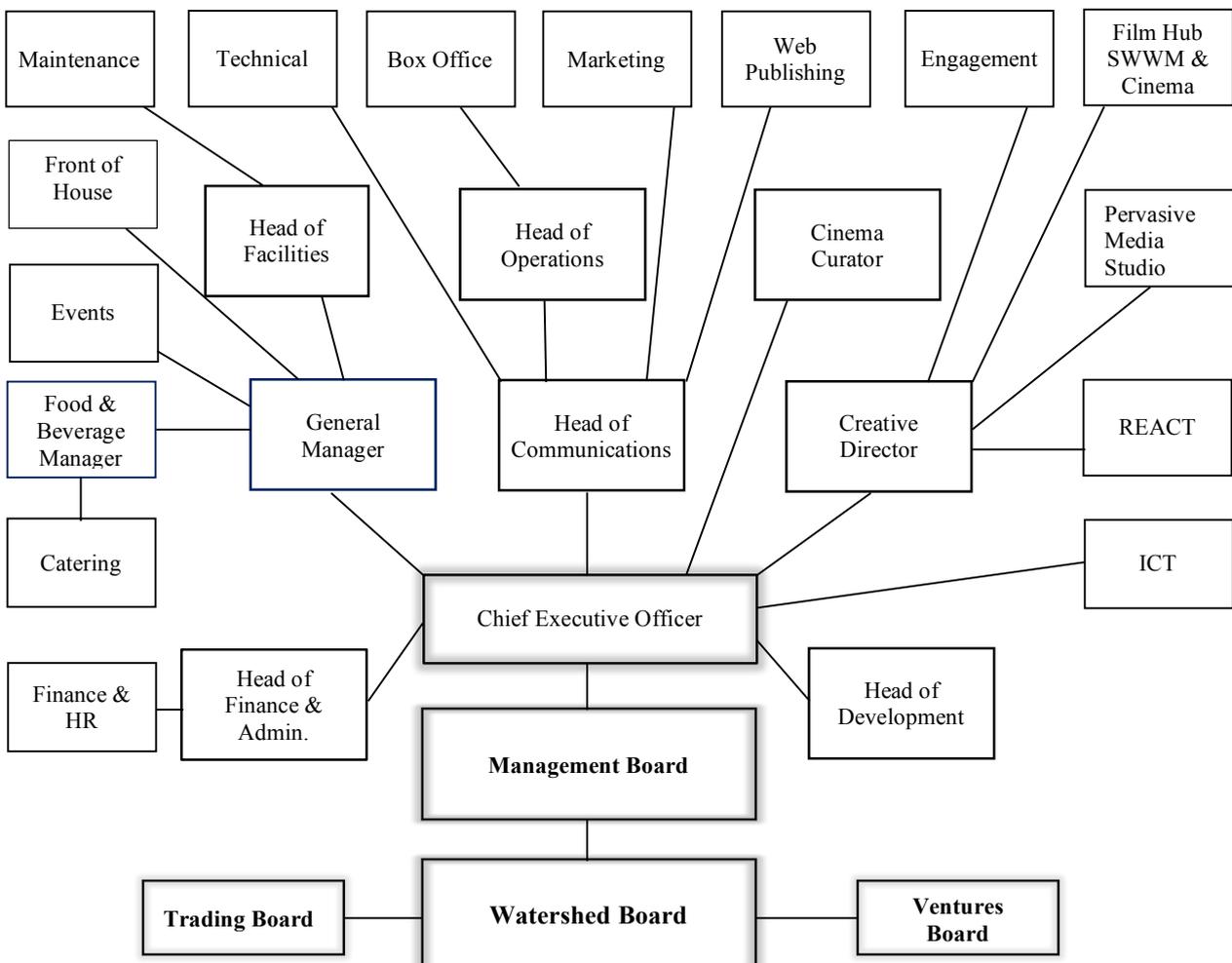
Watershed's governance structure reflects and supports the Group structure and its organisational core values, culture and needs. It provides the management capacity and expertise to deliver Watershed's overall aims and objectives.

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.

In addition, Watershed established a new Management Group in the year to provide 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 current organisational structure is shown in the diagram below. There are seven senior managers reporting to the Chief Executive Officer (CEO). There are two other senior managers, one reporting to the General Manager and one to the Head of Communications. Senior managers take responsibility for the day-to-day operation of the Arts Trust, Watershed Ventures and Trading company. The CEO focuses on strategy and co-ordination across the group. This group of managers meets every other week. As part of our succession strategy and to strengthen the leadership team a new Executive Director role will be created in the coming year.

### Watershed Group Staffing Structure



## **Trustees' report** *(continued)*

We are proactively building our leadership skills and creative capacity.

Within the Arts Trust, our Studio, Engagement, Cinema and Communications Teams are brought together in the Creative Team, chaired by the Creative Director, to oversee programme planning and development. We are developing a deeper understanding of the core capabilities and behaviours required to deliver an exemplary programme and are integrating a structured approach to mentoring and coaching for staff.

Watershed has a well-established recruitment and performance management system which we regularly review to ensure that we support people in and through the organisation effectively, and we have introduced a Wellbeing Charter for all staff.

In their recent report on Watershed, cultural consultants Caroline Felton and John Knell identified the following strengths:

- There is a very strong team but 'groupthink' has been avoided
- There is a genuine sense of distributed leadership
- Decisions are made using a shared database of evidence
- The senior team have the confidence and ability to argue and embrace questions

Our profile, programme and staff team continues to grow, making succession planning increasingly important. To support Watershed's Creative Director, we have created a new management role of Creative Programme Manager who works across creative team to facilitate partnerships, capture learning and share knowledge.

## **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

A. Gilkison (resigned 7 December 2016)

L. Gardner

S. Gatfield

S. Johnson

S. Wilson

Councillor E. Tincknell

S. Eugene-Hart (appointed 7 December 2016)

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, 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 at its Board meeting held on 20 September 2017.

By order of the Board

**J Touzel**  
*Chair of the Board*

1 Canon's Road  
Bristol  
BS1 5TX

Date

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

We have audited the financial statements of the group and charity of Watershed Arts Trust Limited for the year ended 31 March 2017 which comprises 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 the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the charitable company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and the charitable company's trustees, as a body, in accordance with Section 151 of the Charities Act 2011 and regulations made under Section 154 of that Act. Our audit work has been undertaken so that we might state to the charitable company's members and trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body and the charitable company's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of trustees and auditor**

As explained more fully in the Trustees' Responsibilities Statement set out on page 15, the trustees (who are also the 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.

We have been appointed as auditors under the Companies Act 2006 and Section 151 of the Charities Act 2011 and report to you in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2017 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the Charities Act 2011.

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

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

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

**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**

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Act 2011 require us to report to you if, in our opinion:

- the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company 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.

Michael Strong



Senior Statutory Auditor, for and on behalf of  
Saffery Champness LLP  
Statutory Auditor  
Chartered Accountants

22/9/17  
St. Catherines Court  
Berkeley Place  
Clifton  
Bristol, BS8 1BQ

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 2017*

	<i>Note</i>	<b>Unrestricted Funds</b>	<b>Restricted Funds</b>	<b>Total Funds 2017</b>	<b>Total Funds 2016</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Income</b>					
<i>Voluntary income</i>					
<i>Donations and legacies</i>					
Individual giving		63,179	-	63,179	38,258
Donated services		-	14,462	14,462	11,712
Regular grant funding	4	935,249	-	935,249	926,649
<i>Other trading activities</i>					
Commercial trading operations	6/7	1,630,516	-	1,630,516	1,602,753
<i>Investment income</i>					
Interest receivable		74	-	74	-
		<u>2,629,018</u>	<u>14,462</u>	<u>2,643,480</u>	<u>2,579,372</u>
<i>Income from charitable activities</i>					
Earned income from cinema activities		843,487	-	843,487	817,336
Rental income		218,056	-	218,056	218,056
Service charges		119,768	-	119,768	106,880
Other earned income		194,133	-	194,133	160,976
Programme funds	4	55,913	1,133,267	1,189,180	2,085,375
		<u>1,431,357</u>	<u>1,133,267</u>	<u>2,564,624</u>	<u>3,388,623</u>
<i>Other income</i>					
Capital grants		-	-	-	287,100
<b>Total income</b>		<u><b>4,060,375</b></u>	<u><b>1,147,729</b></u>	<u><b>5,208,104</b></u>	<u><b>6,255,095</b></u>
<b>Expenditure</b>					
<i>Costs of raising funds</i>					
Fundraising costs	8	(54,855)	-	(54,855)	(76,525)
Commercial trading operations	6	(1,317,489)	-	(1,317,489)	(1,299,667)
		<u>(1,372,344)</u>	<u>-</u>	<u>(1,372,344)</u>	<u>(1,376,192)</u>
<i>Charitable activities</i>					
Operation of cinema, engagement and creative media projects	9	(2,619,314)	(1,070,357)	(3,689,671)	(3,936,591)
Donated services		-	(14,462)	(14,462)	(11,712)
CIC operation	7	-	(62,910)	(62,910)	(499,535)
Property management costs		(121,267)	-	(121,267)	(101,863)
<b>Total expenditure</b>		<u><b>(4,112,925)</b></u>	<u><b>(1,147,729)</b></u>	<u><b>(5,260,654)</b></u>	<u><b>(5,925,893)</b></u>
Net income/(expenditure) before transfers and Net income/(expenditure) for the year		(52,550)	-	(52,550)	329,202
Transfers between funds	20	115,922	(115,922)	-	-
Net movement in funds		<u>63,372</u>	<u>(115,922)</u>	<u>(52,550)</u>	<u>329,202</u>
<i>Reconciliation of funds</i>					
Total funds brought forward		6,311,679	1,748,516	8,060,195	7,730,993
<b>Total funds carried forward</b>		<u><b>6,375,051</b></u>	<u><b>1,632,594</b></u>	<u><b>8,007,645</b></u>	<u><b>8,060,195</b></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 2017*

	2017	2016
	£	£
<b>Cash flows from operating activities</b>		
Net (outgoings)/income	(52,550)	329,202
Depreciation of tangible assets	274,742	278,296
Loss on disposal of fixed assets	-	17,675
Taxation	(2,612)	4,144
Change in trade and other debtors	(102,359)	(5,806)
Change in stocks	(999)	4,269
Change in trade and other creditors	89,536	(252,028)
	<hr/>	<hr/>
<b>Net cash flow generated from operating activities</b>	<b>205,758</b>	<b>375,752</b>
<b>Cash flows from investing activities</b>		
Purchases of tangible assets	(71,000)	(369,160)
	<hr/>	<hr/>
<b>Net cash from investing activities</b>	<b>(71,000)</b>	<b>(369,160)</b>
<b>Cash flows from financing activities</b>		
Decrease in loan/long term creditors	(60,000)	(20,000)
	<hr/>	<hr/>
<b>Net cash flows from financing activities</b>	<b>(60,000)</b>	<b>(20,000)</b>
	<hr/>	<hr/>
Cash at bank and in hand at beginning of year	930,951	944,359
	<hr/>	<hr/>
Cash at bank and in hand at end of year	<b>1,005,709</b>	<b>930,951</b>
	<hr/> <hr/>	<hr/> <hr/>

## Consolidated and company balance sheets

at 31 March 2017

	Note	Group		Charity	
		2017 £	2016 £	2017 £	2016 £
<b>Fixed assets</b>					
Tangible assets	13	7,471,052	7,674,794	7,446,381	7,642,616
Investments	14	-	-	50,101	50,101
		<u>7,471,052</u>	<u>7,674,794</u>	<u>7,496,482</u>	<u>7,692,717</u>
<b>Current assets</b>					
Stocks	15	20,753	19,754	-	-
Debtors	16	507,287	404,928	587,495	472,387
Cash at bank and in hand		1,005,709	930,951	631,775	574,595
		<u>1,533,749</u>	<u>1,355,633</u>	<u>1,219,270</u>	<u>1,046,982</u>
<b>Creditors: due within one year</b>	17	<b>(959,444)</b>	<b>(872,520)</b>	<b>(752,430)</b>	<b>(662,261)</b>
<b>Net current assets</b>		<b>574,305</b>	<b>483,113</b>	<b>466,840</b>	<b>384,721</b>
<b>Total assets less current liabilities</b>		<b>8,045,357</b>	<b>8,157,907</b>	<b>7,963,322</b>	<b>8,077,438</b>
<b>Creditors: due after more than one year</b>	18	<b>(29,690)</b>	<b>(89,690)</b>	<b>(29,690)</b>	<b>(89,690)</b>
<b>Provisions for liabilities and charges</b>	19	<b>(8,022)</b>	<b>(8,022)</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>		<b>8,007,645</b>	<b>8,060,195</b>	<b>7,933,632</b>	<b>7,987,748</b>
<b>Unrestricted income funds - general</b>	20	<b>364,394</b>	<b>343,823</b>	<b>338,040</b>	<b>271,376</b>
Capital – unrestricted designated fund	20	27,739	-	27,739	-
Playable City – unrestricted designated fund	20	23,148	-	23,148	-
Bristol + unrestricted designated fund	20	343,423	295,764	295,764	295,764
Head lease unrestricted designated fund	20	5,616,347	5,672,092	5,616,347	5,672,092
Restricted capital funds	21	1,632,594	1,748,516	1,632,594	1,748,516
<b>Total funds</b>		<b>8,007,645</b>	<b>8,060,195</b>	<b>7,933,632</b>	<b>7,987,748</b>

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 £302,757 (2016: surplus of £675,030).

These financial statements were approved by the Board on 20/09/17 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 2017.

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.

## **Notes** *(continued)*

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

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.

#### ***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.

## **Notes** *(continued)*

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

#### ***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 2016/17 the sum of £47,659 was transferred from the general fund to the Bristol + contingency fund.

The Capital fund is a designated fund established in 2016/17 specifically to ring fence surpluses associated with the development of Watershed's capital programme which have arisen as a result of timing differences.

In 2016/17 the sum of £27,739 was transferred from the general fund to the Capital fund.

The Playable City fund is a designated fund established in 2016/17 specifically to ring fence surpluses associated with the Playable City programme which have arisen as a result of timing differences.

In 2016/17 the sum of £23,148 was transferred from the general fund to the Playable City fund.

#### ***Subsidiaries***

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

## Notes (continued)

### 1 Accounting policies (continued)

#### 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.

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 2017 there were 13 members.

**Notes** *(continued)*

**4 Grant and project income receivable**

	Deferred as at 1 April 2016	Cash received & receivable 16/17	Credited to income & expenditure 16/17	Transferred to capital grants 16/17	Deferred as at 31 March 2017
	£	£	£	£	£
<b>Income from donations and legacies</b>					
<b>Unrestricted</b>					
<b>Regular grant funding</b>					
Arts Council England	-	744,289	(744,289)	-	-
Bristol City Council	-	104,960	(104,960)	-	-
British Film Institute	-	86,000	(86,000)	-	-
<b>Total regular grant funding</b>	<b>-</b>	<b>935,249</b>	<b>(935,249)</b>	<b>-</b>	<b>-</b>
<b>Income from charitable activities</b>					
<b>Unrestricted grants</b>					
Europa Cinemas	-	12,063	(12,063)	-	-
<b>Unrestricted other project funding</b>					
British Council	-	7,080	(7,080)	-	-
Other	-	36,770	(36,770)	-	-
<b>Total other grants</b>	<b>-</b>	<b>55,913</b>	<b>(55,913)</b>	<b>-</b>	<b>-</b>
<b>Restricted</b>					
<b>Programme funding - grants</b>					
Arts Council England	-	290,000	(52,315)	-	237,685
British Film Institute	39,312	631,458	(668,639)	-	2,131
European Funding	-	1,047	(1,047)	-	-
Other grants	6,918	80,312	(55,043)	-	32,187
<b>Programme funding - other</b>					
Bristol City Council	2,500	180,000	(182,500)	-	-
AHRC (via REACT Hub universities)	7,573	4,522	(12,095)	-	-
Exeter University	-	50,815	(50,815)	-	-
British Council	37,074	24,619	(61,693)	-	-
Other project funds	-	59,120	(49,120)	-	10,000
<b>Total project funds</b>	<b>93,377</b>	<b>1,321,893</b>	<b>(1,133,267)</b>	<b>-</b>	<b>282,003</b>
<b>Total</b>	<b>93,377</b>	<b>2,313,055</b>	<b>(2,124,429)</b>	<b>-</b>	<b>282,003</b>

**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 2017 for the charity was £3,843,781 (2016: £4,472,404). The overall net incoming resources for the year was a deficit of £54,116 (2016: surplus of £324,783), with a surplus of £61,806 (2016: surplus of £153,605) on unrestricted reserves.

**Notes** *(continued)*

**6 Trading subsidiary's results (Watershed Trading Limited)**

	2017 Total £	2016 Total £
<b>Turnover</b>	<b>1,638,663</b>	1,621,928
Cost of sales	<b>(1,167,167)</b>	(1,131,664)
	<hr/>	<hr/>
<b>Gross profit</b>	<b>471,496</b>	490,264
Administration and other costs	<b>(148,379)</b>	(164,190)
	<hr/>	<hr/>
<b>Trading profit</b>	<b>323,117</b>	326,074
Other income	-	-
	<hr/>	<hr/>
<b>Net income</b>	<b>323,117</b>	326,074
Gift aid payment to Watershed Arts Trust Limited	<b>(132,000)</b>	(133,881)
Management charge from Watershed Arts Trust Limited	<b>(188,866)</b>	(187,193)
Tax on profit on ordinary activities	<b>(1,943)</b>	(3,813)
	<hr/>	<hr/>
<b>Retained profit for the year</b>	<b>308</b>	1,187
Retained profit brought forward	<b>60,473</b>	59,286
	<hr/>	<hr/>
<b>Retained profit carried forward</b>	<b>60,781</b>	60,473
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities of the subsidiary were:

	2017 Total £	2016 Total £
Fixed assets	<b>24,671</b>	32,178
Current assets	<b>385,803</b>	369,992
Creditors: amounts falling due within one year	<b>(341,571)</b>	(333,575)
Provisions for liabilities and charges	<b>(8,022)</b>	(8,022)
	<hr/>	<hr/>
<b>Net assets</b>	<b>60,881</b>	60,573
	<hr/> <hr/>	<hr/> <hr/>
<b>Equity shareholders' funds</b>	<b>60,881</b>	60,573
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**7 Trading subsidiary's results (Watershed Ventures CIC)**

	2017 Total £	2016 Total £
<b>Turnover</b>	<b>100,175</b>	531,940
Cost of sales	<b>(51,665)</b>	(436,650)
	<hr/>	<hr/>
<b>Gross profit</b>	<b>48,510</b>	95,290
Administration and other costs	<b>(10,638)</b>	(61,536)
	<hr/>	<hr/>
<b>Trading profit</b>	<b>37,872</b>	33,754
Other income	-	-
	<hr/>	<hr/>
<b>Net income</b>	<b>37,872</b>	33,754
Gift aid payment to Watershed Arts Trust Limited	<b>(22,000)</b>	-
Management charge from Watershed Arts Trust Limited	<b>(14,007)</b>	(29,173)
Tax on profit on ordinary activities	<b>(607)</b>	(1,349)
	<hr/>	<hr/>
<b>Retained profit for the year</b>	<b>1,258</b>	3,232
Retained profit brought forward	<b>11,974</b>	8,742
	<hr/>	<hr/>
<b>Retained profit carried forward</b>	<b>13,232</b>	11,974
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities of the subsidiary were:

	2017 Total £	2016 Total £
Current assets	<b>93,918</b>	88,023
Creditors: amounts falling due within one year	<b>(30,685)</b>	(26,048)
	<hr/>	<hr/>
<b>Net assets</b>	<b>63,233</b>	61,975
	<hr/> <hr/>	<hr/> <hr/>
<b>Equity shareholders' funds</b>	<b>63,233</b>	61,975
	<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 apports 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 £
<b>Support cost</b>				
General office	91,881	1,648	14,968	<b>108,497</b>
Finance office	150,032	1,757	36,016	<b>187,805</b>
External audit	-	-	12,878	<b>12,878</b>
Professional services	14,465	-	8,368	<b>22,833</b>
Fundraiser costs	-	51,450	-	<b>51,450</b>
	<u>256,378</u>	<u>54,855</u>	<u>72,230</u>	<u><b>383,463</b></u>

### 9 Analysis of charitable expenditure

	Audience Engagement Programme £	Creative technology and talent development projects £	<b>2017 Total £</b>	2016 Total £
Cinema Screening – direct costs	853,727	-	<b>853,727</b>	780,481
Direct programme/project costs	787,109	305,773	<b>1,092,882</b>	1,473,987
Arts programme management and marketing	361,509	280,324	<b>641,833</b>	655,872
Premises costs	461,666	49,277	<b>510,943</b>	463,751
General support costs	205,103	51,275	<b>256,378</b>	228,940
Governance costs	57,784	14,446	<b>72,230</b>	73,278
Depreciation	200,086	61,592	<b>261,678</b>	260,282
	<u>2,926,984</u>	<u>762,687</u>	<u><b>3,689,671</b></u>	<u>3,936,591</u>

**Notes** *(continued)*

**10 Staff numbers and costs**

The average headcount in the year for the group was 140 (2016: 135).

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

	<b>Number of employees</b>	
	<b>2017</b>	<b>2016</b>
Cultural engagement programme	<b>50</b>	47
Administration	<b>11</b>	11
Catering	<b>14</b>	13
Bar	<b>13</b>	13
Conference	<b>4</b>	4
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	<b>92</b>	88
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

The aggregate payroll costs of these persons were as follows:

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Directors' emoluments	-	-
Wages and salaries	<b>2,256,096</b>	2,155,943
Social security costs	<b>188,928</b>	177,197
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	<b>2,445,024</b>	2,333,140
	<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, and no Trustees made donations to the charity.

Key management compensation in total for the year was £105,231 (2016: £78,896).

The emoluments of one employee, including benefits in kind, are within the range of £100,000 to £110,000 (2016 – the emoluments of one employee, including benefits in kind, was within the range of £70,000 - £80,000).

## Notes (continued)

### 11 Net movement on funds is stated after charging

	2017 £	2016 £ <i>as restated</i>
Auditors' remuneration – audit (Charity: £12,675)	24,050	25,950
Depreciation and other amounts written off tangible fixed assets	274,742	278,296
Inventories recognised as an expense	(1,166,168)	(1,135,933)
	(867,376)	(831,687)
	(867,376)	(831,687)

### 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.

	2017 £	2016 £
<b>Current tax</b>		
UK corporation tax on results of the year	2,550	5,162
<b>Deferred tax</b> (see note 19)		
Origination/reversal of timing differences	-	-
	2,550	5,162
	2,550	5,162

#### *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 (20%), (2016: 20%). The differences are explained below:

	2017 £	2016 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	4,116	9,581
	4,116	9,581
Current tax at 20% - Watershed Trading Ltd 20% - Watershed Ventures CIC 20%	823	1,916
<i>Effects of:</i>		
Depreciation for period in excess of capital allowances	1,312	-
Other timing differences	181	-
Expenses not deductible for tax purposes	234	3,246
	1,727	3,246
Total current tax charge (see above)	2,550	5,162

**Notes** *(continued)*

**13 Tangible fixed assets**

	Head lease	Leasehold improvements	Furniture and equipment	Total
<b>Group</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<i>Cost</i>				
At beginning of year	6,214,399	3,055,320	1,260,417	10,530,136
Disposals in the year	-	-	-	-
Additions	-	30,065	40,935	71,000
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,214,399	3,085,385	1,301,352	10,601,136
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	542,307	1,450,702	862,333	2,855,342
Depreciation on disposals	-	-	-	-
Charge for year	55,746	99,055	119,941	274,742
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	598,053	1,549,757	982,274	3,130,084
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
<b>At 31 March 2017</b>	<b>5,616,346</b>	<b>1,535,628</b>	<b>319,078</b>	<b>7,471,052</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2016	5,672,092	1,604,618	398,084	7,674,794
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 13 Tangible fixed assets (continued)

	Head lease	Leasehold improvements	Furniture and equipment	Total
	£	£	£	£
<i>Cost</i>				
At beginning of year	6,214,399	3,055,320	1,159,180	10,428,899
Disposals in the year	-	-	-	-
Additions	-	30,065	35,378	65,443
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,214,399	3,085,385	1,194,558	10,494,342
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	542,307	1,450,702	793,274	2,786,283
Depreciation on disposals	-	-	-	-
Charge for year	55,746	99,055	106,877	261,678
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	598,053	1,549,757	900,151	3,047,961
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
<b>At 31 March 2017</b>	<b>5,616,346</b>	<b>1,535,628</b>	<b>294,407</b>	<b>7,446,381</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2016	5,672,092	1,604,618	365,906	7,642,616
	<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 2017 £	Charity 2016 £
At the beginning of the year	<b>50,101</b>	50,101
	<hr/>	<hr/>
At the end of the year	<b>50,101</b>	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	
	2017 £	2016 £	2017 £	2016 £
Finished goods and goods for resale	<b>20,753</b>	19,754	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**16 Debtors**

	<b>Group</b>		<b>Charity</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade debtors	<b>200,559</b>	187,257	<b>134,099</b>	116,846
Prepayments and accrued income	<b>305,219</b>	206,362	<b>286,791</b>	196,143
Other debtors	<b>1,509</b>	11,309	<b>1,363</b>	10,034
Amounts owed by group undertakings	<b>-</b>	-	<b>165,242</b>	149,364
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>507,287</b>	404,928	<b>587,495</b>	472,387
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All debtors are recoverable within one year.

**17 Creditors: amounts falling due within one year**

	<b>Group</b>		<b>Charity</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade creditors	<b>213,903</b>	380,990	<b>166,070</b>	330,021
Other creditors including taxation and social security	<b>197,781</b>	149,911	<b>106,702</b>	54,287
Accruals and deferred income	<b>547,760</b>	341,619	<b>479,658</b>	277,953
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>959,444</b>	872,520	<b>752,430</b>	662,261
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Other creditors includes £159,740 (2016: £126,499) an amount owed for other taxes and social security.

Accruals and deferred income includes accruals of £144,115, deferred income comprising £3,598 of advance cinema sales, £41,732 of conference deposits, £75,497 of rental income received in advance, and £282,003 of grant and project income (note 4) and £815 of other advance sales.

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.

	<b>Group</b>	<b>Charity</b>
	<b>£</b>	<b>£</b>
Balance as at 1 April 2016	<b>129,268</b>	<b>95,695</b>
Amount released to income earned from charitable activities	<b>(495,758)</b>	<b>(462,185)</b>
Amount deferred in the year	<b>487,318</b>	<b>445,585</b>
	<hr/>	<hr/>
Balance as at 31 March 2017	<b>120,828</b>	<b>79,095</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**18 Creditors: amounts falling due after more than one year**

	<b>Group</b>		<b>Charity</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>£</b>	£	<b>£</b>	£
Other loans	<b>(29,690)</b>	(89,690)	<b>(29,690)</b>	(89,690)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Analysis of loans				
Wholly repayable within 5 years	<b>(29,690)</b>	(89,690)	<b>(29,690)</b>	(89,690)
	<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**

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

The elements of deferred taxation are as follows:

	<b>2017</b>	2016
	<b>£</b>	£
Difference between accumulated depreciation and capital allowances	<b>8,022</b>	8,022
Other short term timing differences	-	-
	<u>                    </u>	<u>                    </u>
	<b>8,022</b>	8,022
	<u>                    </u>	<u>                    </u>

The charity has no deferred taxation liabilities.

**Notes** (continued)

**20 Unrestricted income funds**

	<b>Group £</b>	<b>Charity £</b>
At beginning of year	6,311,679	6,239,232
Movement in year before transfers	(52,550)	(54,116)
Transfer from restricted funds (note 21)	115,922	115,922
	6,375,051	6,301,038
<b>At end of year</b>	<b>6,375,051</b>	<b>6,301,038</b>

	At beginning of year	Incoming resources	Expenditure	Transfers	Re- classification from restricted funds	Balance at 31 March 2017
	£	£	£	£	£	£
<b>Unrestricted income funds</b>						
General fund	343,823	4,060,375	(4,112,925)	73,121	-	364,394
<i>Designated Funds</i>						
Bristol+ contingency fund	295,764	-	-	47,659	-	343,423
Capital grants fund	5,672,092	-	-	(55,745)	-	5,616,347
Capital Fund	-	-	-	27,739	-	27,739
Playable City Fund	-	-	-	23,148	-	23,148
	6,311,679	4,060,375	(4,112,925)	115,922	-	6,375,051
	6,311,679	4,060,375	(4,112,925)	115,922	-	6,375,051

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 2016/17 the sum of £47,659 was transferred from the general fund to the Bristol + contingency fund.

In 2016/17 the sum of £27,739 was transferred from the general fund to the Capital Fund.

In 2016/17 the sum of £23,148 was transferred from the general fund to the Playable City 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 2016/17 the sum of £55,745 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
	£	£	£	£	£	£
<b>Capital grants</b>						
Deferred capital grant	28,179	-	(1,600)	-	-	26,579
Deferred capital refurbishment grants	841,714	-	(67,433)	-	-	774,281
Lottery lease purchase grant	566,279	-	(8,712)	-	-	557,567
ACE GforA capital grant	47,288	-	(2,801)	-	-	44,487
BFI equipment grant	6,666	-	(6,666)	-	-	-
ACE small capital grant	258,390	-	(28,710)	-	-	229,680
	1,748,516	-	(115,922)	-	-	1,632,594

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.

**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**

	<b>Unrestricted funds £</b>	<b>Restricted funds £</b>	<b>2017 Total £</b>	<b>2016 Total £</b>
Fixed assets	5,838,458	1,632,594	7,471,052	7,674,794
Net current assets	574,305	-	574,305	483,113
Long term liabilities	(29,690)	-	(29,690)	(89,690)
Provisions for liabilities and charges	(8,022)	-	(8,022)	(8,022)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>6,375,051</b>	<b>1,632,594</b>	<b>8,007,645</b>	<b>8,060,195</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**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:

	<b>2017 Group and Charity plant and equipment £</b>	<b>2016 Group and Charity plant and equipment £</b>
Within one year	10,919	10,515
Between one and five years	20,313	36,730
After five years	6,974	-
	<hr/>	<hr/>
	<b>38,206</b>	<b>47,245</b>
	<hr/> <hr/>	<hr/> <hr/>

**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:

	<b>2017 Group and Charity leasehold property £</b>	<b>2016 Group and Charity leasehold property £</b>
Within one year	255,856	230,690
Between one and five years	907,388	797,188
After five years	1,057,589	1,222,011
	<hr/>	<hr/>
	<b>2,220,833</b>	<b>2,249,889</b>
	<hr/> <hr/>	<hr/> <hr/>

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 £19,978 (2016: £7,997) were paid to TLT LLP in respect of legal services provided to the Watershed Group. In addition, pro bono services to the value of £14,462 (2016: £11,712) 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 January 2015.

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 £3,650 (2016: £2,160) 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**

	<b>Unrestricted Funds £</b>	<b>Restricted Funds £</b>	<b>Total Funds 2016 £</b>
<b>Income</b>			
<i>Voluntary income</i>			
<i>Donations and legacies</i>			
Individual giving	38,258	-	38,258
Donated services	-	11,712	11,712
Regular grant funding	926,649	-	926,649
<i>Other trading activities</i>			
Commercial trading operations	1,602,753	-	1,602,753
<i>Investment income</i>			
Interest receivable	-	-	-
	2,567,660	11,712	2,579,372
<i>Income from charitable activities</i>			
Earned income from cinema activities	817,336	-	817,336
Rental income	218,056	-	218,056
Service charges	106,880	-	106,880
Other earned income	160,976	-	160,976
Project funds	9,206	2,076,169	2,085,375
	1,312,454	2,076,169	3,388,623
<i>Other income</i>			
Capital grants	-	287,100	287,100
<b>Total income</b>	<b>3,880,114</b>	<b>2,374,981</b>	<b>6,255,095</b>
<b>Expenditure</b>			
<i>Costs of raising funds</i>			
Fundraising costs	(76,525)	-	(76,525)
Commercial trading operations	(1,299,667)	-	(1,299,667)
	(1,376,192)	-	(1,376,192)
<i>Charitable activities</i>			
Operation of cinema, engagement and creative media projects	(2,359,957)	(1,576,634)	(3,936,591)
Donated services	-	(11,712)	(11,712)
CIC operation	-	(499,535)	(499,535)
Property management costs	(101,863)	-	(101,863)
<b>Total expenditure</b>	<b>(3,838,012)</b>	<b>(2,087,881)</b>	<b>(5,925,893)</b>
Net income/(expenditure) before transfers and Net income/(expenditure) for the year	42,102	287,100	329,202
Transfers between funds	115,922	(115,922)	-
<b>Net movement in funds</b>	<b>158,024</b>	<b>171,178</b>	<b>329,202</b>