

Watershed Arts Trust Limited (a company limited by guarantee)
Report of the Council of Management and consolidated financial statements
Registered charity number 284188

**Watershed Arts Trust Limited (a company limited
by guarantee)**

Report of the Council of Management
and consolidated financial statements

Registered company number 1608779

Registered charity number 284188

Year ended 31 March 2010

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Report of the Council of Management

The Council presents its annual report and the audited consolidated financial statements for the year ended 31 March 2010. This report consolidates the results of Watershed Arts Trust Limited and its subsidiaries, Watershed Trading Limited and iShed CIC, collectively referred to here as Watershed. The financial statements comply with current statutory requirements, the memorandum and articles of association and the Statement of Recommended Practice 2005.

Objectives and activities

The organisation has continued to fulfil the aims specified in its Memorandum of Association. Watershed Arts Trust was incorporated to advance education, and increase appreciation, understanding and application of the arts (with particular reference to communications and the media) amongst members of the public.

Over the past twenty eight years it has carried out these aims responding to changing cultures, audience expectations and operating environments. In this year, Watershed's principal activities have continued to be the operation of cinemas, events (with particular emphasis on the digital media), cross art-form production and on-line publishing. Watershed acts as a cultural hub and broker using its skills and expertise in media and technology to play an enabling role across sectors of the wider creative economy, developing talent and promoting cultural exchange.

The Trustee's confirm that they have referred to the guidance contained in the Charity Commission's general guidance on public benefit in reviewing the Trust's aims and objectives and in developing plans for the future.

Watershed's Vision

Watershed is a pathfinding cross-artform producer, sharing, developing and showcasing exemplary cultural ideas and talent. It is a space for cultural exchange which promotes engagement, enjoyment, diversity and participation in film, media arts and the creative economy.

Our strategic approach in achieving this vision is to:

- be a producer of inspirational cultural experiences and a pathfinder to future cultural experiences.
- identify, nurture and develop talent.
- produce open collaborations which bridge expertise, imaginations and boundaries to promote emergent practice.
- actively create and leverage networks, believing diversity of people, experience and culture is an asset.
- connect artists and audiences with creative, cultural and commercial constituencies nationally and internationally.
- act as a gateway to cultural appreciation, production and experience for the young people of Bristol.

The Watershed brand is unique, trusted and respected and is driven by the following shared **values** which determine the approach to delivering our aims and objectives. Key drivers are user experience and maximising public value.

Watershed is:

- **People Led**
People are the engine of our organisation. We will never forget that we are here for the people we work with and for – without them Watershed would not exist.
- **Entrepreneurial**
We create opportunities, incubate ideas and take risks in order to explore new ways of looking at (and doing) things.
- **Make Things Happen**
Through partnership, innovation and exchange we make things work and aspire to excellence.
- **Open and Honest**
We provide a culture and environment that is trusting, trusted and trustworthy.
- **Celebratory**
At the heart of our offer is the celebration of culture, diversity, creativity and wonder.

Report of the Council of Management *(continued)*

Specific targets set for 2009/10:

- Re-align and re-launch dShed to present audiences with editorially and curatorially driven dynamic online content.
- Develop and articulate a progression route between creative/media industry and young people.
- Further develop European partnerships in delivery of online publishing platform Electric December.
- Develop the cultural offer.
- Build on the Pervasive Media studio's opening year, seeking to establish new partnerships and collaborations.
- Continue to implement our catering plan to maximise the potential of the cafe/bar.
- Review our management and staffing structure.
- Continue to develop a long term sustainability strategy.
- Continue to develop and implement a management strategy for E & W sheds.

Achievements and Performance

In the year Watershed delivered a rich cultural programme of media activity. We have continued to invest in our programme to encourage, develop and engage audiences from as wide a group as possible from age groups spanning generations and different cultural groups to deliver maximum public benefit. We have seen our profile and reputation continue to grow both nationally and internationally in the year.

Watershed's cultural programme exists to engage audiences through a variety means from theatrical exhibition of world cinema to publishing creative content online.

During the year Watershed successfully completed researching organisational priorities and development routes for its dShed on-line publishing platform and website at www.dshed.net through the Arts Council funded Thrive programme.

The new **dShed** site was launched in November 09 and has delivered a significant increase in the quality of Watershed's digital publishing capacity. All of the content has been freshly curated with new context material. The on-line platform curates creative work, talks, commissions, and artists' journals and provides an archive of past works.

Highlights of new work added to the site in 2009/10 include:

- **Depict!** – Watershed's 90 second filmmaking competition and part of the Encounters International Short Film Festival. 349 films were submitted from 39 different countries. Films can be viewed on www.depict.org.
- **18 Summers Digital Storytelling by Older Learners** - through a week of workshops led by Watershed 14 older learners from across Europe learnt how to use digital technology in a creative and personally meaningful way. Each participant made a Digital Story – exploring and recording their memories of the summer they turned eighteen. 18 Summers was supported by funds from the European Commission and is another example of a project helping us to build our European partnerships. See: www.dshed.net/18-summers.
- **Electric December** – In 2009 Watershed's annual on-line "advent calendar" was supported by funding from the European Commission through the Youth In Action programme and provided the opportunity for young Bristol creatives to work in partnership with young Lithuanians from Vilnius to curate work for this year's Electric December. The final 24 selections represented the work of emerging talent from Latvia, Lithuania, Italy, Hungary, Romania, Spain, France and the UK. The project was hugely successful receiving Europe-wide acclaim strengthening Watershed's European partnerships and increasing our international reputation. See electricdecember.org/09

The site not only provides an extensive virtual exhibition platform displaying a wealth of creative content but is also a valuable education resource giving access to talks, discussions and reports on a wide range of topics around the creative media.

Examples in the year include:

- **Mugabe & The White African** - a panel discussion led by co-director of Afrika Eye Film Festival, Simon Bright, following a screening of Mugabe and the White African.
- **Slapstick Festival** - A discussion including Peter Lord, Barry Purves and Richard Williams looking at the best of physical and silent comedy.

Report of the Council of Management (*continued*)

- **Le Donk and Scor-Zay-Zee** – A question and answer session with actor Paddy Considine and rapper Scor-zay-zee following a preview screening, presented in partnership with BAFTA and SW Screen.
- **Musician Howe Gelb and Maria Mochnacz** – a discussion around the making of music documentary ‘Sno Angel Winging It’ with the musician and filmmaker.

DSHed has received much positive feedback and we have seen web traffic grow. In 2009 the number of unique visits to Watershed online resources increased by 31% to 3,000,000 and page views increased by 26% to 19,400,400.

In addition to its own creative content sites Watershed provided hosting services in the year for a number of partners and projects including: Arnolfini, Bristol Old Vic, Picture This, Spike Island, Diaspora Artists, Luke Jerram & Street Pianos, Stanza & Soundtoys and Bristol BBC Anchor Partnership.

The **Pervasive Media Studio**, opened in January 2008 and managed by iShed, continued to develop as an internationally leading cross artform innovation centre despite the loss of Hewlett Packard as a lead partner due to the impact of Hewlett Packard worldwide cuts (see www.pmstudio.co.uk). Highlights of studio activity included:

- **Extended Theatre Experience** – Watershed secured funding from the Technology Strategy Board to enable a consortium of Watershed, Bristol Old Vic and Hewlett Packard to develop and test an extended theatre experience through a devised piece of theatre, *Strange Case*, performed live at BOV, recorded on 12 cameras mounted on actors, audience, props etc and then screened at Watershed. The project was highly successful and received a Media Innovation Award 2009 in the Live Category. See www.pmstudio.co.uk/projects
- **Media Sandbox 2** – Bringing together leading technology, artistic and media talent, the project offers a ‘safe space’ for collaboration between creative talent, technology companies and content commissioners. Six commissions were awarded in 2009 and can be seen at www.mediasandbox.co.uk/2009-commissions. A book celebrating the first two years of the project was published in the year.
- **Unlocking Markets for Content Delivery** – Watershed secured funding from the Technology Strategy Board for a collaborative research project with Bristol Old Vic, Historic Royal Palaces the New Museum of Bristol and Calvium. The project will pilot the delivery of located media experiences.
- **Igfest 2009 Interesting Games Festival** – Watershed hosted the festival for another successful year. The festival drew media attention from both national and international press.

In the year, the studio hosted 7 international residencies with artists and academics from Northern Ireland, Spain, Norway, Denmark, Hong Kong and Copenhagen. The studio’s unique offering of space, access to new technologies, an interdisciplinary collaborative community, academic research support and funding leverage has positioned it as a national and international resource for high quality research around context driven art and media. No similar space exists in the UK or beyond.

Through its public engagement programme of moving image media Watershed provided the public with a rich and varied programme of films, seasons, festivals and special events, celebrating and exploring all aspects of the moving image.

In the year, a total of 2,977 screenings of 281 films/film programmes were presented to a total audience of 123,719 (111,957 in 2008/09). In total 21 producing countries were represented by the film programme.

Accessibility is a key part of Watershed’s ethos and we aim to reach as broad a range of people as possible with our public programme. We continued to develop our programme for deaf and blind users in the year by providing audio description and descriptive subtitling on a selection of titles.

In addition, specific programme strands were targeted at disadvantaged groups, including:

- **Voices From El Sayed** – presented with Bristol University’s Centre for Deaf Studies and targeted at hearing impaired people. The film was followed by a discussion on the issues raised with BSL Interpreters present;
- **Laurel & Hardy Shorts Programme** - A programme of shorts for a hearing impaired group from Fosse Way School. See www.fosse-way.lincs.sch.uk;
- **Our Place** - a one-day filmmaking workshop with members of Our Place, a Bristol-based organisation for foster and adoptive families;

Report of the Council of Management (*continued*)

Highlights of Watershed's cinema programme included:

- **Decalogue** - Watershed's year-long series of talks, screenings and online debates reflecting on the second century of cinema. (watershed.co.uk/decalogue/)
- **Acting For Film Masterclass** - presented by BAFTA, South West Screen, Watershed and Bristol Old Vic. An acting and directing masterclass for aspiring filmmakers and actors between 18 and 30.
- **Festival of Ideas** – Watershed hosted the festival in its 5th year with an inspiring programme of discussions and screenings, looking at some of the key issues of our time.
- **Encounters International Short Film Festival** – Watershed hosted the UK's leading short film festival in its 15th year, featuring 83 screenings of 64 film programmes. The festival attracted a total audience of 5,739 with delegates visiting from 20 different countries.
- **SLAPSTICK Bristol's Silent Comedy Festival** – another successful year for the festival presented in collaboration with Bristol Silents. Now in its 6th year, Slapstick also picked up Venue Magazine's Top Banana Award in the Top Film Festival category.
- **Reality Fiction – A Japan Foundation Touring Programme** - presenting five films providing a fascinating insight into how Japanese filmmakers have been influenced by actual events.
- **Viva! 15th Spanish and Latin American Film Festival on Tour** - an ICO touring programme featuring 5 Spanish-language films.
- **BFI's 23rd London Lesbian and Gay Film Festival on Tour** - Watershed presented highlights from the 23rd London Lesbian & Gay Film Festival celebrating the best in lesbian and gay cinema from around the world.
- **Visible Secrets: Hong Kong's Women Filmmakers on Tour** - A unique season of new films from Hong Kong's women filmmakers. An ICO touring programme originated by Cornerhouse, Manchester.
- **Mark Kermode - It's Only a Movie** – a talk and discussion led by Mark Kermode, one of the country's most popular film critics.
- **Brunch Screenings** - introduced into our cinema programme in 2009/10, brunch screenings offer short seasons of films screened over a Sunday lunchtime. Eight seasons ranging from Ealing Comedies to Scandinavian Chillers were screened in the year.

Regular film events led and hosted by Watershed to increase public awareness of the moving image included:

- **Cinéphiles** – A monthly film discussion group.
- **Cinéformation** - A network of local filmmakers fostering a creative, active filmmaking community in the South West. See <http://www.cineformation.com>
- **Screenwriters' Group** - a monthly meeting of local screenwriters. See bristolsscreenwriters.org

The crossover of music and film saw continued development including:

- **Migrations** – a collaboration with St Georges, Bristol celebrating the musical and cultural riches created through the movements of people from one place to another <http://www.migrationsmusic.com>
- **The Birdman of Alkijazz** - a bi-monthly series showcasing cinema and experimental performance.
- **Howe Gelb: Sno Angel Winging It UK Tour** – part of a Watershed produced UK tour, an evening of film and music from country legend Howe Gelb.

In the year Watershed continued to develop the cultural offer targeted at audiences from BME groups, engaging with the sector and encouraging diversity in our audiences. Highlights within our programme included:

- **Afrika Eye** - offering a vibrant line-up of film, music and discussion covering an entire continent.
- **Refugee Week** – A series of screenings exploring the issues being faced by displaced communities around the work presented as part of the city-wide celebrations of refugee week.
- **From Brick Lane To In The Kitchen**: presented as part of the Festival of Ideas, Monica Ali discussed her journey from her first book, Brick Lane to In the Kitchen.
- **Journey to Poland (Podróż do Polski)** – A celebration of Polish culture in partnership with Encounters Short Film Festival and the Krakow Film Festival.

Watershed engages and develops younger audiences by fostering a culture of curiosity, participation and progression. Aspects of Watershed's programme targeted to achieve this include:

Report of the Council of Management (*continued*)

- **Cinekids** - targeted at our youngest audiences, our regular Cinekids events offer children from 8 – 12 years the opportunity to participate in a monthly screening and workshop programme that aims to capture young imaginations and encourage early interest in film and narrative forms.
- **Drawer Of Dreams** - four young people documented 'Drawer of Dreams' a dynamic physical theatre piece put together by Cirque Bijou and the chamber group Emerald Ensemble conducted by Charles Hazelwood. The event was part of the programme of events to celebrate the official opening of the new foyer at Colston Hall.
- **The Young Leaders Programme** – a training programme for 16-25 years olds interested in building their skills for future training or employment in the cultural and creative industries. The project was made possible through the V Project Young Volunteer Grants Scheme providing opportunities for sixteen young volunteers to work closely with creative industry professionals and Watershed staff to plan and deliver a programme of media related activities for other local young people and children.
- **Let the Games Begin** – Watershed delivered three events as part of the South West's RELAYS project (Regional Education Legacy in Arts and Youth Sport, a regional Cultural Olympiad initiative by HERDA). Each workshop was a day-long session at Watershed and was attended by over 200 students from 5 Bristol schools, with 16 volunteers from the BBC helping out during the sessions. watershed.co.uk/relays/events
- **Fairfield High School partnership:** Watershed and Fairfield High School continue to work in partnership to pilot models for creative industries support in developing creativity in the curriculum.
- **Creative and Media Diploma Development:** Watershed is a Diploma Ambassador, working in partnership with Bristol City Council and Lead Teachers from Bristol Schools.
- **PM Studio workshops** – the Studio delivered regular workshops to schools and colleges, and ran a weekly Gadget Club for children under 14 years of age to increase public understanding of creative technology, the www.pmstudio.co.uk/project/young-people
- **National Schools Film Week:** In collaboration with Film Education, Watershed presented five screenings for primary and secondary school students.
- **Dedicated Schools Screenings:** Throughout the year Watershed provided special screenings, outside of normal programming hours, to accommodate schools' requests for films.

All of this activity has been supported by investment in developing stronger audience relationships through:

- **Social Networking** - Watershed now has over 800 Facebook friends and over 2000 followers on Twitter, opening up personal dialogue with the public.
- **New email system** – enabling us to monitor what users are viewing, helping us to build a picture of which key messages our subscribers are responding to. We currently have over 7,000 active subscribers and can adapt and personalise content in response to improved analysis.
- **Loyalty Card Scheme** - To add value to the service we offer and to help improve Data Capture rates Watershed introduced a loyalty card scheme in December 2009. Since its launch we have recruited over 2,500 Loyalty Card holders.

Monitoring and Evaluation

Achieving high standards and delivering maximum value and public benefit in every aspect of our operation is of paramount importance. Watershed assesses its work and monitors outputs on an ongoing basis. Individual projects are evaluated on completion and the outcomes assessed in terms of objectives and benefits delivered.

Providing an excellent customer experience is central to the Watershed ethos. We aim to give all our users, from artists involved in Watershed projects to visitors to our cinema and café bar a quality, valued experience. To ensure our standards are maintained we monitor attendance levels and respond to feedback from our users. This is gathered through monitoring and feedback forms which visitors and participants in projects and events are asked to complete.

Every five years an independent consultant is appointed to undertake extensive market research for Watershed to establish our position in terms of market share, levels of customer satisfaction and the public benefit we are delivering. The research covers the cinemas, café/bar and on-line activities.

Our monitoring and evaluation processes form an important role in the strategic planning and long term vision of the organisation.

Report of the Council of Management (*continued*)

E&W sheds

Our role as landlord to 5 units within E&W sheds has proved challenging in the year as the recession has impacted on our tenants. It is our long term aim to bring about change in the mix of use along the harbourside in order to initiate a move from a drinking culture to a more creative mixed use economy which is synergistic with Watershed. To this end, the unit bought out by Watershed in June 2008 was leased to Destination Bristol (a Bristol information centre) in the year.

In the year 2 other units have closed as a result of recession. It is our intention to let these units (previously bars) to businesses whose ethos is more in line with that of our own. Rental income from E & W sheds continues to be applied to the charitable objectives of the Trust in line with our agreement with SWRDA who funded the purchase.

Financial review

The consolidated results are set out on page 15 and show a surplus of £312,845 (2009: deficit of £164,705) for the year. The surplus on unrestricted funds for the year totalled £3,413 (2009: deficit of £122,568).

- Cinema ticket sales in the year totalled £539,142 (2009: £440,085)

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

Watershed Trading Limited generated profits before tax of £94,602 (2009: £60,931) and made donations of £85,189 (2009: £59,350) through gift aid to the Charity.

- Café/bar food and liquor sales totalled £1,036,319 (2009: £957,368). In the year we have focussed on efficiently delivering an exceptional customer experience and an affordable quality offer based on a plot to plate ethos using fresh, locally sourced, organic produce. To this end the Trading Board was strengthened in April 2009 and the new Board has worked closely with the Watershed team to develop our offer and maximise profits. As a result we have seen food sales increase by 14% on 2008/09 levels and food cost of sales reduce from 37.9% in 2008/09 to 31.4% 2009/10.
- Conference income totalled £324,870 (2009: £399,621). The recession has severely impacted on this area of our business and the indications are that current trends will continue in the next year.

Watershed's subsidiary, iShed CIC, undertook projects to promote collaboration between artists and the creative industries, providing support to explore the potential of new technologies.

iShed CIC generated profits before tax of £1,509 (2009: £889) and total revenue of £180,898 (2009: £238,128).

The principal funding sources, apart from profits from Watershed Trading Limited, were cinema admission fees (16% of group turnover), rental income/service charges from the tenants of E and W sheds (12% of group turnover), core grant funding from Arts Council South West and Bristol City Council (12% of group turnover) and project funding in the form of grants, service contracts and sponsorship (20% of group turnover). Project funding was received from a range of partners including Arts Council South West, South West Screen, South West Regional Development Agency and the European Commission.

Watershed operates in a mixed economy with a complex income portfolio and the recession has had a significant impact on our business in the year.

Around 69% of our income is generated from our own resources through cinema revenue, rental income from the head-lease, café/bar food sales and event sales and these areas are at risk in a time of recession. We have seen a significant decline in events bookings (18.7% down on the previous year) which equates to approximately £75,000 of income.

However, the most serious recessionary impact we have seen is on the income generated from and costs associated with the head lease to E & W sheds. In the year 2 of our tenants ceased trading leaving vacant units. This has resulted in the loss of rental income for Watershed as well as additional costs.

To help mitigate the impact of recession we have cut overhead costs wherever possible, taking care not to compromise the offer. This includes non-replacement of staff whose fixed term contracts have ended or members of staff who have chosen to leave. Significantly, Watershed was accepted onto the Arts Council's Sustain programme, established to assist organisations in coping with the impact of recession. Our entry onto the programme has not only provided us with the funds to make up the deficit which would have otherwise been incurred, but has also provided us with the opportunity to take an in-depth look at our business model. In the year, we began working closely with an external consultant to re-position ourselves for future development and work will continue in 2010/11.

Report of the Council of Management *(continued)*

In the short term, we continue to reduce costs wherever possible, and ensure that profitable margins are maintained on our trading activities. We will also continue to develop our business model as part of the Arts Council's Sustain programme and will utilise funding from this programme to help mitigate the impact of recession in 2010/11.

In the medium term, we will establish a financial model which is self sustaining, robust and gives a higher level of stability, renegotiate our funding relationships and seek out new sources of income.

Prudent budgeting with realistic margins and achievable income targets are considered essential in order to deliver financial sustainability. Performance against these targets will be closely monitored, reviewed and updated on a regular basis to ensure that Watershed remains on track.

Reserves policy

The purpose of Watershed's reserve fund is:

- to enable the uncoupling of Arts Trust spend from surpluses generated by the Trading operation;
- to provide resources for future development work to further the aims and objectives of the Arts Trust;
- to protect the Arts Trust from potentially declining levels of unrestricted core funding, to support governance costs;
- to provide resources for future capital investment;
- To protect against unpaid rental income and to ensure E & W sheds are maintained in an excellent state of repair.

In establishing the appropriate level of reserves for the charity the Trustees have considered forecast levels of income and expenditure for the coming years, the obligations and operational requirements of the charity and the likelihood and consequences of these requirements not being met.

The level of reserves required is considered to be £600,000, calculated as the costs of administering the charity and servicing E & W sheds for a for six month period.

It is intended that this amount will be built up over a period of 5-6 years, through the development of a new financial model which will involve extending the rear of the premises to provide increased capacity to generate rental/events income.

In addition to this reserve fund, Watershed has established a designated development fund specifically to ring fence surpluses associated with the rental income from E and W sheds. At the end of the financial year 2009/10 Watershed has £111,644 in unspent funds from this source.

This designated fund is for the purpose of:

- preserving the heritage of E and W sheds;
- making improvements to E & W sheds and the immediate public realm;
- delivery of outputs in creative economy development in accordance with our agreement with SWRDA

The level of funds held in reserve, and the Trust's requirements for such funds are reviewed annually by Watershed's trustees.

At the end of 2009/10 unrestricted reserves totalled £276,496 comprising £164,852 in undesignated reserves and £111,644 in designated reserves.

Plans for future periods

Our overall objective in the medium to long term is to continue to attract talent, reward curiosity and deliver distinctive value into a wider ecosystem by achieving:

- an environment and expertise which are cherished and highly valued by artists and audiences;
- a cultural programme which amplifies and extends the full breadth of the organisations activities - showcasing talent and remaining accessible to new participants;
- a programme for young people which develops media literacy in the school curriculum and beyond;

Report of the Council of Management *(continued)*

- recognition as a national centre of excellence for development of creative digital practice, talent and knowledge exchange;
- an active network of national and international partners promoting talent around the world;
- strong stakeholder relations where Watershed and stakeholders share common ambition and expectation;
- international status for Bristol as the place to develop new ideas in emergent cultural practice;
- a dynamic balance between business, cultural engagement and innovation.

Towards these objectives in 2010/11 we will:

- Build on the work undertaken as part of the Thrive programme to develop the whole organisational approach which is being shaped by the Sustain process. We will create a Watershed Web Portal to unify the complete Watershed offer on-line and to integrate it with the physical venue offer creating a multi platform exhibition, publishing and producing environment which delivers high quality experiences from the increasingly pervasive presence of the internet in public venue and place.
- Continue to establish iShed as a cultural entrepreneur supporting and promoting research and knowledge exchange across the arts and creative industries.
- Develop young talent and media literacy skills creating a progression participation route between creative media industry and young people.
- Continue to raise our profile as a key cultural venue through a quality programme of international cinema and media arts.
- Co-produce networks, festivals and events to enhance the user experience of moving image and digital media.
- Work towards developing E&W sheds as a high quality cultural destination and creative industries hub.
- Create and implement a catering development plan to maximise profits from the Trading Company.
- Complete our new business proposition as part of the Sustain programme to re-position ourselves, re-articulate our vision and present a clear articulation of the Watershed offer.

Structure, governance and management

Watershed Arts Trust Limited, a registered charity and company limited by guarantee, is governed by its memorandum and articles of association dated 19 January 1982. The Charity has two wholly owned subsidiaries, Watershed Trading Limited which operates conference, restaurant and bar facilities and iShed CIC which initiates and supports innovation and collaboration in the creative economy

Watershed's governance structure is established to reflect and support the Group structure and our core values. It provides the management capacity and expertise to deliver our aims and objectives.

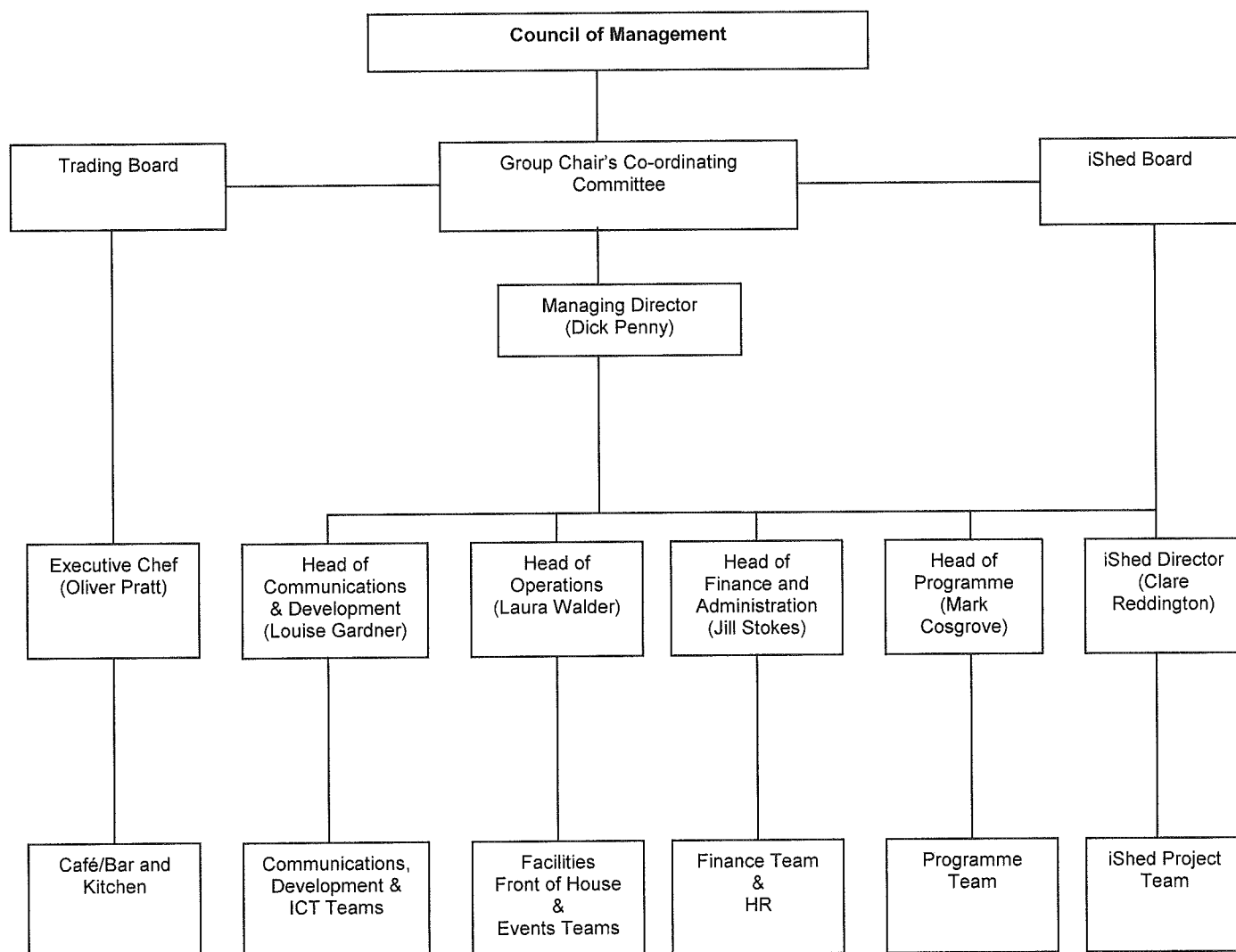
A Council of Management (CoM), which meets bi-monthly, administers the charity. In addition a Chair's Coordinating Committee meets prior to the CoM meeting. This group comprises the Chairs of each Board together with representatives from Watershed management and a representative with finance expertise. The group maintains an overview of Watershed's finances and the direction of the organisation as a whole. This committee provides a vital link between the individual boards ensuring that the Group remains a consolidated unit with shared vision and values. A Managing Director is appointed by the members to co-ordinate the operations of the charity and focus on strategy.

Potential members with an expertise required by Watershed are actively sought out and invited to attend meetings of the Council of Management 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.

Following a recruitment drive in 2008/09 to strengthen membership of the Trading board, new members were selected and appointments made at the beginning of the year. This has allowed us to focus more effectively on issues specific to the Trading Company, which have become more pertinent in this time of recession.

Watershed's organisational structure is shown in the diagram on page 10. There are five senior managers reporting to the Managing Director and one other senior manager reports to the Head of Communications. Senior managers take responsibility for the day-to-day operation of Arts Trust and Trading operations. The Managing Director focuses on strategy and co-ordination of the Group.

Report of the Council of Management *(continued)*



In addition to its core staffing Watershed works flexibly with a number of freelance contract staff to direct and facilitate work on a project basis.

Watershed maintains an Investors in People status and invests in a continuous programme of staff development, seeking to optimise the potential of each individual and to efficiently deliver organisational objectives.

Equality is a key dimension of the Watershed offer and begins with employment practice. Watershed runs regular equalities training for all staff and reviews its Equal Opportunities Policy on an annual basis.

Risk management

Watershed recognises that it is not possible to avoid risk if the organisation is to develop innovatively and grow. Watershed's Business Plan outlines and assesses the major risks which Watershed faces in delivering its development programme and the actions required in order to minimise the impact of a risk should it materialise.

As indicated in the Business Plan, Watershed's risk management strategy involves further development of:

- procedures to effectively reduce identified risks;
- procedures to ensure early detection of identified risks;
- procedures to minimise the impact on the organisation should identified risks materialise;
- an annual review of the risks facing the organisation.

The trustees consider that adequate controls are in place to mitigate the key risks identified.

Report of the Council of Management *(continued)*

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

The Trustees are responsible for preparing the Report of the Council of Management 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 UK accounting standards.

The group and charitable company's financial statements are required by law to give a true and fair view of the state of affairs of the group and charitable company and of the group's excess of expenditure over income for that period. In preparing the financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- 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 proper accounting records that 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect 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. iShed CIC was incorporated on 12 February 2007.

The members of the Council of Management who served during the year and who constitute directors for Companies Act purposes are listed below.

Elected Trustees

W. J. Bowen
S. Williams
Dr. D. Price
L. Bilbe
P. Appleby
J. Touzel
Dr. J. Chakrabarti-Gallemore
Prof. M. Lister
D Bunyan
C. Garcia

City Council nominees

Cllr. N. Harrison
Helen Holland (appointed 1 January 2010)
T. Cook (resigned 1 January 2010)

Report of the Council of Management *(continued)*

Secretary: W. J. Bowen
Managing Director: Dick Penny
Charity number: 284188
Company number: 1608779
Registered Office: 1 Canon's Road, Harbourside, Bristol, BS1 5TX
Auditors: Nexia Smith & Williamson, Portwall Place, Portwall Lane, Bristol, BS1 6NA
Bankers: HSBC Bank, 62 George White Street, Cabot Circus, Bristol, BS1 3BA
Solicitors: TLT Solicitors, 1 Redcliff Street, Bristol, BS1 6TP

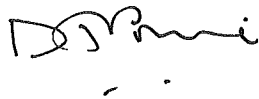
Disclosure of information to auditors

The trustees who held office at the date of approval of this Council of Management's 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

At its annual general meeting, the Council of Management appointed Nexia Smith & Williamson LLP as auditors. Nexia Smith and Williamson LLP resigned as auditors on 30 April 2010 and Nexia Smith and Williamson Audit Limited, which trades as Nexia Smith and Williamson was appointed in their place. A resolution to reappoint Nexia Smith and Williamson for the ensuing year will be proposed at the annual general meeting.

By order of the Board



D Price
Member of the Council of Management

1 Canons Road
Bristol
BS1 5TX

Date 22 September 2010

Independent auditors' report to the members 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 2010 which comprises the consolidated statement of financial activities, the consolidated summary income and expenditure account, the consolidated cash flow statement the consolidated and charity balance sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and the charity's trustees, as a body, in accordance with Section 49A of the Charities Act 1993 and regulations made under Schedule 5A of that Act. Our audit work has been undertaken so that we might state to the charity's members and trustees those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

As described in the Statement of Trustees' Responsibilities on page 11, it is the charitable trustees' (who are also the directors of the Company for the purposes of Company Law) responsibilities for preparing the Report of the Council Management and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for being satisfied that the financial statements give a true and fair view.

We have been appointed auditors under the Companies Act 2006 and Section 43 of the Charities Act 1993 and report to you in accordance with those Acts. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and have been prepared in accordance with the Companies Act 2006 and the Charities Act 1993. We also report to you whether, in our opinion, the information given in the Trustees' Annual Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the charity has not kept adequate accounting records, if the charity's financial statements are not in agreement with the accounting records and returns, if we have not received all the information and explanations we require for our audit, or if certain disclosures of trustees' remuneration specified by law are not made.

We read the Report of the Council of Management and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and the charitable parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion

- the financial statements give a true and fair view of the state of the group's and the charitable parent company's affairs as at 31 March 2010 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the Companies Act 2006 and the Charities Act 1993; and
- the information given in the Trustees' Annual Report is consistent with the financial statements.



Steven Coombe
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditors
Chartered Accountants

Portwall Place
Portwall Lane
Bristol
BS1 6NA

22 September 2010

** The maintenance and integrity of the Watershed website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in other jurisdiction.*

Consolidated statement of financial activities (including an income & expenditure account)
for the year ended 31 March 2010

	<i>Note</i>	Unrestricted Funds £	Restricted Funds £	Total Funds 2010 £	Total Funds 2009 £
Incoming resources					
<i>Incoming resources from generated funds</i>					
<i>Voluntary Income:</i>					
Grants and sponsorship	3	88,452	229,561	318,013	393,297
Donated services and facilities		-	-	-	-
Gift Aid donations		-	-	-	200
<i>Activities for generating funds:</i>					
Commercial trading operations	5/6	1,389,127	-	1,389,127	1,373,716
<i>Investment income:</i>					
Interest receivable		237	-	237	6,485
Rental income		326,450	-	326,450	385,723
Service charges		130,105	-	130,105	126,962
		<u>1,934,371</u>	<u>229,561</u>	<u>2,163,932</u>	<u>2,286,383</u>
<i>Incoming resources from charitable activities</i>					
Earned income from cinema activities		568,698	-	568,698	494,751
Other earned income		59,112	-	59,112	72,264
Project funds	3	-	420,186	420,186	379,860
Core grant funding	3	435,450	-	435,450	426,603
		<u>1,063,260</u>	<u>420,186</u>	<u>1,483,446</u>	<u>1,373,478</u>
<i>Other incoming resources</i>					
Capital grants (building/construction/refurbishment)	3	-	459,793	459,793	159,043
Total incoming resources		<u>2,997,631</u>	<u>1,109,540</u>	<u>4,107,171</u>	<u>3,818,904</u>
Resources expended					
<i>Costs of generating funds</i>					
Costs of generating voluntary income		8,532	-	8,532	8,673
Commercial trading operations	5/6	1,283,673	-	1,283,673	1,379,280
Property management costs		130,105	-	130,105	126,962
		<u>1,422,310</u>	<u>-</u>	<u>1,422,310</u>	<u>1,514,915</u>
<i>Charitable activities</i>					
Operation of cinema and digital media projects	8	1,666,786	649,747	2,316,533	2,415,576
Governance costs		55,483	-	55,483	53,118
Total resources expended		<u>3,144,579</u>	<u>649,747</u>	<u>3,794,326</u>	<u>3,983,609</u>
Net (outgoing)/incoming resources before transfers and Net (expenditure)/income for the year		(146,948)	459,793	312,845	(164,705)
Transfers between funds	18	150,361	(150,361)	-	-
Net movement in funds		<u>3,413</u>	<u>309,432</u>	<u>312,845</u>	<u>(164,705)</u>
<i>Reconciliation of funds</i>					
Total funds brought forward		273,083	7,718,857	7,991,940	8,156,645
Total funds carried forward		<u>276,496</u>	<u>8,028,289</u>	<u>8,304,785</u>	<u>7,991,940</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.

The notes on pages 18 to 34 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2010

	2010	2009
	£	£
Net cash inflow from operating activities	756,465	147,852
Returns on investments and servicing of finance	237	6,485
Taxation paid	(1,601)	(1,263)
Capital expenditure and financial investment	(504,185)	(298,514)
	<hr/>	<hr/>
Net cash flow before financing	250,916	(145,440)
Management of liquid resources	-	-
Financing	-	-
	<hr/>	<hr/>
Increase/(decrease) in cash	250,916	(145,440)
Cash at bank and in hand at beginning of year	308,267	453,707
	<hr/>	<hr/>
Cash at bank and in hand at end of year	<u>559,183</u>	<u>308,267</u>

Reconciliation of operating profit to net cash inflow from operating activities

	2010	2009
	£	£
Net outgoing resources	312,845	(164,705)
Tax on ordinary activities	2,140	1,285
Interest receivable	(237)	(6,485)
Depreciation charges	219,834	253,743
Loss on disposal of fixed assets	6,256	-
Change in stocks	(2,791)	454
Change in debtors	(9,021)	(28,102)
Change in creditors	227,439	91,662
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>756,465</u>	<u>147,852</u>

The notes on pages 18 to 34 form part of these financial statements.

Consolidated and company balance sheets

at 31 March 2010

	Note	Group		Charity	
		2010 £	2009 £	2010 £	2009 £
Fixed assets					
Tangible assets	12	8,239,076	7,960,981	8,212,510	7,938,094
Investments	13	-	-	101	101
		<u>8,239,076</u>	<u>7,960,981</u>	<u>8,212,611</u>	<u>7,938,195</u>
Current assets					
Stocks	14	20,264	17,473	-	-
Debtors	15	299,355	290,334	300,836	295,675
Cash at bank and in hand		559,183	308,267	270,581	169,739
		<u>878,802</u>	<u>616,074</u>	<u>571,417</u>	<u>465,414</u>
Creditors: amounts falling due within one year	16	(811,339)	(585,090)	(505,467)	(429,111)
Net current assets		<u>67,463</u>	<u>30,984</u>	<u>65,950</u>	<u>36,303</u>
Total assets less current liabilities		<u>8,306,539</u>	<u>7,991,965</u>	<u>8,278,561</u>	<u>7,974,498</u>
Provisions for liabilities and charges	17	(1,754)	(25)	-	-
Net assets		<u>8,304,785</u>	<u>7,991,940</u>	<u>8,278,561</u>	<u>7,974,498</u>
Unrestricted income funds	18	276,496	273,083	250,272	255,641
Restricted capital funds	19	8,028,289	7,718,857	8,028,289	7,718,857
Total funds		<u>8,304,785</u>	<u>7,991,940</u>	<u>8,278,561</u>	<u>7,974,498</u>

These financial statements were approved by the Council of Management on 22 September 2010 and were signed on its behalf by:



D Price
Member of the Council of Management

The notes on pages 18 to 34 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historic cost convention and in accordance with applicable accounting standards including the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' (SORP 2005) published in March 2005, and the Companies Act 2006.

Basis of consolidation

These consolidated financial statements include the financial statements of The Watershed Arts Trust Limited ("the charitable company"), and Watershed Trading Limited and iShed CIC its wholly owned trading subsidiaries made up to 31 March 2010.

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 5 and 6 to these financial statements.

In accordance with the provisions of s230 of the Companies Act 2006 and paragraph 397 of the SORP, the charity is exempt from the requirement to present its own income and expenditure account and Statement of Financial Activities.

Grants

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 incoming resources from generating funds. Revenue grants received for specific creative projects are categorised as incoming resources from charitable activities.

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

Income

Income in furtherance of the charity's 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 are 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 in the balance sheet.

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

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

Earned income in respect of iShed 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 are accounted for on a receivable basis.

Donated services and facilities

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

Notes (continued)

1 Accounting policies (continued)

Expenditure

All expenditure is accounted for on an accruals basis.

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

Expenditure is recognised when a liability is incurred.

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

Leases

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

Stocks

Stocks are stated at the lower of cost and net realisable value.

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 charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 reserves. The balance is transferred to unrestricted reserves 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 which are expendable at the discretion of the Council of Management in furtherance of the objects of the charity. In addition to expenditure on the principal activities of the Trust, such funds may be held in order to finance capital investment and working capital.

Designated funds

A designated fund has been established to ring fence surpluses associated with the rental income from E and W Sheds. These funds will be applied to the charitable activities of the Arts Trust in accordance with the agreement with SWRDA.

Subsidiaries

Details of subsidiary undertakings owned by the charity are disclosed in note 5 and 6.

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

Acquisition of lease The company had a 25 year lease from 31 March 1990. Depreciation is provided on a straight line basis from 31 March 1990.

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 Council of Management 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.

Acquisition of the Headlease
to E & W sheds

In March 2007 Watershed purchased the headlease to E & W sheds for its unexpired term of 111 $\frac{3}{4}$ years. The final purchase 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).

2 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 2010 there were 12 members.

Notes (continued)

3 Grant and project income receivable

	Deferred as at 1 April 2009 £	Cash received & receivable 09/10 £	Credited to income & expenditure 09/10 £	Transferred to capital grants 09/10 £	Deferred as at 31 March 2010 £
Incoming resources from generated funds					
Grants and sponsorship:					
Restricted					
Arts Council England	52,548	85,613	135,161	-	3,000
Other	7,322	198,565	94,400	-	111,487
Unrestricted					
Other grants	-	214,391	88,452	-	125,939
Total grants and sponsorship	59,870	498,569	318,013	-	240,426
Incoming resources from charitable activities					
Unrestricted					
Core grant funding					
Arts Council South West	-	336,500	336,500	-	-
Bristol City Council	-	98,950	98,950	-	-
Total Core grant funding	-	435,450	435,450	-	-
Restricted					
Project funding - grants					
South West Screen	-	100,000	100,000	-	-
Arts Council England & Arts Council SW	23,490	5,032	28,522	-	-
South West Regional Development Agency	-	101,121	91,846	-	9,275
University of Gloucester	-	44,021	32,207	-	11,814
Other grants	6,113	138,881	139,593	-	5,401
Project funding - other					
Bristol City Council	-	4,000	4,000	-	-
Other Project Funds	10,909	13,109	24,018	-	-
Total Project Funds	40,512	406,164	420,186	-	26,490
Other incoming resources					
Restricted funds					
Capital grants	-	459,793	459,793	-	-
Total capital grants	-	459,793	459,793	-	-
Total	100,382	1,799,976	1,633,442	-	266,916

Notes *(continued)*

4 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 iShed CIC.

The gross incoming resources for the year ended 31 March 2010 for the charity was £2,361,675 (2009: £2,330,049). The overall net incoming resources for the year was a surplus of £304,062 (2009: £165,840), with a deficit of £5,369 (2009: deficit of £123,703) on unrestricted reserves.

Notes *(continued)*

5 Trading subsidiary's results (Watershed Trading Limited)

	2010 Total £	2009 Total £
Turnover	1,397,188	1,388,695
Cost of sales	(990,550)	(1,010,226)
	<hr/>	<hr/>
Gross profit	406,638	378,469
Administration and other costs	(141,685)	(148,848)
	<hr/>	<hr/>
Trading profit	264,953	229,621
Other income	87	1,774
	<hr/>	<hr/>
Net income	265,040	231,395
Gift aid payment to Watershed Arts Trust Limited	(85,189)	(59,350)
Management charge from Watershed Arts Trust Limited	(170,438)	(170,464)
Tax on profit on ordinary activities	(1,729)	(580)
	<hr/>	<hr/>
Retained profit for the year	7,684	1,001
Retained profit brought forward	16,927	15,926
	<hr/>	<hr/>
Retained profit carried forward	24,611	16,927
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities of the subsidiary were:

	2010 Total £	2009 Total £
Fixed assets	26,566	22,887
Current assets	243,254	168,134
Creditors: amounts falling due within one year	(243,355)	(173,969)
Provisions for liabilities and charges	(1,754)	(25)
	<hr/>	<hr/>
Net assets	24,711	17,027
	<hr/> <hr/>	<hr/> <hr/>
Equity shareholders' funds	24,711	17,027
	<hr/> <hr/>	<hr/> <hr/>

Included within turnover is £16,232 (2009: £25,329) relating to income from group companies.

Included within costs is £4,000 (2009: £nil) relating to inter-group transactions.

Notes *(continued)*

6 Trading subsidiary's results (iShed CIC)

	2010 Total £	2009 Total £
Turnover	180,898	238,128
Cost of sales	(66,281)	(134,092)
	<hr/>	<hr/>
Gross profit	114,617	104,036
Administration and other costs	(89,635)	(84,829)
	<hr/>	<hr/>
Trading profit	24,982	19,207
Other income	25	618
	<hr/>	<hr/>
Net income	25,007	19,825
Gift aid payment to Watershed Arts Trust Limited	-	-
Management charge from Watershed Arts Trust Limited	(23,498)	(18,936)
Tax on profit on ordinary activities	(411)	(705)
	<hr/>	<hr/>
Retained profit for the year	1,098	184
Retained profit brought forward	515	331
	<hr/>	<hr/>
Retained profit carried forward	1,613	515
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities of the subsidiary were:

	2010 Total £	2009 Total £
Fixed assets	-	-
Current assets	167,586	52,429
Creditors: amounts falling due within one year	(165,972)	(51,913)
	<hr/>	<hr/>
Net assets	1,614	516
	<hr/> <hr/>	<hr/> <hr/>
Equity shareholders' funds	1,614	516
	<hr/> <hr/>	<hr/> <hr/>

Included within turnover is £8,171 (2009: £10,550) relating to commercial trading operations.

Included within costs is £2,618 (2009: £nil) relating to intercompany transactions.

Notes (continued)

7 Allocation of support costs

The Trust allocates its support costs as shown in the table below and then further apportions those costs between the two charitable activities undertaken (see note 8). Support costs are allocated on a basis consistent with the use of resources.

	Charitable activities	Allocated to costs of generating voluntary income	Governance	Total
	£	£	£	£
Support cost				
General office	47,552	2,425	8,378	58,355
Finance office	110,936	6,107	30,209	147,252
External audit	-	-	16,896	16,896
Professional services	12,218	-	-	12,218
ICT costs	30,162	-	-	30,162
	<u>200,868</u>	<u>8,532</u>	<u>55,483</u>	<u>264,883</u>

8 Analysis of charitable expenditure

	Cinema Exhibition Programme	Digital Studio	2010 Total	2009 Total
	£	£	£	£
Film hire costs	186,259	-	186,259	154,236
Front of house/projection costs	352,063	-	352,063	350,966
Direct programme/project costs	217,287	344,938	562,225	735,530
Marketing and publicity	252,872	48,826	301,698	322,879
Premises costs	357,563	153,573	511,136	422,330
Support costs	168,360	32,508	200,868	188,393
Depreciation	165,168	37,116	202,284	241,242
	<u>1,699,572</u>	<u>616,961</u>	<u>2,316,533</u>	<u>2,415,576</u>

Notes *(continued)*

9 Staff numbers and costs

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

	Number of employees	
	2010	2009
Cinema and exhibition	30	32
Administration	11	11
Catering	12	12
Bar	16	16
Conference	3	3
	<hr/>	<hr/>
	72	74
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2010	2009
	£	£
Directors emoluments	39,545	36,050
Wages and salaries	1,504,802	1,507,764
Social security costs	133,552	151,592
	<hr/>	<hr/>
	1,677,899	1,695,406
	<hr/> <hr/>	<hr/> <hr/>

The Members were not paid any remuneration or reimbursed for expenses during the year.

The emoluments of one employee, including benefits in kind, are within the range of £60,000 to £100,000 (2009 – there was only one employee whose emoluments exceeded £60,000).

Notes *(continued)*

10 Net movement on funds is stated after charging

	2010	2009
	£	£
Auditors' remuneration - audit	10,625	10,732
- other services	-	367
Depreciation and other amounts written off tangible fixed assets	198,146	253,743
Hire of plant and machinery	5,246	5,876
	-----	-----

11 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 subsidiary Watershed Trading Limited and iShed CIC.

	2010	2009
	£	£
Current tax:		
UK corporation tax on results of the year	411	1,601
Deferred tax (see note 17)		
Origination/reversal of timing differences	1,729	(316)
	-----	-----
Tax on profit on ordinary activities	2,140	1,285
	-----	-----

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 (21%), (2009: 21%). The differences are explained below:

	2010	2009
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	10,922	2,470
	-----	-----
Current tax at 21% (2009: 21%)	2,294	519
<i>Effects of:</i>		
Depreciation for period in excess of capital allowances	(1,831)	316
Other timing differences	102	-
Expenses not deductible for tax purposes	(154)	766
	-----	-----
Total current tax charge (see above)	411	1,601
	-----	-----

Notes *(continued)*

12 Tangible fixed assets

	Headlease	Leasehold Improvements	Plant, Equipment Furniture, Fittings	Total
Group	£	£	£	£
<i>Cost</i>				
At beginning of year	5,764,399	3,021,418	617,378	9,403,195
Disposals in the year	-	(6,256)	(59,149)	(65,405)
Additions in the year	450,000	-	54,185	504,185
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,214,399	3,015,162	612,414	9,841,975
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	152,090	751,534	538,590	1,442,214
Depreciation on disposals in the year	-	-	(59,149)	(59,149)
Charge for year	55,745	99,709	64,380	219,834
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	207,835	851,243	543,821	1,602,899
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2010	6,006,564	2,163,919	68,593	8,239,076
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	5,612,309	2,269,884	78,788	7,960,981
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

12 Tangible fixed assets (continued)

	Headlease	Leasehold improvements	Furniture and equipment	Total
Charity	£	£	£	£
<i>Cost</i>				
At beginning of year	5,764,399	3,021,418	504,111	9,289,928
Disposals in the year	-	(6,256)	(6,009)	(12,265)
Additions in the year	450,000	-	32,956	482,956
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,214,399	3,015,162	531,058	9,760,619
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	152,090	751,534	448,210	1,351,834
Depreciation on disposals in the year	-	-	(6,009)	(6,009)
Charge for year	55,745	99,709	46,830	202,284
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	207,835	851,243	489,031	1,548,109
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2010	6,006,564	2,163,919	42,027	8,212,510
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	5,612,309	2,269,884	55,901	7,938,094
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13 Fixed asset investment

Shares	Charity 2010 £
At beginning and end of year	101
	<hr/>

The company owns 100% of the issued share capital of Watershed Trading Limited, a company incorporated in England and Wales. The principal activities of this company are the operation of the bar, restaurant and conference facilities at the Watershed.

The company owns 100% of the issued share capital of iShed CIC, 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.

14 Stocks

	Group		Charity	
	2010	2009 £	2010	2009 £
Finished goods and goods for resale	20,264	17,473	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

15 Debtors

	Group		Charity	
	2010	2009	2010	2009
	£	£	£	£
Trade debtors	122,650	70,601	39,109	28,977
Prepayments and accrued income	156,598	201,206	154,092	200,200
Other debtors including taxation and social security	20,107	18,527	19,434	17,573
Amounts owed by group undertakings	-	-	88,201	48,925
	<u>299,355</u>	<u>290,334</u>	<u>300,836</u>	<u>295,675</u>

All debtors are recoverable within one year.

The amounts owed from group undertakings of £88,201 in 2010 represents gift aid of £85,189 owed from Watershed Trading Limited and charges of £3,012 owed by iShed CIC to the Arts Trust in respect of consultancy.

16 Creditors: amounts falling due within one year

	Group		Charity	
	2010	2009	2010	2009
	£	£	£	£
Trade creditors	278,935	224,692	202,878	154,013
Other creditors including taxation and social security	163,409	144,759	72,959	80,402
Accruals and deferred income (see note 17)	368,995	215,639	214,450	173,718
Amounts owed to group undertakings	-	-	15,180	20,978
	<u>811,339</u>	<u>585,090</u>	<u>505,467</u>	<u>429,111</u>

Other creditors include £56,419 (2009: £50,727) an amount owed for other taxes and social security.

Accruals and deferred income includes accruals of £62,293 and deferred income comprising £1,786 of advance sales, £400 of desk rental income, £17,000 of Bristol + funds, £13,860 of conference deposits, £6,740 of rental income received in advance and £266,916 of grant and project income (see note 3).

Notes *(continued)*

17 Provisions and liabilities

Group	Deferred Tax £
At beginning of year	25
Release in the year (note 11)	1,729
	<hr/>
At end of year	1,754
	<hr/> <hr/>

The elements of deferred taxation are as follows:

	2010 £	2009 £
Difference between accumulated depreciation and capital allowances	1,754	25
	<hr/> <hr/>	<hr/> <hr/>

The charity has no deferred taxation liabilities.

18 Unrestricted income funds

	Group £	Charity £
At beginning of year	273,083	255,641
Movement in year before transfers	(146,948)	(155,730)
Transfer from restricted funds (note 19)	150,361	150,361
	<hr/>	<hr/>
At end of year	276,496	250,272
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

18 Unrestricted income funds (continued)

	At beginning of year	Incoming Resources	Expenditure	Transfers	Balance at 31 March 2010
	£	£	£	£	£
Unrestricted Income Funds					
General fund	161,439	-	(146,948)	150,361	164,852
<i>Designated Funds</i>					
Bristol+ contingency fund	111,644	-	-	-	111,644
	<u>273,083</u>	<u>-</u>	<u>(146,948)</u>	<u>150,361</u>	<u>276,496</u>

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

19 Restricted funds: Group and Charity

	At beginning of year	Incoming Resources	Transfer to unrestricted income funds	Outgoing Resources	At end of year
	£	£	£	£	£
Capital grants					
Leasehold premium reserve	59,307	-	(9,885)	-	49,422
Deferred capital grant	39,380	-	(1,600)	-	37,780
Deferred capital refurbishment grants	1,313,709	-	(67,426)	-	1,246,283
Lottery lease purchase grant	627,263	-	(8,712)	-	618,551
SWRDA head lease purchase grant	5,612,310	450,000	(55,746)	-	6,006,564
ACE GforA capital grant	66,888	-	(2,800)	-	64,088
BFI equipment grant	-	9,793	(4,192)	-	5,601
	<u>7,718,857</u>	<u>459,793</u>	<u>(150,361)</u>	<u>-</u>	<u>8,028,289</u>
Voluntary income					
Grants and Sponsorship	-	229,561	-	(229,561)	-
Donated services	-	-	-	-	-
Incoming resources from charitable Activities					
Project funding – grants	-	392,168	-	(392,168)	-
Project funding – other	-	28,018	-	(28,018)	-
	<u>-</u>	<u>649,747</u>	<u>-</u>	<u>(649,747)</u>	<u>-</u>
	<u>7,718,857</u>	<u>1,109,540</u>	<u>(150,361)</u>	<u>(649,747)</u>	<u>8,028,289</u>

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

Notes *(continued)*

19 Restricted funds: Group and Charity *(continued)*

Leasehold premium reserve

The consideration on the surrender of the lease in 1990 has been transferred to a premium suspense reserve. The reserve is being taken to income in equal instalments over a period of 25 years to match the depreciation of structural leasehold improvements.

Deferred capital grant

Grant support from the BFI, and Bristol City Council 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 stabilisation grants

Lottery Grant support from Arts Council England Capital scheme to enable the purchase of a new till and box office system and ICT equipment has been transferred to deferred capital grants and is being taken to income over a period of 3-5 years to match the depreciation of the assets funded by the grants.

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.

SWRDA Headlease purchase grant

Capital grant support from South West Regional Development Agency (£6,214,399) to enable Watershed to purchase the head lease to E & W sheds and acquire the sub-lease to unit 2/3 has been transferred to restricted capital funds and is being taken to income over a period of 111.75 years to match the unexpired period of the lease.

The total amount of the award is £6,400,000. An amount of £450,000 was drawn down in 2010 to fund payment of the balance due on the final purchase price of £5,950,000. These amounts have been transferred to restricted capital funds and are being taken to income over the period of the unexpired term of the head lease.

Other capital grants

Grant support from various sources, including the Big Lottery, 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 incoming resources from charitable activities and the grants are spent in accordance with the donors' restrictions.

20 Analysis of fund balances - group

	Unrestricted funds £	Restricted funds £	2010 Total	2009 Total £
Fixed assets	210,787	7,582,427	7,793,214	7,960,981
Net current assets	67,463	-	67,463	30,984
Long term liabilities	-	-	-	-
Provisions for liabilities and charges	(1,754)	-	(1,754)	(25)
	<u>276,496</u>	<u>7,582,427</u>	<u>7,858,923</u>	<u>7,991,940</u>

Notes *(continued)*

21 Operating leases

The Group and Charity are committed to make annual payments in respect of operating leases as follows:

	2010	2009
	Group and Charity plant and equipment £	Group and Charity plant and equipment £
Expiring within:		
Two to five years	10,500	9,658
Greater than five years	-	890
	<hr/> 10,500 <hr/>	<hr/> 10,548 <hr/>

22 Related Party Transactions

During the year legal fees of £5,945 (2009: £4,932) were paid to TLT solicitors in respect of legal services provided to Watershed Arts Trust Limited. James Touzel is a trustee of Watershed Arts Trust Limited, a director of iShed CIC and a partner of TLT solicitors.