

Financial Statements of

**VANCOUVER ART GALLERY ASSOCIATION**

Year ended June 30, 2018



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## **INDEPENDENT AUDITORS' REPORT**

To the Members of the Vancouver Art Gallery Association

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Vancouver Art Gallery Association, which comprise the statement of financial position as at June 30, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vancouver Art Gallery Association as at June 30, 2018 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Report on other Legal and Regulatory Requirements**

As required by the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

*KPMG LLP*

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Chartered Professional Accountants

Vancouver, Canada  
September 26, 2018

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Financial Position

June 30, 2018, with comparative information for 2017

	General Fund	Acquisitions Fund	Building Fund	Operating Capital Fund	Total 2018	Total 2017
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 214,552	\$ 239,159	\$ 25,732,497	\$ -	\$ 26,186,208	\$ 2,558,651
Short-term investments	-	-	14,214,179	-	14,214,179	39,177,496
Grants, pledges, interest and accounts receivable (note 2)	1,752,997	188,861	37,172	-	1,979,030	2,764,018
Prepaid expenses and exhibition costs	907,321	-	-	-	907,321	1,260,670
Inventories	758,918	-	-	-	758,918	915,888
	3,633,788	428,020	39,983,848	-	44,045,656	46,676,723
Capital assets (note 3)	988,229	-	316,621	-	1,304,850	1,501,008
Building project under development (note 3)	-	-	10,379,789	-	10,379,789	10,040,288
	\$ 4,622,017	\$ 428,020	\$ 50,680,258	\$ -	\$ 55,730,295	\$ 58,218,019
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Bank indebtedness (note 4)	\$ 333,225	\$ -	\$ -	\$ -	\$ 333,225	\$ 1,786,584
Accounts payable and accrued liabilities (note 5)	2,033,066	111,247	190,037	-	2,334,350	3,790,887
Obligations under capital lease - current portion (note 6)	65,897	-	-	-	65,897	91,285
Deferred memberships revenue	539,719	-	-	-	539,719	497,045
Deferred contributions (note 7)	415,561	-	-	-	415,561	494,526
Interfund balances (note 1(a)(iv))	270,671	(13,490)	247,819	(505,000)	-	-
	3,658,139	97,757	437,856	(505,000)	3,688,752	6,660,327
Obligations under capital lease (note 6)	124,707	-	-	-	124,707	146,648
Net assets:						
Unrestricted	839,171	-	-	-	839,171	(183,228)
Internally restricted (note 11)	-	-	6,299,041	-	6,299,041	5,701,138
Externally restricted (note 11)	-	330,263	43,943,361	-	44,273,624	45,388,134
Permanently restricted for working capital purposes (note 1(a)(iv))	-	-	-	505,000	505,000	505,000
	839,171	330,263	50,242,402	505,000	51,916,836	51,411,044
Commitments (note 16)						
	\$ 4,622,017	\$ 428,020	\$ 50,680,258	\$ -	\$ 55,730,295	\$ 58,218,019

See accompanying notes to financial statements.

Approved on behalf of the Board:



Trustee



Trustee

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Operations

Year ended June 30, 2018, with comparative information for 2017

	General Fund	Acquisitions Fund	Building Fund	Operating Capital Fund	Total 2018	Total 2017
<b>Revenue:</b>						
Admissions	\$ 4,972,427	\$ -	\$ -	\$ -	\$ 4,972,427	\$ 3,282,135
Exhibition loan fees	33,924	-	-	-	33,924	50,689
Fundraising (note 12(b))	2,942,249	53,392	504,017	-	3,499,658	3,497,710
Gallery Store, Artist Editions and Art Rentals & Sales (note 8)	4,622,312	-	-	-	4,622,312	2,956,980
Investment income (note 10)	36,784	583,924	-	-	620,708	660,826
Memberships	1,250,434	-	-	-	1,250,434	989,388
Public programming	192,253	-	-	-	192,253	88,030
Rentals and cafe lease (note 8)	797,780	-	-	-	797,780	662,326
Special events (note 9)	1,738,237	-	-	-	1,738,237	965,031
Sponsorships	580,023	25,000	-	-	605,023	1,030,169
Vancouver Art Gallery Foundation contribution (note 12(a))	389,241	172,631	-	-	561,872	537,566
Other	68,146	-	-	-	68,146	76,580
	<u>17,623,810</u>	<u>834,947</u>	<u>504,017</u>	<u>-</u>	<u>18,962,774</u>	<u>14,797,410</u>
<b>Grants:</b>						
BC Arts Council	715,000	-	-	-	715,000	791,000
BC Gaming	225,000	-	-	-	225,000	225,000
Canada Council for the Arts	315,070	-	-	-	315,070	307,881
City of Vancouver	2,465,699	-	-	-	2,465,699	2,329,099
Other	11,811	-	-	-	11,811	-
	<u>3,732,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,732,580</u>	<u>3,652,980</u>
	<u>21,356,390</u>	<u>834,947</u>	<u>504,017</u>	<u>-</u>	<u>22,695,354</u>	<u>18,450,390</u>
<b>Expenses:</b>						
Administration and finance	2,034,709	-	-	-	2,034,709	1,827,372
Art acquisitions (note 13)	-	1,011,906	-	-	1,011,906	1,199,728
Curatorial and programs	2,098,237	-	-	-	2,098,237	2,199,877
Exhibitions	4,207,602	-	-	-	4,207,602	3,885,269
Retail operations (note 8)	3,693,268	-	-	-	3,693,268	2,591,585
Facility operation and security	3,310,048	-	-	-	3,310,048	3,065,885
Marketing and development (note 9)	2,768,675	-	-	-	2,768,675	2,738,691
Building project capital campaign and engagement	-	-	1,211,413	-	1,211,413	1,392,266
Museum services	1,902,625	-	-	-	1,902,625	1,646,175
	<u>20,015,164</u>	<u>1,011,906</u>	<u>1,211,413</u>	<u>-</u>	<u>22,238,483</u>	<u>20,546,848</u>
Excess (deficiency) of revenue over expenses before the undernoted	1,341,226	(176,959)	(707,396)	-	456,871	(2,096,458)
Amortization of capital assets	(318,827)	-	(230,155)	-	(548,982)	(474,919)
Excess (deficiency) of revenue over expenses before the undernoted	1,022,399	(176,959)	(937,551)	-	(92,111)	(2,571,377)
Investment income - Building Fund (note 11)	597,903	-	-	-	597,903	527,682
Excess (deficiency) of revenue over expenses	1,620,302	(176,959)	(937,551)	-	505,792	(2,043,695)
Balance, beginning of year	(183,228)	507,222	50,582,050	505,000	51,411,044	53,454,739
Interfund transfers (note 11)	(597,903)	-	597,903	-	-	-
<b>Balance, end of year</b>	<b>\$ 839,171</b>	<b>\$ 330,263</b>	<b>\$ 50,242,402</b>	<b>\$ 505,000</b>	<b>\$ 51,916,836</b>	<b>\$ 51,411,044</b>

See accompanying notes to financial statements.

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Changes in Net Assets

Year ended June 30, 2018, with comparative information for 2017

	Unrestricted	Internally Restricted	Externally Restricted	Permanently Restricted for Working Capital Purposes	Total 2018
Balance, beginning of year	\$ (183,228)	\$ 5,701,138	\$45,388,134	\$ 505,000	\$51,411,044
Excess of revenue over expenses	1,620,302	-	(1,114,510)	-	505,792
Interfund transfer (note 11)	(597,903)	597,903	-	-	-
Balance, end of year	\$ 839,171	\$ 6,299,041	\$44,273,624	\$ 505,000	\$51,916,836

	Unrestricted	Internally Restricted	Externally Restricted	Permanently Restricted for Working Capital Purposes	Total 2017
Balance, beginning of year	\$ 558,946	\$ 5,701,138	\$46,689,655	\$ 505,000	\$53,454,739
Excess of revenue over expenses	(742,174)	-	(1,301,521)	-	(2,043,695)
Interfund transfer (note 11)	-	-	-	-	-
Balance, end of year	\$ (183,228)	\$ 5,701,138	\$45,388,134	\$ 505,000	\$51,411,044

See accompanying notes to financial statements.

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Cash Flows

Year ended June 30, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating:		
Surplus (deficiency) of revenue over expenses	\$ 505,792	\$ (2,043,695)
Amortization of capital assets, an item not involving cash	548,982	474,919
Net change in non-cash operating working capital:		
Grants, pledges, interest and accounts receivable	784,988	130,958
Prepaid expenses and exhibition costs	353,349	407,665
Inventories	156,970	(130,143)
Accounts payable and accrued liabilities	(1,456,537)	670,761
Deferred memberships revenue	42,674	11,357
Deferred contributions	(78,965)	(392,028)
	857,253	(870,206)
Investments:		
Purchase of capital assets and building project under development	(622,160)	(4,293,275)
Proceeds from (purchase of) short-term investments	24,963,317	(39,177,496)
	24,341,157	(43,470,771)
Financing:		
Increase (decrease) in bank indebtedness	(1,453,359)	882,071
Repayment of obligations under capital lease	(117,494)	(114,706)
	(1,570,853)	767,365
Decrease in cash and cash equivalents	23,627,557	(43,573,612)
Cash and cash equivalents, beginning of year	2,558,651	46,132,263
Cash and cash equivalents, end of year	\$ 26,186,208	\$ 2,558,651
Non-cash investing and financing activity:		
Acquisition of capital asset under capital lease	\$ 70,165	\$ 101,890

See accompanying notes to financial statements.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2018

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## **Purpose of the Organization:**

The Vancouver Art Gallery Association (the "Association") is a not-for-profit organization incorporated in April 1931 under the Society Act (British Columbia) and is a registered charity for Canadian income tax purposes. Its objectives are to establish and maintain an art gallery for the perpetual benefit of the City of Vancouver and its citizens. The Association has transitioned to the new Societies Act (British Columbia), which came into effect on November 28, 2016.

## **1. Significant accounting policies:**

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations and include the following significant accounting policies:

### **(a) Fund accounting:**

These financial statements include the undernoted funds which are segregated for purposes of carrying on specific activities as described below.

- (i) The General Fund reflects the results of general operations of the Association.
- (ii) The Acquisitions Fund was established in 1984 through funds from the sale of the original Georgia Street building and receives restricted income earned by The Vancouver Art Gallery Endowment Fund for Acquisitions of Art. The Association also receives restricted income from The Vancouver Art Gallery Foundation (the "Foundation") which has established several acquisition endowment funds (note 12(a)). The purpose of the fund is to manage the funding and expenditures on the art collection (the "Collection") of the Vancouver Art Gallery.
- (iii) The Building Fund was established in 2008 for the express purpose of accumulating, managing and distributing funds to plan, develop and build a new Vancouver Art Gallery (note 11).
- (iv) The Operating Capital Fund was established in 2012 for the purpose of accumulating and managing capital that is either raised through external contributions or internal funds and is restricted expressly for the purpose of meeting future working capital or other contingency funding needs of the General Fund. Any temporary financing provided by the Operating Capital Fund to the General Fund is recorded as an interfund balance to be repaid to the Operating Capital Fund. Any contributions received specifically for this fund are considered to be held on a permanent basis as they are not available other than for the General Fund's financing requirements.

In addition, the Life Benefactors Endowment Fund was initially established in 1989 and the income from the Fund is intended to finance special projects as determined by the Board of Trustees. This fund is permanently restricted and administered by the Vancouver Foundation as described in note 10 and is not included in these financial statements.



# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

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## 1. Significant accounting policies (continued):

### (b) Cash and cash equivalents:

Cash and cash equivalents consist of cash and highly liquid investments with terms to maturity of three months or less at the date of acquisition.

### (c) Short-term investments:

Short-term investments consist of highly liquid investments with terms to maturity between three and twelve months at the date of acquisition.

### (d) Prepaid exhibition costs:

Prepaid exhibition costs consist of exhibition expenditures that have been paid by the Association, the benefits of which relate to exhibitions held subsequent to year-end. These expenditures are recognized as exhibition expenses over the duration of the exhibition.

### (e) Inventories:

Inventories are comprised primarily of the following categories:

- (i) Books, jewelry, paper products, gifts, reproductions and clothing held-for-sale in the Gallery Store are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis.
- (ii) Owned artwork held-for-sale or rental in the Art Rental & Sales Department, where the Association is the title holder and ultimate beneficiary, is stated at the lower of cost and net realizable value.

Costs for inventories include all costs incurred in bringing inventories to their present location and condition. Net realizable value is defined as the anticipated selling price less the costs to sell. Any previous write-downs to net realizable value are reversed when there is a subsequent increase in the value of inventories.

### (f) Revenue recognition:

The Association applies the restricted fund method of accounting for contributions. Restricted contributions for which a corresponding restricted fund is presented are recognized as revenue of that fund in the year received or receivable. Any externally restricted contributions for which there is no corresponding restricted fund is recorded in the general fund, using the deferral method of accounting. Under this method of accounting, revenue received with specific external restrictions is deferred and recognized in the period the related expenses are incurred or the restrictions are met. Government grant contributions provided for use towards general operations are recognized on a straight-line basis over the period for which the grants are provided.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

## 1. Significant accounting policies (continued):

### (f) Revenue recognition (continued):

Contributions of or toward the purchase of capital assets under the general fund are recorded as deferred capital contributions and amortized into revenue at the same rate as the amortization of the related capital asset.

Restricted capital contributions to be maintained as part of the Operating Capital Fund are recorded as revenue within that fund in the year they are received or receivable.

The portions of membership fees and exhibition loan fees relating to future periods are deferred and amortized into revenue over the period of membership or exhibition.

Gallery Store, Artist Editions and Art Rentals & Sales revenues are recognized at the time the sales and rentals are made.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Pledged donation amounts are recorded as revenue when the amount to be received and the timing of collection can be reasonably estimated, typically when signed pledge forms are received, and ultimate collection is reasonably assured.

Revenue and expenses related to fundraising and other special events, where the Association is the principal to the events, are recorded on a gross basis.

### (g) Capital assets and building project under development:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense. Betterments that improve the service potential or extend the estimated life of an asset are capitalized.

Building project under development includes development and construction costs as well as overhead costs directly attributable to the new Vancouver Art Gallery. The carrying value of these assets reflects the current project plan of the Association, and will be evaluated annually in accordance with the Association's impairment of capital assets and building project under development policy as described in note 1(h).

Capital assets are amortized on a straight-line basis over the useful lives of the assets as follows:

Asset	Rate
Computers and software	3 - 5 years
Equipment	3 - 20 years
Furniture and building fixtures	5 - 25 years
Equipment under capital lease	3 - 8 years

Assets under development or construction are not amortized until the asset is available for productive use.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

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## 1. Significant accounting policies (continued):

### (h) Impairment of capital assets and building project under development:

The Association reviews, for impairment, the carrying value of capital assets to be held and used whenever events or changes in circumstances indicate that a cost incurred to acquire or develop an asset does not provide future service potential to the Association. If such conditions exist, an impairment loss is measured at the amount by which the carrying amount of the asset exceeds its residual value.

### (i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies have been translated at the rate of exchange in effect at year end. Non-monetary items, revenues and expenses are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Exchange gains and losses are included in the determination of excess of revenues over expenses for the period.

### (j) Pension plan:

The Association maintains a defined contribution plan for its employees. Pension plan costs for the employees of the Association are funded annually and are charged to operating expenses. These costs totaled \$192,213 for the year ended June 30, 2018 (2017 - \$188,889).

### (k) Collection:

The costs of additions to the collection are charged as an expense in the Acquisitions Fund in the year of acquisition.

### (l) Donated works of art, materials and services:

The Association receives donated works of art, materials and services, including services from governance members, the value of which is not reflected in these financial statements given the difficulty of determining the fair value.

### (m) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

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## 1. Significant accounting policies (continued):

### (m) Financial instruments (continued):

Financial assets carried at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

### (n) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items requiring the use of management estimates include the determination of useful lives of capital assets for purposes of amortization, valuation of inventories, allowance for doubtful accounts related to accounts and pledges receivable, and provisions, if any, for contingencies. Actual results may differ from these estimates.

## 2. Pledges:

### (a) General Fund:

In accordance with the Association's revenue recognition policy, included in grants, pledges, interest and accounts receivable are pledges receivable of \$1,142,418 (2017 - \$1,715,178) net of \$75,000 (2017 - \$120,000) in provision for impairment.

### (b) Building Fund:

To date, the Association raised \$35.8 million (2017 - \$34.5 million) in private sector pledges for the development of the new Vancouver Art Gallery, excluding interest earned from the Building Fund of \$6.3 million (2017 - \$5.7 million). Of the amount pledged, \$18.6 million of pledged donations are supported by documented agreements, of which payments of \$4.0 million have been received by the Association. The remainder of the pledges have been confirmed and agreements supporting the pledged amounts are in the process of being finalized. The outstanding pledges have not been recorded as an asset on the financial statements as at June 30, 2018.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

### 3. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Computers and software	\$ 1,699,365	\$ 1,303,216	\$ 396,149	\$ 482,689
Equipment	1,210,028	936,408	273,620	301,688
Furniture and building fixtures	1,123,314	751,421	371,893	370,674
Equipment under capital lease	946,819	683,631	263,188	345,957
	4,979,526	3,674,676	1,304,850	1,501,008
Building project under development (a)	10,379,789	-	10,379,789	10,040,288
	\$ 15,359,315	\$ 3,674,676	\$ 11,684,639	\$ 11,541,296

(a) Building project under development relates to costs incurred that are directly attributable to the construction and development of a new Vancouver Art Gallery. Costs incurred to-date primarily relate to project management, engineering and architectural costs related to the development of the building's schematic design and design development. The capitalized costs to date are not amortized until the asset construction is complete and is available for productive use.

### 4. Bank indebtedness:

The Association has an available operating line of credit of \$2.25 million which bears interest at the bank's prime rate plus 0.50% and is secured by a general security agreement representing a first charge on the Association's assets excluding:

- (a) gifts, bequests and donations received by the Association with instructions for the specific use not forming part of the general operating expenses of the Association; and
- (b) any funds, including interest accumulated thereon received with respect to the relocation related capital campaign, including without limitation the \$50 million funding received from the Province of British Columbia.

### 5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of \$35,922 (2017 - \$30,149), which includes amounts payable for PST, and payroll related taxes.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

## 6. Obligations under capital lease:

The following is a schedule of minimum lease payments under fixed-rate capital leases, together with the balance of the obligation:

2019	\$	79,315
2020		46,780
2021		40,273
2022		40,273
Thereafter		20,942
Total minimum lease payments		227,583
Less: amount representing interest at rates ranging from 0% to 5.93%		36,979
Present value of capital lease payments		190,604
Less current portion		65,897
		\$ 124,707

## 7. Deferred contributions:

	2018	2017
Contributions:		
City of Vancouver	\$ 204,469	\$ 271,035
Corporate sponsors	95,640	183,000
Other	115,452	40,491
	\$ 415,561	\$ 494,526

## 8. Retail operations:

	2018	2017
Sales:		
Gallery Store	\$ 3,850,610	\$ 2,193,519
Art Rental & Sales	771,702	763,461
Facility rentals and café lease	797,780	662,326
	5,420,092	3,619,306
Expenses:		
Cost of goods sold	2,551,169	1,583,474
Salaries and employee benefits	835,484	835,153
Administration	306,615	172,958
	3,693,268	2,591,585
Excess of revenue over expenses from operations	\$ 1,726,824	\$ 1,027,721

Cost of goods sold consists substantially of inventory costs expensed during the year.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

## 9. Special events:

The Association performs certain fundraising activities considered to be ancillary to its ongoing operations. These activities, which generated an excess of revenue over expenses for the year ended June 30, 2018 of \$1,083,742 (2017 - \$554,539), have been presented in the statement of operations on a gross basis. The gross revenue and expenses related to these activities are as follows:

	2018	2017
Revenue	\$ 1,738,237	\$ 965,031
Expenses (included in marketing and development)	654,494	410,492
Excess of revenue over expenses	\$ 1,083,743	\$ 554,539

## 10. Endowment funds:

Endowment funds are permanently held and administered by the Vancouver Foundation. Consequently these funds are not included as assets of the Association in these financial statements. These funds, at market and cost values, are comprised of:

	2018	2017
The Vancouver Art Gallery Endowment Fund for Acquisitions of Art	\$ 10,752,002	\$ 10,565,990
The Vancouver Art Gallery Endowment Fund	1,009,990	992,741
Market value	\$ 11,761,992	\$ 11,558,731
Cost	\$ 6,125,465	\$ 6,227,277

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income for the year ended June 30, 2018 of \$391,539 (2017 - \$373,685) from the Vancouver Art Gallery Endowment Fund for Acquisitions of Art has been recorded in the Acquisitions Fund. Income for the year ended June 30, 2018 of \$36,784 (2017 - \$35,116) from the General and Life Benefactors components of the Vancouver Art Gallery Endowment Fund has been recorded in the General Fund.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

## 11. Building Fund:

On March 31, 2008, the Province of British Columbia made a grant to the Association in the amount of \$50,000,000, with a restriction that the funds be used for the general purpose of planning, developing and building of a new Vancouver Art Gallery. This grant funding along with all additional contributions received by the Association restricted for the purpose of the new art gallery have been recorded as externally restricted revenues of the Building Fund in the year the funds are received. The Association received \$504,017 of such contributions in 2018 (2017 - \$348,353).

During the year, the Association made disbursements of \$1,630,516 (2017 - \$5,416,355) from the Building Fund related to the new Vancouver Art Gallery building project, including \$339,501 (2017 - \$3,776,811) of costs capitalized to building project under development, \$79,602 (2017 - \$247,278) of capitalized computer, software, and furniture and fixtures, and \$1,211,413 (2017 - \$1,392,266) in other building project operating expenses not capitalized.

Unspent funds are invested in accordance with the Association's Board approved investment policy. During the year ended June 30, 2018, unrestricted investment income earned on these investments and recorded under the General Fund was \$597,903 (2017 - \$527,682). The Board of Trustees approved the interfund transfer of the investment income earned during the year to the Building Fund. As at June 30, 2018, cumulative investment income transferred to the Building Fund totaled \$6,299,041 (2017 - \$5,701,138).

## 12. Related parties and economic interest:

### (a) Vancouver Art Gallery Foundation:

The Foundation was incorporated in March 1998 under the Society Act (British Columbia) and is a registered charity under the Income Tax Act. The Foundation has transitioned to the new Societies Act (British Columbia), which came into effect on November 28, 2016. Its purpose is to receive, hold and invest bequests, donations, gifts, funds and property, the income from which supports the programs, operations and activities of the Association. The Foundation's Board of Trustees is elected by the membership of the Foundation, which consists of the Association's Trustees and the elected Foundation's trustees who are not Association's Trustees. The Foundation has not been consolidated in the Association's financial statements.

The summarized financial position and operating results as at and for the year ended December 31, 2017, the latest fiscal year end of the Foundation, are as follows:

Financial position	2017	2016
Assets	\$ 4,031,701	\$ 3,953,419
Liabilities	164,487	249,706
Net assets	\$ 3,867,214	\$ 3,703,713



# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

## 12. Related parties and economic interest (continued):

### (a) Vancouver Art Gallery Foundation (continued):

Results of operations	2017	2016
Revenue	\$ 744,457	\$ 689,010
Administrative expenses	(33,217)	(31,813)
Donation to the Association	(547,739)	(527,392)
Excess of revenue over expenses	\$ 163,501	\$ 129,805

  

Cash flows	2017	2016
Cash from operations and investing, being a net increase (decrease) in cash and cash equivalents	\$ (80,602)	\$ 114,570

For the year ended June 30, 2018, the Foundation's donation to the Association amounts to \$561,872 (2017 - \$537,566). The Foundation also receives income on endowment funds, which are permanently held and administered by the Vancouver Foundation. The market value of these funds at June 30, 2018 is \$11,799,642 (2017 - \$11,603,364).

As at June 30, 2018, the Association has \$112,317 (2017 - \$88,046) in accounts receivable owing from the Foundation.

### (b) Friends of Vancouver Art Gallery:

Friends of Vancouver Art Gallery ("Friends") is a non-profit organization incorporated in the United States in March 2003 and is independent of the Association.

Its purpose is to receive donations, gifts, funds, and property from residents of the United States for the benefit of the Association. During fiscal 2018, Friends made a \$13,200 (2017 - \$14,274) donation to the Association, which is recorded in fundraising revenue in the statement of operations.

### (c) Other:

During the year, the Association received approximately \$2.1 million (2017 - \$1.8 million) in contributions by members of the Board of Trustees or organizations affiliated with these members comprising donations, sponsorships and special event support.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

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## 13. Collection and Acquisitions Fund:

### Collection:

The Association is responsible for the management of the Vancouver Art Gallery collection and fine arts reference library. The collection is comprised of paintings, drawings, sculptures, photography, prints and other visual art materials. The Association incurred \$1,011,906 (2017 - \$1,199,728) in expenditures acquiring new works for the collection during the year.

The Association deaccessioned a set of paintings which was originally donated by the artist's late widow in 1949 and 1971. The works are to be disposed of through auction pursuant to the Association's Acquisition Policy whereby all proceeds will be returned to the Association's Acquisition Fund. Neither the cost nor market value of the collection is included in the statement of financial position of the Association.

The Association's art collection is held for the perpetual benefit of the City of Vancouver and its citizens.

### Acquisitions fund:

During 2010, the Association received a bequest of \$2,852,477 from the Estate of Anne Eliza Winn, which is held externally with a trustee. As a condition of the bequest, funds may only be used to purchase original works of art from the 'Group of Seven' and the Association is reimbursed from the bequeathed funds at the time of purchase. During the year, the Association purchased a work of art by Frederick Varley entitled Forest Ranger's Cabin, Lyn Valley, dated 1932 for \$181,097 (2017 - \$239,894).

Amounts are recorded as bequest revenue and art acquisition expenses under the Acquisitions Fund in the year the purchase occurs. The market value of the unspent funds at June 30, 2018 is \$599,271 (2017 - \$686,495).

## 14. Remuneration to employees, contractors and directors:

For the year ended June 30, 2018, the Association paid total remuneration of \$1,854,117 (2017 - \$1,834,994 to the top ten) to the top ten employees and contractors for services, each of whom received total annual remuneration of \$75,000 or greater.

No remuneration was paid to any member of the Association's Board of Trustees.

## 15. Financial risks:

### (a) Liquidity risk:

Liquidity risk is the risk that the Association will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Association manages its liquidity risk by monitoring its operating requirements. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

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## 15. Financial risks (continued):

(b) Interest rate risk:

The Association's bank indebtedness bears a variable interest rate based on prime plus a margin which subjects the Association to cashflow risk related to the amount of bank indebtedness outstanding (note 4).

(c) Credit risk:

The Association is exposed to credit risk related to its accounts and pledges receivable. It is management's opinion the related risk is not significant due to the nature and credit worthiness of the counterparties and that the amounts are only recorded when ultimate collection is reasonably assured. A provision is provided against the receivable based on any potential impairment as determined by management.

(d) Industry:

The Association operates in the cultural industry environment and can be affected by general economic trends. A decline in economic conditions, public consumer-spending levels or other adverse conditions could lead to reduced revenues and changes in operating results.

(e) Currency risk:

The Association is, from time to time, exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates related to their foreign currency denominated accounts payable. As at June 30, 2018, the Association has payables outstanding denominated in various foreign currencies, most notably \$271,547 in USD accounts payable and accrued liabilities. The Association does not currently enter into forward contracts to mitigate this risk.

There were no significant changes to the risk exposures from 2017.

## 16. Commitments:

The Association leases its current premises from the City of Vancouver for a period of 99 years ending 2079 for annual payments of \$1. The fair value of the rent cannot be readily determined and is not recorded in these financial statements.

The Association has \$1.4 million in contractual commitments outstanding at June 30, 2018 related to the new Vancouver Art Gallery building project.

## 17. Comparative information:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.