



VANCOUVER ART GALLERY ASSOCIATION

FINANCIAL STATEMENTS

Year ended June 30, 2019



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INDEPENDENT AUDITORS' REPORT

To the Members of the Vancouver Art Gallery Association

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Vancouver Art Gallery Association (the "Entity"), which comprise:

- the statement of financial position as at June 30, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at June 30, 2019, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

OPPOSITE: Wayne Alfred, *Salmon Transformation Mask*, 1992, red cedar, cedar bark, nylon twine, leather, nails and acrylic paint, Collection of the Vancouver Art Gallery, Gift of Claudia Beck and Andrew Gruft

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

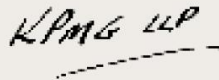
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.



Chartered Professional Accountants
Vancouver, Canada
September 30, 2019

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VANCOUVER ART GALLERY ASSOCIATION

STATEMENT OF FINANCIAL POSITION

June 30, 2019, with comparative information for 2018

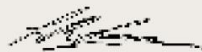
	GENERAL FUND	ACQUISITIONS FUND	BUILDING FUND	OPERATING CAPITAL FUND	TOTAL 2019	TOTAL 2018
ASSETS						
Current assets:						
• Cash and cash equivalents	\$ 174,054	\$ 680,281	\$ 36,828,928	\$ —	\$ 37,683,263	\$ 26,186,208
• Short-term investments	—	—	12,399,424	—	12,399,424	14,214,179
• Grants, pledges, interest and accounts receivable (note 2)	1,630,259	138,604	17,193	—	1,786,056	1,979,030
• Prepaid expenses and exhibition costs	820,626	—	—	—	820,626	907,321
• Inventories	574,734	—	—	—	574,734	758,918
	3,199,673	818,885	49,245,545	—	53,264,103	44,045,656
Capital assets (note 3)	922,509	—	198,405	—	1,120,914	1,304,850
Building project under development (note 3)	—	—	10,487,768	—	10,487,768	10,379,789
	\$ 4,122,182	\$ 818,885	\$ 59,931,718	\$ —	\$ 64,872,785	\$ 55,730,295
LIABILITIES AND NET ASSETS						
Current liabilities:						
• Bank indebtedness (note 4)	\$ 1,208,275	\$ —	\$ —	\$ —	\$ 1,208,275	\$ 333,225
• Accounts payable and accrued liabilities (note 5)	2,203,455	1,103	107,161	—	2,311,719	2,334,350
• Obligations under capital lease— current portion (note 6)	36,879	—	—	—	36,879	65,897
• Deferred memberships revenue	560,434	—	—	—	560,434	539,719
• Deferred contributions (note 7)	599,071	—	—	—	599,071	415,561
• Interfund balances (note 1(a)(iv))	(311,264)	23	816,241	(505,000)	—	—
	4,296,850	1,126	923,402	(505,000)	4,716,378	3,688,752
Obligations under capital lease (note 6)	87,829	—	—	—	87,829	124,707
Net assets:						
• Unrestricted	(262,497)	—	—	—	(262,497)	839,171
• Internally restricted (note 11)	—	—	6,310,401	—	6,310,401	6,299,041
• Externally restricted (note 11)	—	817,759	52,697,915	—	53,515,674	44,273,624
• Permanently restricted for working capital purposes (note 1(a)(iv))	—	—	—	505,000	505,000	505,000
	(262,497)	817,759	59,008,316	505,000	60,068,578	51,916,836
Commitments (note 16)						
	\$ 4,122,182	\$ 818,885	\$ 59,931,718	\$ —	\$ 64,872,785	\$ 55,730,295

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, 2019, with comparative information for 2018

	GENERAL FUND	ACQUISITIONS FUND	BUILDING FUND	OPERATING CAPITAL FUND	TOTAL 2019	TOTAL 2018
REVENUE						
Admissions	\$ 3,153,006	\$ —	\$ —	\$ —	\$ 3,153,006	\$ 4,972,427
Exhibition loan fees	49,239	—	—	—	49,239	33,924
Fundraising (notes 11 and 12)	1,495,328	—	10,095,852	—	11,591,180	3,499,658
Gallery Store, Artist Editions and Art Rentals & Sales (note 8)	3,038,280	—	—	—	3,038,280	4,622,312
Investment income (note 10)	54,686	415,183	—	—	469,869	620,708
Memberships	1,180,009	—	—	—	1,180,009	1,250,434
Public programming	171,915	—	—	—	171,915	192,253
Rentals and cafe lease (note 8)	995,349	—	—	—	995,349	797,780
Special events (note 9)	760,334	—	—	—	760,334	1,738,237
Sponsorships and corporate partners Vancouver Art Gallery Foundation contribution (note 12(a))	871,742	29,260	—	—	901,002	605,023
Other	363,192	218,767	—	—	581,959	561,872
	104,746	7,021	—	—	111,767	68,146
	12,237,826	670,231	10,095,852	—	23,003,909	18,962,774
GRANTS						
BC Arts Council	840,000	—	—	—	840,000	715,000
BC Gaming	225,000	—	—	—	225,000	225,000
Canada Council for the Arts	348,048	—	—	—	348,048	315,070
City of Vancouver	2,268,346	—	—	—	2,268,346	2,465,699
Other	64,218	—	—	—	64,218	11,811
	3,745,612	—	—	—	3,745,612	3,732,580
	\$ 15,983,438	\$ 670,231	\$ 10,095,852	\$ —	\$ 26,749,521	\$ 22,695,354
EXPENSES						
Administration and finance	1,917,303	—	—	—	1,917,303	2,034,709
Art acquisitions (note 13)	—	182,735	—	—	182,735	1,011,906
Curatorial and programs	2,194,432	—	—	—	2,194,432	2,098,237
Exhibitions	2,547,138	—	—	—	2,547,138	4,207,602
Retail operations (note 8)	2,742,477	—	—	—	2,742,477	3,693,268
Facility operation and security	3,496,870	—	—	—	3,496,870	3,310,048
Marketing and development (note 9)	2,833,537	—	—	—	2,833,537	2,768,675
Building project capital campaign and engagement	—	—	1,176,213	—	1,176,213	1,211,413
Museum services	1,908,094	—	—	—	1,908,094	1,902,625
	\$ 17,639,851	\$ 182,735	\$ 1,176,213	\$ —	\$ 18,998,799	\$ 22,238,483
Excess (deficiency) of revenue over expenses before the undernoted	(1,656,413)	487,496	8,919,639	—	7,750,722	456,871
Amortization of capital assets	(312,713)	—	(196,274)	—	(508,987)	(548,982)
Excess (deficiency) of revenue over expenses before the undernoted	(1,969,126)	487,496	8,723,365	—	7,241,735	(92,111)
Investment income— Building Fund (note 11)	878,818	—	31,189	—	910,007	597,903
Excess (deficiency) of revenue over expenses	(1,090,308)	487,496	8,754,554	—	8,151,742	505,792
Balance, beginning of year	839,171	330,263	50,242,402	505,000	51,916,836	51,411,044
Interfund transfers (note 11)	(11,360)	—	11,360	—	—	—
BALANCE, END OF YEAR	\$ (262,497)	\$ 817,759	\$ 59,008,316	\$ 505,000	\$ 60,068,578	\$ 51,916,836

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30, 2019, with comparative information for 2018

JUNE 30, 2019	UNRESTRICTED	INTERNALLY RESTRICTED	EXTERNALLY RESTRICTED	PERMANENTLY RESTRICTED FOR WORKING CAPITAL PURPOSES	TOTAL 2019
Balance, beginning of year	\$ 839,171	\$ 6,299,041	\$ 44,273,624	\$ 505,000	\$ 51,916,836
Excess of revenue over expenses	(1,090,308)	—	9,242,050	—	8,151,742
Interfund transfer (note 11)	(11,360)	11,360	—	—	—
BALANCE, END OF YEAR	\$ (262,497)	\$ 6,310,401	\$ 53,515,674	\$ 505,000	\$ 60,068,578

JUNE 30, 2018	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

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

STATEMENT OF CASH FLOWS

Year ended June 30, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
OPERATING		
Surplus of revenue over expenses	\$ 8,151,742	\$ 505,792
Amortization of capital assets, an item not involving cash	508,987	548,982
Net change in non-cash operating working capital:		
• Grants, pledges, interest and accounts receivable	192,974	784,988
• Prepaid expenses and exhibition costs	86,695	353,349
• Inventories	184,184	156,970
• Accounts payable and accrued liabilities	(22,631)	(1,456,537)
• Deferred memberships revenue	20,715	42,674
• Deferred contributions	183,510	(78,965)
	9,306,176	857,253
INVESTMENTS		
Purchase of capital assets and building project under development	(433,030)	(622,160)
Net proceeds from short-term investments from redemptions	1,814,755	24,963,317
	1,381,725	24,341,157
FINANCING		
Increase (decrease) in bank indebtedness	875,050	(1,453,359)
Repayment of obligations under capital lease	(65,896)	(117,494)
	809,154	(1,570,853)
Increase in cash and cash equivalents	11,497,055	23,627,557
Cash and cash equivalents, beginning of year	26,186,208	2,558,651
Cash and cash equivalents, end of year	\$ 37,683,263	\$ 26,186,208
Non-cash investing and financing activity:		
• Acquisition of capital asset under capital lease	\$ —	\$ 70,165

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2019

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 transitioned to the new Societies Act (British Columbia), which came into effect on November 28, 2016, on December 21, 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.

(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, excluding advertising and promotional costs, 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

Year ended June 30, 2019

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.

(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 \$190,454 for the year ended June 30, 2019 (2018 - \$192,213).

(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

Year ended June 30, 2019

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 capital assets, building project under development and 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 \$1,023,996 (2018-\$1,142,418) net of \$50,000 (2018-\$75,000) in provision for estimated pledge cancellations.

(b) Building Fund

To date, the Association has received \$75.7 million (2018-\$35.8 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 (2018-\$6.3 million). Of the amount pledged, \$57.9 million of pledged donations are supported by documented agreements, of which payments of \$14.2 million have been received by the Association, which are subject to return to donors should the building project not proceed. 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, 2019 as the timing of collection cannot be reasonably estimated and ultimate collection is not reasonably assured.

3. CAPITAL ASSETS

	2019		2018	
	Cost	Accumulated amortization	Net book value	Net book value
Computers and software	\$ 1,818,611	\$ 1,553,581	\$ 265,030	\$ 396,149
Equipment	1,291,571	1,018,179	273,392	273,620
Furniture and building fixtures	1,247,577	841,136	406,441	371,893
Equipment under capital lease	946,819	770,768	176,051	263,188
	\$ 5,304,578	\$ 4,183,664	\$ 1,120,914	\$ 1,304,850
Building project under development (a)	10,487,768	—	10,487,768	10,379,789
	\$ 15,792,346	\$ 4,183,664	\$ 11,608,682	\$ 11,684,639

(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 \$48,678 (2018-\$35,922), which includes amounts payable for PST, Employer Health Tax and payroll related taxes.

VANCOUVER ART GALLERY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2019

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:

2020	\$ 46,780
2021	40,273
2022	40,273
2023	20,941
Thereafter	—
Total minimum lease payments	148,267
Less: amount representing interest at rates ranging from 0% to 5.93%	23,560
Present value of capital lease payments	124,707
Current portion	(36,879)
	\$ 87,828

7. DEFERRED CONTRIBUTIONS

	2019	2018
Contributions:		
• City of Vancouver	\$ 192,987	\$ 204,469
• Corporate sponsors	201,750	95,640
• Other	204,334	115,452
	\$ 599,071	\$ 415,561

8. RETAIL OPERATIONS

	2019	2018
Sales:		
• Gallery Store	\$ 2,279,307	\$ 3,850,610
• Art Rental & Sales	758,973	771,702
• Facility rentals and café lease	995,349	797,780
	4,033,629	5,420,092
Expenses:		
• Cost of goods sold	1,668,571	2,551,169
• Salaries and employee benefits	790,220	835,484
• Administration	283,686	306,615
	2,742,477	3,693,268
Excess of revenue over expenses from operations	\$ 1,291,152	\$ 1,726,824

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

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, 2019 of \$306,178 (2018—\$1,083,743), have been presented in the statement of operations on a gross basis. The gross revenue and expenses related to these activities are as follows:

	2019	2018
Revenue	\$ 760,334	\$ 1,738,237
Expenses (included in marketing and development)	(454,156)	(654,494)
Excess of revenue over expenses	\$ 306,178	\$ 1,083,743

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:

	2019	2018
The Vancouver Art Gallery Endowment Fund for Acquisitions of Art	\$ 10,837,376	\$ 10,752,002
The Vancouver Art Gallery Endowment Fund	1,017,794	1,009,990
Market value	\$ 11,855,170	\$ 11,761,992
Cost	\$ 6,127,737	\$ 6,125,465

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income for the year ended June 30, 2019 of \$409,642 (2018—\$391,539) 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, 2019 of \$38,477 (2017—\$36,784) from the General and Life Benefactors components of the Vancouver Art Gallery Endowment Fund has been recorded in the General Fund.

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

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NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2019

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 \$10,095,852 of such contributions in 2019 (2018 - \$504,017).

During the year, the Association made disbursements of \$1,558,526 (2018 - \$1,630,516) from the Building Fund related to the new Vancouver Art Gallery building project, including \$107,979 (2018 - \$339,501) of costs capitalized to building project under development, \$78,059 (2018 - \$79,602) of capitalized computer, software, and furniture and fixtures, and \$1,372,488 (2018 - \$1,211,413) 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, 2019, unrestricted investment income earned on these investments and recorded under the General Fund was \$878,818 (2018 - \$597,903). The Board of Trustees approved the inter-fund transfer of the investment income earned during the year of \$11,360 (2018 - \$597,903) to the Building Fund. As at June 30, 2019, cumulative investment income transferred to the Building Fund totaled \$6,310,401 (2018 - \$6,299,041).

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 transitioned to the new Societies Act (British Columbia), which came into effect on November 28, 2016, on June 30, 2017. 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, 2018, the latest fiscal year end of the Foundation, are as follows:

FINANCIAL POSITION	2018	2017
Assets	\$ 3,908,265	\$ 4,031,701
Liabilities	143,974	164,487
Net assets	\$ 3,764,291	\$ 3,867,214

RESULTS OF OPERATIONS	2018	2017
Revenue	\$ 507,947	\$ 744,457
Administrative expenses	(34,864)	(33,217)
Donation to the Association	(576,006)	(547,739)
Excess of revenue over expenses	\$ (102,923)	\$ 163,501

CASH FLOWS	2018	2017
Cash from operations and investing, being a net decrease in cash and cash equivalents	\$ (33,893)	\$ (80,602)

For the year ended June 30, 2019, the Foundation's donation to the Association amounts to \$581,959 (2018 - \$561,872). 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, 2019 is \$11,896,193 (2018 - \$11,799,642).

As at June 30, 2019, the Association has \$114,522 (2018 - \$112,317) in amounts receivable 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 2019, Friends made a \$132,206 (2018 - \$13,200) donation to the Association, which is recorded in fundraising revenue in the statement of operations.

(c) Other

During the year, the Association received approximately \$10.6 million (2018 - \$2.1 million) in contributions by members of the Board of Trustees, or organizations affiliated with these members, comprising donations, sponsorships and special event support.

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 \$182,735 (2018 - \$1,011,906) in expenditures acquiring new works for the collection during the year.

During the year the Association disposed through auction a set of paintings that were deaccessioned in the prior year. The proceeds were returned to the Association's Acquisition Fund.

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pursuant to the Associations Acquisition Policy. 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 did not purchase any works of art for which the use of the fund could be utilized (2018 - \$181,097).

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, 2019 is \$574,759 (2018 - \$599,271).

14. REMUNERATION TO EMPLOYEES, CONTRACTORS AND DIRECTORS

For the year ended June 30, 2019, the Association paid total remuneration of \$2,107,557 (2018 - \$1,854,117 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.

(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. The Association is exposed to credit risk with respect to its cash deposits and investments held. The risk of loss is considered low as the deposits and investments are highly liquid and held with reputable financial institutions in Canada.

(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, 2019, the Association has payables outstanding denominated in various foreign currencies, most notably \$99,915 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 2018.

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, 2019 related to the new Vancouver Art Gallery building project.