

Vancouver Art Gallery Association
86th Annual General Meeting

AGENDA

Wednesday, November 1, 2017 (5:30-6:30pm)
Gallery Forecourt

- 1. CALL TO ORDER AND WELCOME**
- 2. MINUTES OF 85th ANNUAL GENERAL MEETING (held December 7, 2016)**
- 3. CHAIR OF THE BOARD OF TRUSTEE'S REPORT**
- 4. SECRETARY'S REPORT**
 - Election of Trustees for 2017-2019
- 5. FINANCE/AUDIT COMMITTEE REPORT**
 - Fiscal 2017 audited financial statements
 - Appointment of auditors for fiscal 2018
- 6. DIRECTOR'S REPORT**
- 7. ADJOURNMENT**

Meeting documents:

1. Slate of 2017-2019 Elective Trustees
2. F2017 audited financial statements (to June 30, 2017) -- *also in 2016-2017 Annual Report*

VANCOUVER ART GALLERY ASSOCIATION
Nominations for 2017-2019 Elective Trustees

The following candidates have been nominated by the Governance/Nominations Committee of the Vancouver Art Gallery Association to serve two-year terms as Elective Trustees commencing from the Annual General Meeting to be held Wednesday, November 1, 2017 at 5:30pm at the Vancouver Art Gallery.

Nominee	Trustee Since	Current Position	Background
David Calabrigo, QC	2014	Chair, Board of Trustees	Senior Vice President of Corporate Development, Legal Affairs and Corporate Secretary of Canfor Corporation Past member of the Vancouver Public Library Board Past member of the Vancouver Public Library Trust Past Big Brother
Sherry Killam	2012		Artist, specifically painting and photography Co-Founder of French Country Antiques Graduate of UBC and Emily Carr School of Art and Design
Naudia Maché	2014		Interior designer, residential developer, art collector Director, Cause We Care Foundation YWCA Cause We Care House Founding member, United Way Women United in Philanthropy Founder & Director, The Good Soup Truck Society Long-time supporter of Western Front, Fistula Foundation and multiple humanitarian institutions locally and abroad
Inna O'Brian	2014	Chair, Acquisitions Committee	Philanthropist, The O'Brian Family Foundation Former Board member of Vancouver Opera Former Vice-President of Health Arts Society Doctorate in Psychology, Simon Fraser University
Rosy Shang	New		Philanthropist, art collector Vice President and Investment Advisor, TD Wealth (since 2013) President, Vancouver Mama Dance Troupe Board Member, Richmond Hospital Foundation; Past Chair of Starlight Gala
Lisa Turner	2012	Co-Chair, Capital Campaign	Creative Director, Quake Furniture Inc. Vice Co-Chair of the Foundation Board at BC Women's Hospital Foundation Volunteer at the 2010 Winter Olympics Volunteer at the Museum of Anthropology
Cathy Zuo	2017		Philanthropist, art collector Founding member of the Vancouver Art Gallery's Institute of Asian Art Active supporter of charity related to education, environment and healthcare Passionate about promoting cross-cultural engagement

Financial Statements of

VANCOUVER ART GALLERY ASSOCIATION

Year ended June 30, 2017



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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, 2017, 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, 2017 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, after giving retrospective effect to the change in accounting policy as explained in note 1(a) to the financial statements, on a basis consistent with that of the preceding year.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants

October 10, 2017
Vancouver, Canada

VANCOUVER ART GALLERY ASSOCIATION

Statement of Financial Position

June 30, 2017, with comparative information for 2016

	General Fund	Acquisitions Fund	Building Fund	Operating Capital Fund	Total 2017	Total 2016
						(Restated - note 1(a))
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ 507,334	\$ 2,051,317	\$ -	\$ 2,558,651	\$ 46,132,263
Short-term investments	212,380	-	38,965,116	-	39,177,496	-
Grants, pledges, interest and accounts receivable (note 2)	2,589,836	130,234	43,948	-	2,764,018	2,894,976
Prepaid expenses and exhibition costs	1,260,670	-	-	-	1,260,670	1,668,335
Inventories	915,888	-	-	-	915,888	785,745
	4,978,774	637,568	41,060,381	-	46,676,723	51,481,319
Capital assets (note 3)	1,033,835	-	467,173	-	1,501,008	1,357,573
Building project under development (note 3)	-	-	10,040,288	-	10,040,288	6,263,477
	\$ 6,012,609	\$ 637,568	\$ 51,567,842	\$ -	\$ 58,218,019	\$ 59,102,369

Liabilities and Net Assets

Current liabilities:						
Bank indebtedness (note 4)	\$ 1,786,584	\$ -	\$ -	\$ -	\$ 1,786,584	\$ 904,513
Accounts payable and accrued liabilities (note 5)	3,304,425	82,243	404,219	-	3,790,887	3,120,125
Obligations under capital lease - current portion (note 6)	91,285	-	-	-	91,285	100,065
Deferred memberships revenue	497,045	-	-	-	497,045	485,688
Deferred contributions (note 7)	494,526	-	-	-	494,526	886,554
Interfund balances (note 1(b)(iv))	(124,676)	48,103	581,573	(505,000)	-	-
	6,049,189	130,346	985,792	(505,000)	6,660,327	5,496,945
Obligations under capital lease (note 6)	146,648	-	-	-	146,648	150,685
Net assets:						
Unrestricted	(183,228)	507,222	-	-	323,994	1,148,277
Internally restricted (note 11)	-	-	5,701,138	-	5,701,138	5,701,138
Externally restricted (note 11)	-	-	44,880,912	-	44,880,912	46,100,324
Permanently restricted for working capital purposes (note 1 (b)(iv))	-	-	-	505,000	505,000	505,000
	(183,228)	507,222	50,582,050	505,000	51,411,044	53,454,739
Commitments (note 16)						
	\$ 6,012,609	\$ 637,568	\$ 51,567,842	\$ -	\$ 58,218,019	\$ 59,102,369

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, 2017, with comparative information for 2016

	General Fund	Acquisitions Fund	Building Fund	Operating Capital Fund	Total 2017	Total 2016
						(Restated - note 1(a))
Revenue:						
Admissions	\$ 3,282,135	\$ -	\$ -	\$ -	\$ 3,282,135	\$ 2,486,996
Exhibition loan fees	50,669	-	-	-	50,669	173,147
Fundraising (note 12)	3,115,341	326,516	348,353	-	3,790,210	3,871,547
Gallery Store, Artist Editions and Art Rentals & Sales (note 8)	2,956,980	-	-	-	2,956,980	2,460,837
Investment income (note 10)	35,116	625,710	-	-	660,826	394,062
Memberships	989,388	-	-	-	989,388	936,992
Public programming	88,030	-	-	-	88,030	93,652
Rentals and cafe lease (note 8)	662,326	-	-	-	662,326	691,944
Special events (note 9)	965,031	-	-	-	965,031	1,661,152
Sponsorships	737,669	-	-	-	737,669	677,638
Vancouver Art Gallery Foundation contribution (note 12(a))	372,173	165,393	-	-	537,566	525,856
Other	76,580	-	-	-	76,580	107,158
	13,331,438	1,117,619	348,353	-	14,797,410	14,080,981
Grants:						
BC Arts Council	791,000	-	-	-	791,000	715,000
BC Gaming	225,000	-	-	-	225,000	225,000
Canada Council for the Arts	307,881	-	-	-	307,881	332,792
City of Vancouver	2,329,099	-	-	-	2,329,099	2,303,890
Other	-	-	-	-	-	9,790
	3,652,980	-	-	-	3,652,980	3,586,472
	16,984,418	1,117,619	348,353	-	18,450,390	17,667,453
Expenses:						
Administration and finance	1,827,372	-	-	-	1,827,372	1,887,688
Art acquisitions (note 13)	-	1,199,728	-	-	1,199,728	201,615
Curatorial and programs	2,199,877	-	-	-	2,199,877	1,828,473
Exhibitions	3,885,269	-	-	-	3,885,269	3,473,808
Retail operations (note 8)	2,591,585	-	-	-	2,591,585	2,114,405
Facility operation and security	3,065,885	-	-	-	3,065,885	2,944,618
Marketing and development (note 9)	2,738,691	-	-	-	2,738,691	2,902,307
Building project capital campaign and engagement	-	-	1,392,266	-	1,392,266	2,236,585
Museum services	1,646,175	-	-	-	1,646,175	1,632,850
	17,954,854	1,199,728	1,392,266	-	20,546,848	19,222,349
Excess (deficiency) of revenue over expenses before the undernoted	(970,436)	(82,109)	(1,043,913)	-	(2,096,458)	(1,554,896)
Amortization of capital assets	(299,420)	-	(175,499)	-	(474,919)	(347,320)
Excess (deficiency) of revenue over expenses before the undernoted	(1,269,856)	(82,109)	(1,219,412)	-	(2,571,377)	(1,902,216)
Investment income - Building Fund (note 11)	527,682	-	-	-	527,682	674,259
Excess (deficiency) of revenue over expenses	(742,174)	(82,109)	(1,219,412)	-	(2,043,695)	(1,227,957)
Balance, beginning of year	558,946	589,331	51,801,462	505,000	53,454,739	54,682,696
Balance, end of year	\$ (183,228)	\$ 507,222	\$ 50,582,050	\$ 505,000	\$ 51,411,044	\$ 53,454,739

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statement of Changes in Net Assets

Year ended June 30, 2017, with comparative information for 2016

	Unrestricted	Internally Restricted	Externally Restricted	Permanently Restricted for Working Capital Purposes	Total 2017
Balance, beginning of year (Restated - note 1(a))	\$ 1,148,277	\$ 5,701,138	\$46,100,324	\$ 505,000	\$ 53,454,739
Excess (deficiency) of revenue over expenses	(824,283)	-	(1,219,412)	-	(2,043,695)
Interfund transfer (note 11)	-	-	-	-	-
Balance, end of year	\$ 323,994	\$ 5,701,138	\$44,880,912	\$ 505,000	\$ 51,411,044

Restated - note 1(a)	Unrestricted	Internally Restricted	Externally Restricted	Permanently Restricted for Working Capital Purposes	Total 2016
Balance, beginning of year	\$ 761,815	\$ 5,026,879	\$48,389,002	\$ 505,000	\$ 54,682,696
Excess (deficiency) of revenue over expenses	1,060,721	-	(2,288,678)	-	(1,227,957)
Interfund transfer (note 11)	(674,259)	674,259	-	-	-
Balance, end of year	\$ 1,148,277	\$ 5,701,138	\$46,100,324	\$ 505,000	\$ 53,454,739

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statement of Cash Flows

Year ended June 30, 2017, with comparative information for 2016

	2017	2016
		(Restated - note 1(a))
Cash provided by (used in):		
Operating:		
Deficiency of revenue over expenses	\$ (2,043,695)	\$ (1,227,957)
Amortization of capital assets, an item not involving cash	474,919	347,320
Net change in non-cash operating working capital:		
Grants, pledges, interest and accounts receivable	130,958	(231,386)
Prepaid expenses and exhibition costs	407,665	(197,182)
Inventories	(130,143)	18,226
Accounts payable and accrued liabilities	670,762	(227,197)
Deferred memberships revenue	11,357	39,100
Deferred contributions	(392,028)	342,041
	<u>(870,205)</u>	<u>(1,137,035)</u>
Investments:		
Purchase of capital assets and building project under development	(4,293,275)	(4,379,387)
Purchase of short-term investments	(39,177,496)	-
	<u>(43,470,771)</u>	<u>(4,379,387)</u>
Financing:		
Increase (decrease) in bank indebtedness	882,071	(377,868)
Repayment of obligations under capital lease	(114,707)	(128,727)
	<u>767,364</u>	<u>(506,595)</u>
Decrease in cash and cash equivalents	(43,573,612)	(6,023,017)
Cash and cash equivalents, beginning of year	46,132,263	52,155,280
Cash and cash equivalents, end of year	<u>\$ 2,558,651</u>	<u>\$ 46,132,263</u>
Non-cash investing and financing activity:		
Acquisition of capital asset under capital lease	\$ 101,890	\$ 138,682

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2017

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. On November 28, 2016, the new Societies Act (British Columbia) become effective. The Association has until November 28, 2018 to transition to the new Act.

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 change and significant accounting policies:

(a) Change in accounting policy:

In the current year, the Association changed its policy over the accounting for contributions from the deferral method to the restricted fund method as described in note 1(g). Previously, under the deferral method, all externally restricted contributions were initially deferred, and subsequently recognized as revenue when spent in accordance with the restrictions. Contributions of or for the acquisition of capital assets were deferred and recognized as revenue on the same basis as the amortization expense for the related asset. The change in accounting policy has been applied on a retrospective basis.

As a result of the change in accounting policy, the amounts previously reported as at and for the year ended June 30, 2016 have been restated as follows:

	As previously stated	Restatement (note i)	As restated
Statement of Financial Position:			
Deferred contributions	\$ 40,328,007	\$ (39,441,453)	\$ 886,554
Deferred capital contributions	6,658,871	(6,658,871)	-
Statement of Operations:			
Fundraising revenue	6,160,225	(2,288,678)	3,871,547
Statement of Changes in Net Assets:			
Externally restricted, beginning of year at July 1, 2015	-	48,389,002	48,389,002
Externally restricted, end of year at June 30, 2016	-	46,100,324	46,100,324

(i) The restatement adjustments affect and are recorded to the Building Fund.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

1. Significant accounting policies (continued):

(b) 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, 2017

1. Significant accounting policies (continued):

(c) 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.

(d) 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.

(e) 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.

(f) Inventories:

Inventories are comprised primarily of the following categories:

(i) Books, jewellery, paper products, gifts, reproductions and clothing held-for-sale in the Gallery Store is 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.

(g) Revenue recognition:

The Association adopted the restricted fund method of accounting for contributions in the current year (note 1(a)). 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.

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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

1. Significant accounting policies (continued):

(g) Revenue recognition (continued):

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.

(h) 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(c)(vii).

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	4 - 6 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, 2017

1. Significant accounting policies (continued):

- (i) 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.

- (j) 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.

- (k) 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 \$188,889 for the year ended June 30, 2017 (2016 - \$173,529).

- (l) Collection:

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

- (m) 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.

- (n) 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, 2017

1. Significant accounting policies (continued):

(n) 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.

(o) 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 \$1,715,178 (2016 - \$1,894,634) net of \$120,000 (2016 - \$20,000) in provision for impairment.

(b) Building Fund:

Total to date, the Association raised \$34.5 million in private sector pledges for the development of the new Vancouver Art Gallery, excluding interest earned. Of this amount, \$18.6 million of these pledged donations have finalized documented agreements, of which payments of \$3.4 million have been received by the Association. The remainder of the pledges are confirmed and are in the process of finalizing their respective agreements. As these are all long term pledges, they have not yet been recorded as an asset on the financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

3. Capital assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Computers and software	\$ 1,502,649	\$ 1,019,960	\$ 482,689	\$ 370,571
Equipment	1,163,124	861,436	301,688	225,290
Furniture and building fixtures	1,043,366	672,692	370,674	391,490
Equipment under capital lease	983,399	641,442	345,957	370,212
	4,696,538	3,195,530	1,501,008	1,357,573
Building project under development (a)	10,040,288	-	10,040,288	6,263,477
	\$ 14,736,826	\$ 3,195,530	\$ 11,541,296	\$ 7,621,050

(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 in the current year 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 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 \$30,149 (2016 – \$36,530), which includes amounts payable for PST, and payroll related taxes.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

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:

Year ending June 30:	2017
2017	\$ -
2018	95,291
2019	79,717
2020	26,878
2021	18,525
Thereafter	23,156
Total minimum lease payments	243,567
Less amount representing interest at rates ranging from 0% to 11.30%	5,634
Present value of capital lease payments	237,933
Less current portion	91,285
	<u>\$ 146,648</u>

7. Deferred contributions:

	2017	2016
Contributions:		
City of Vancouver	\$ 271,035	\$ 802,541
Corporate sponsors	183,000	-
Other	40,491	84,013
	<u>\$ 494,526</u>	<u>\$ 886,554</u>

8. Retail operations:

	2017	2016
Sales:		
Gallery Store	\$ 2,193,519	\$ 1,799,485
Art Rental & Sales	763,461	661,352
Facility rentals and café lease	662,326	691,944
	<u>3,619,306</u>	<u>3,152,781</u>
Expenses:		
Cost of goods sold	1,583,474	1,285,599
Salaries and employee benefits	835,153	640,866
Administration	172,958	187,940
	<u>2,591,585</u>	<u>2,114,405</u>
Excess of revenue over expenses from operations	<u>\$ 1,027,721</u>	<u>\$ 1,038,376</u>

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, 2017

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, 2017 of \$554,539 (2016 - \$1,069,606), have been presented in the statement of operations on a gross basis. The gross revenue and expenses related to these activities are as follows:

	2017	2016
Revenue	\$ 965,031	\$ 1,679,345
Expenses (included in marketing and development)	410,492	609,739
Excess of revenue over expenses	\$ 554,539	\$ 1,069,606

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:

	2017	2016
The Vancouver Art Gallery Endowment Fund for Acquisitions of Art	\$ 10,565,990	\$ 9,949,105
The Vancouver Art Gallery Endowment Fund	992,741	934,931
Market value	\$ 11,558,731	\$ 10,884,036
Cost	\$ 6,221,552	\$ 6,221,552

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income for the year ended June 30, 2017 of \$373,685 (2016 - \$357,709) from the Vancouver Art Gallery Endowment Fund for Acquisitions of Art and has been recorded in the Acquisitions Fund. Income for the year ended June 30, 2017 of \$35,116 (2016 - \$36,353) 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, 2017

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 \$348,353 of such contributions in 2017 (2016 - \$32,187).

During the year, the Association made disbursements of \$5,416,355 (2016 - \$6,470,551) from the Building Fund related to the new Vancouver Art Gallery building project, including \$3,776,811 (2016 - \$3,866,067) of costs capitalized to building project under development, \$247,278 (2016 - \$367,899) of capitalized computer, software, and furniture and fixtures, and \$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, 2017, unrestricted investment income earned on these investments and recorded under the General Fund was \$527,682 (2016 - \$674,259). In previous years, the Board of Trustees had approved the transfer of the investment income earned to the Building Fund, however in the current year, such funds were retained with the General Fund. As at June 30, 2017, cumulative investment income transferred to the Building Fund totaled \$5,701,138 (2016 - \$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 until November 26, 2018 to transition to the new Societies Act (British Columbia). 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, 2016, the latest fiscal year end of the Foundation, are as follows:

Financial position:	2016	2015
Assets	\$ 3,953,419	\$ 3,714,285
Liabilities	249,706	140,376
Net assets	\$ 3,703,713	\$ 3,573,909

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

12. Related parties and economic interest (continued):

(a) Vancouver Art Gallery Foundation (continued):

Results of operations:	2016	2015
Revenue	\$ 689,010	\$ 620,405
Administrative expenses	(31,813)	(33,525)
Donation to the Association	(527,392)	(515,191)
Excess of revenue over expenses	\$ 129,805	\$ 71,689

Cash flows:	2016	2015
Cash from operations and investing, being a net increase (decrease) in cash and cash equivalents	\$ 114,570	\$ (20,857)

For the year ended June 30, 2017, the Foundation's donation to the Association amounts to \$537,566 (2016 - \$525,856). 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, 2017 is \$11,603,364 (2016 - \$10,927,669).

As at June 30, 2017, the Association has \$88,046 (2016 - \$146,144) 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 2017, the Friends made a \$14,274 (2016 - \$14,520) donation to the Association, which is recorded in fundraising revenue in the statement of operations.

(c) Other:

During the year, the Association received approximately \$1.8 million (2016 - \$1.9 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, 2017

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 comprises of paintings, drawings, sculptures, photography, prints and other visual art materials. The Association incurred \$1,199,728 (2016 - \$201,615) in expenditures acquiring new works for the collection during the year. There were no disposals of any collection items during the year.

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 Indians, Rice Lake, BC, dated 1935 for \$239,894 (2016 - nil).

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, 2016 is \$686,495 (2016 - \$893,016).

14. Remuneration to employees, contractors and directors:

For the year ended June 30, 2017, the Association paid total remuneration of \$1,834,994 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 has a variable interest rate based on prime plus a margin. As a result, the Association is exposed to interest rate risk related to the amount of bank indebtedness outstanding (note 4).

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

15. Financial risks (continued):

(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.

(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, 2017, the Association has payables outstanding denominated in various foreign currencies, most notably \$121,619 in USD accounts payable. The Association does not currently enter into forward contracts to mitigate this risk.

There were no changes to the risk exposures from 2016.

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 Board of Trustees has approved \$4.5 million for the next phase of the development of the new Vancouver Art Gallery building project, which includes \$1.6 million in contractual commitments outstanding at June 30, 2017.

17. Comparative information:

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