

Financial Statements of

**VANCOUVER ART GALLERY ASSOCIATION**

And Independent Auditors' Report thereon

Year ended June 30, 2020



KPMG LLP  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada  
Telephone (604) 691-3000  
Fax (604) 691-3031

## 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, 2020
- 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, 2020, 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.

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.



### ***Auditors' Responsibilities for the Audit of the Financial Statements (continued)***

- 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.

*KPMG LLP*

Chartered Professional Accountants

Vancouver, Canada  
November 18, 2020

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Financial Position

June 30, 2020, with comparative information for 2019

	General Fund	Acquisitions Fund	Building Fund	Operating Capital Fund	Total 2020	Total 2019
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 177,239	\$ 1,987,541	\$ 16,063,277	\$ -	\$ 18,228,057	\$ 37,683,263
Short-term investments	-	-	29,885,106	-	29,885,106	12,399,424
Grants, pledges, interest and accounts receivable (notes 3 and 19)	1,378,065	141,267	10,544	-	1,529,876	1,786,056
Prepaid expenses and exhibition costs	632,194	-	17,628	-	649,822	820,626
Inventories	566,708	-	-	-	566,708	574,734
	2,754,206	2,128,808	45,976,555	-	50,859,569	53,264,103
Investment - Bistro (note 4)	777,232	-	-	-	777,232	-
Collection (note 15)	-	1	-	-	1	-
Capital assets (note 5)	743,623	-	187,327	-	930,950	1,120,914
Building project under development (note 5)	-	-	10,620,278	-	10,620,278	10,487,768
	\$ 4,275,061	\$ 2,128,809	\$ 56,784,160	\$ -	\$ 63,188,030	\$ 64,872,785
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Bank indebtedness (note 6)	\$ 2,424,115	\$ -	\$ -	\$ -	\$ 2,424,115	\$ 1,208,275
Accounts payable and accrued liabilities (note 7)	847,730	-	111,075	-	958,805	2,311,719
Obligations under capital lease - current portion (note 8)	32,740	-	-	-	32,740	36,879
Deferred memberships revenue	343,388	-	-	-	343,388	560,434
Deferred contributions (note 9)	1,058,587	-	-	-	1,058,587	599,071
Interfund balances (note 2(a)(iv))	3,024,111	(6,977)	(2,512,134)	(505,000)	-	-
	7,730,671	(6,977)	(2,401,059)	(505,000)	4,817,635	4,716,378
Obligations under capital lease (note 8)	55,088	-	-	-	55,088	87,829
Net assets:						
Unrestricted	(3,510,698)	-	-	-	(3,510,698)	(262,497)
Internally restricted (note 13)	-	-	7,025,047	-	7,025,047	6,310,401
Externally restricted (note 13)	-	2,135,786	52,160,172	-	54,295,958	53,515,674
Permanently restricted for working capital purposes (note 2(a)(iv))	-	-	-	505,000	505,000	505,000
	(3,510,698)	2,135,786	59,185,219	505,000	58,315,307	60,068,578
Commitments (note 18)						
Impact of COVID-19 on operations (note 1)						
	\$ 4,275,061	\$ 2,128,809	\$ 56,784,160	\$ -	\$ 63,188,030	\$ 64,872,785

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, 2020, with comparative information for 2019

	General Fund	Acquisitions Fund	Building Fund	Operating Capital Fund	Total 2020	Total 2019
<b>Revenue:</b>						
Admissions	\$ 1,807,985	\$ -	\$ -	\$ -	\$ 1,807,985	\$ 3,153,006
Exhibition loan fees	-	-	-	-	-	49,239
Fundraising (notes 13 and 14)	861,334	1,057,000	445,820	-	2,364,154	11,591,180
Retail operations (note 10)	2,237,691	-	-	-	2,237,691	3,038,280
Investment income (note 12)	39,693	422,684	-	-	462,377	469,869
Memberships	1,024,311	-	-	-	1,024,311	1,180,009
Public programming	106,799	-	-	-	106,799	171,915
Rentals and food services (note 10)	768,588	-	-	-	768,588	995,349
Special events (note 11)	-	-	-	-	-	760,334
Sponsorships and corporate partners	388,450	-	-	-	388,450	901,002
Vancouver Art Gallery Foundation contribution (note 14(a))	344,296	251,203	-	-	595,499	581,959
Other	98,671	23,687	-	-	122,358	111,767
	7,677,818	1,754,574	445,820	-	9,878,212	23,003,909
<b>Grants (note 19):</b>						
City of Vancouver	2,340,642	-	-	-	2,340,642	2,268,346
Provincial	979,600	-	-	-	979,600	1,075,000
Federal	1,742,030	-	50,000	-	1,792,030	366,048
Other	155	-	-	-	155	36,218
	5,062,427	-	50,000	-	5,112,427	3,745,612
	12,740,245	1,754,574	495,820	-	14,990,639	26,749,521
<b>Expenses:</b>						
Administration and finance	1,941,085	-	-	-	1,941,085	1,917,303
Art acquisitions (note 15)	-	436,548	-	-	436,548	182,735
Curatorial and programs	1,806,503	-	-	-	1,806,503	2,194,432
Exhibitions	2,292,645	-	-	-	2,292,645	2,547,138
Retail operations (note 10)	2,259,717	-	-	-	2,259,717	2,742,477
Facility operation and security	3,137,923	-	-	-	3,137,923	3,496,870
Marketing and development (note 11)	1,920,798	-	-	-	1,920,798	2,833,537
Building project capital campaign and engagement	-	-	1,122,938	-	1,122,938	1,176,213
Museum services	1,854,001	-	-	-	1,854,001	1,908,094
	15,212,672	436,548	1,122,938	-	16,772,158	18,998,799
<b>Excess (deficiency) of revenue over expenses before the undernoted:</b>						
	(2,472,427)	1,318,026	(627,118)	-	(1,781,519)	7,750,722
Amortization of capital assets	(308,822)	-	(123,743)	-	(432,565)	(508,987)
Equity loss on Investment - Bistro (note 4)	(466,952)	-	-	-	(466,952)	-
Investment income - Building Fund (note 13)	714,646	-	213,119	-	927,765	910,007
<b>Excess (deficiency) of revenue over expenses</b>	<b>(2,533,555)</b>	<b>1,318,026</b>	<b>(537,742)</b>	<b>-</b>	<b>(1,753,271)</b>	<b>8,151,742</b>
Fund balance, beginning of year	(262,497)	817,760	59,008,315	505,000	60,068,578	51,916,836
Interfund transfers (note 13)	(714,646)	-	714,646	-	-	-
<b>Fund balance, end of year</b>	<b>\$ (3,510,698)</b>	<b>\$ 2,135,786</b>	<b>\$ 59,185,219</b>	<b>\$ 505,000</b>	<b>\$ 58,315,307</b>	<b>\$ 60,068,578</b>

See accompanying notes to financial statements.

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Changes in Net Assets

Year ended June 30, 2020, with comparative information for 2019

June 30, 2020	Unrestricted	Internally Restricted	Externally Restricted	Permanently Restricted for Working Capital Purposes	Total 2020
Balance, beginning of year	\$ (262,497)	\$ 6,310,401	\$ 53,515,674	\$ 505,000	\$ 60,068,578
Excess (deficiency) of revenue over expenses	(2,533,555)	-	780,284	-	(1,753,271)
Interfund transfer (note 13)	(714,646)	714,646	-	-	-
Balance, end of year	\$ (3,510,698)	\$ 7,025,047	\$ 54,295,958	\$ 505,000	\$ 58,315,307

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 (deficiency) of revenue over expenses	(1,090,308)	-	9,242,050	-	8,151,742
Interfund transfer (note 13)	(11,360)	11,360	-	-	-
Balance, end of year	\$ (262,497)	\$ 6,310,401	\$ 53,515,674	\$ 505,000	\$ 60,068,578

See accompanying notes to financial statements.

# VANCOUVER ART GALLERY ASSOCIATION

## Statement of Cash Flows

Year ended June 30, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating:		
Excess (deficiency) of revenue over expenses	\$ (1,753,271)	\$ 8,151,742
Amortization of capital assets	432,565	508,987
Equity loss on Investment - Bistro (note 4)	466,952	-
Net change in non-cash operating working capital:		
Grants, pledges, interest and accounts receivable	256,180	192,974
Prepaid expenses and exhibition costs	170,804	86,695
Inventories	8,026	184,184
Accounts payable and accrued liabilities	(1,352,914)	(22,631)
Deferred memberships revenue	(217,046)	20,715
Deferred contributions	459,516	183,510
	<u>(1,529,188)</u>	<u>9,306,176</u>
Investing activities:		
Accrued interest on term loan (note 4)	(37,400)	-
Capital construction costs advanced to Bistro (note 4)	(906,619)	-
Working capital demand loan advanced to Bistro (note 4)	(300,165)	-
Purchase of capital assets and building project under development	(375,112)	(433,030)
Net redemptions (purchases) of short-term investments	(17,485,682)	1,814,755
	<u>(19,104,978)</u>	<u>1,381,725</u>
Financing activities:		
Increase in bank indebtedness	1,215,840	875,050
Repayment of obligations under capital lease	(36,880)	(65,896)
	<u>1,178,960</u>	<u>809,154</u>
Increase (decrease) in cash and cash equivalents	(19,455,206)	11,497,055
Cash and cash equivalents, beginning of year	37,683,263	26,186,208
Cash and cash equivalents, end of year	<u>\$ 18,228,057</u>	<u>\$ 37,683,263</u>

See accompanying notes to financial statements.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## **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) on December 21, 2016.

## **1. Impact of COVID-19 on continuing operations:**

These financial statements have been prepared on the basis that the Association is a going concern, which assumes that the Association will continue to realize its assets and discharge its liabilities in the normal course of operations. For the year ended June 30, 2020, the Association had a deficiency of revenues over expenses of \$1,753,271 including \$2,533,555 (2019 - \$1,090,308) from the General Fund operations.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At the time of approval of these financial statements, the primary impact on the Association has been a closure of its facility to the public between March 17 and June 14, 2020, and continued reduction in earned and philanthropic activity upon re-opening on June 15, 2020. This has resulted in continued decreases in cash flow to support ongoing operations.

The Association has responded by reducing expenses across all areas of the Gallery while maintaining safety measures in accordance with provincial health standards. The continual reduction in earned and philanthropic revenue has required the Association to increase its reliance on the available bank credit facility (note 6) in support of working capital and the Association's investments in the Building Fund which are not externally restricted. The Association's ability to borrow from the Building Fund is limited as the majority of the Building Fund investments are contractually restricted and not available to fund operations. However, with a reduced budget and borrowed funds, the Association has been and expects to be able to maintain on-going operations.

The following reduced budgetary, emergency grant funding applications and safety measures have been taken in response to the COVID-19 pandemic:

- Enacted temporary work from home arrangements for its employees;
- Working with CUPE15 to right size working hours appropriate to the level of operations;
- Suspend all on-site programming but provide enhanced digital programming;
- Applied for the Canada Emergency Wage Subsidy for all claim periods to date (note 19); and
- Eliminate non-essential expenditures.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 1. Impact of COVID-19 on operations (continued):

The situation is dynamic, and the ultimate duration and magnitude of the impact is not known. The impact of the pandemic creates uncertainty over future cash flows, may cause changes to the assets or liabilities, and may have an impact on future operations. This uncertainty does not allow management to make a practical estimate of the impact of COVID-19 on the operations of the Association at this time due to external conditions beyond management control. Management will continue to monitor the on-going financial impact on its cash and budget forecasts and will be adjusting its operations as required to ensure it fulfills its obligations and continues its operations. To continue as a going concern in the normal course of operations will depend upon several factors including the Association's ability to engage its guests, donors and granting agencies at a reasonable level to support basic operations and deliver exhibitions to our audience. Digital as well as on-site experiences are continually being adjusted as the Association adapts to the behavioural characteristics of its constituents living in a pandemic environment.

## 2. 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 and other contributions received for the purpose of art acquisitions. The Association also receives restricted income from The Vancouver Art Gallery Foundation (the "Foundation") which has established several acquisition endowments funds (note 14(a)). The purpose of the Acquisitions 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 13).

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 2. Significant accounting policies (continued):

### (a) Fund accounting (continued):

(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.

(v) 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 12 and is not included in these financial statements.

### (b) Subsidiary:

The Association accounts for its investment in the 1931 Gallery Bistro Inc., a wholly owned subsidiary of the Association, using the equity method. Under this method the Association's 100% share of the investee's earnings/losses is included in determining the Association's net income and is adjusted against the carrying value of the investment shown on the Statement of Financial Position.

The Association periodically reviews the investment for impairment. Significant impairment is adjusted against the carrying value of investment.

### (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 within twelve months of the balance sheet date.

### (e) 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.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 2. Significant accounting policies (continued):

### (f) 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.

### (g) 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. Annual operating grant contributions 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.

The portions of membership fees, sponsorships 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.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 2. Significant accounting policies (continued):

### (g) Revenue recognition (continued):

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 project. 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 2(i).

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

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

---

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

### (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 associated future economic benefits or service potential have been reduced. If such conditions exist, an impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value or replacement cost.

### (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.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 2. Significant accounting policies (continued):

### (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 \$160,734 for the year ended June 30, 2020 (2019 - \$190,454).

### (l) Collection:

The value of the Collection, for both items purchased and contributed has been excluded from the Statement of Financial Position except for a nominal carrying value of \$1. The costs of purchased collection items less nominal value are charged as an expense in the Acquisition Fund in the year of acquisition (note 2(p)).

### (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.

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.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 2. Significant accounting policies (continued):

### (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 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

### (p) Adoption of new accounting standards:

In March 2018, the Accounting Standards Board issued “*Basis for Conclusions- Accounting Standards Improvements for Not-for-Profit Organizations*” resulting in the introduction of a new handbook section on capital assets in the Accounting Standards for Not-for-Profit Organizations Part III of the Handbook as follows:

- *Section 4433, Tangible Capital Assets Held by Not-For-Profit Organizations*, which directs organizations to apply the accounting guidance of Section 3061, *Property Plant and Equipment* in Part II of the Handbook. In so doing, the new section requires that organizations annually assess for partial impairment of tangible capital assets, to be recorded where applicable, as a non-reversible impairment expense.

In addition, where practical, to componentize capital assets when estimates can be made of the useful lives of the separate components.

This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairments of tangible assets that existed on adoption of the new standard by the Society as at April 1, 2019.

- *Section 4434, Intangible Assets Held by Not-For-Profit Organizations*, which directs organizations to annually assess intangible assets, and where applicable to record an impairment expense should the net carrying value be higher than the asset’s fair value or replacement cost.
- *Section 4441, Collections Held by Not-For-Profit Organizations*, which directs organizations to make an accounting policy choice to record collections on the Statement of Financial Position at cost or at nominal value.

The implementation of these changes did not have a material impact on the financial statements of the Association. Refer to note 2(l) which describes the accounting policy choice made by the Association to record Collection at nominal value on adoption of Section 4441 on a retrospective basis. As the amount recorded on adoption is nominal, the comparative figures have not been restated for this adjustment.

# VANCOUVER ART GALLERY ASSOCIATION

## Notes to Financial Statements

Year ended June 30, 2020

---

### 3. 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 \$251,294 (2019 - \$1,023,996) net of \$50,000 (2019 - \$50,000) in provision for estimated pledge cancellations.

#### (b) Building Fund:

To date, the Association has received \$77.8 million (2019 - \$75.7 million) in private sector pledges for the development of the new Vancouver Art Gallery, excluding interest earned from the Building Fund of \$7.27 million (2019 - \$6.34 million). Of the amount pledged, \$63 million of pledged donations are supported by documented agreements, of which payments of \$14.5 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, 2020 as the timing of collection cannot be reasonably estimated and ultimate collection is not reasonably assured.

### 4. Investment - Bistro:

As disclosed in note 2(b), the Association accounts for its wholly owned subsidiary, 1931 Gallery Bistro Inc. ("Bistro"), using the equity method. The Bistro was incorporated on July 26, 2019 under the British Corporations Act in the Province of British Columbia and began operations on November 27, 2019. The Bistro's purpose is to operate a restaurant and catering business to provide services to the Association's gallery patrons and general public.

The Association has an Operating Management Agreement with the Bistro which includes provisions for management and technology fees and interest chargeable on capital and operating advances. The Association charged fees of \$33,304 to the Bistro.

The investment of \$777,232 is comprised of a non-interest-bearing working capital demand loan of \$300,165, capital construction costs of \$906,619 by way of a loan bearing interest at prime plus 3% and a maturity date of December 1, 2025, accrued interest of \$37,400 and an equity loss of \$466,952.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

## 4. Investment - Bistro (continued):

The summarized financial position and operating results of the Bistro for the year ended June 30, 2020 are as follows:

Financial Position	2020	2019
Assets	\$ 945,838	\$ -
Liabilities	1,412,789	-
Share capital	1	-
<b>Net assets</b>	<b>\$ (466,952)</b>	<b>\$ -</b>

Results of Operations	2020	2019
Revenue	\$ 496,228	\$ -
Expenses	963,180	-
<b>Excess of expenses over revenues</b>	<b>\$ (466,952)</b>	<b>\$ -</b>

Cash flows	2020	2019
Cash from operations being a net decrease in cash	\$ (466,952)	\$ -

## 5. Capital assets:

	2020		2019	
	Cost	Accumulated amortization	Net book value	Net book value
Computers and software	\$ 1,975,347	\$ 1,729,043	\$ 246,304	\$ 265,030
Equipment	1,322,814	1,103,631	219,183	273,392
Furniture and building fixtures	1,302,199	939,988	362,211	406,441
Equipment under capital lease	946,819	843,567	103,252	176,051
	5,547,179	4,616,229	930,950	1,120,914
Building project under development (a)	10,620,278	-	10,620,278	10,487,768
	<b>\$ 16,167,457</b>	<b>\$ 4,616,229</b>	<b>\$ 11,551,228</b>	<b>\$ 11,608,682</b>

(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.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 6. Bank indebtedness:

As at June 30, 2020, the Association has an arranged operating line of credit of \$2.475 million (2019 - \$2.250 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 and certain private funding received.

As at June 30, 2020 the amount drawn on the line of credit was \$1.880 million (2019 - \$1.565 million).

On October 3, 2020, the operating line of credit limit was reduced to \$2.250 million.

Also included in bank indebtedness as at June 30, 2020 is a committed reducing term facility related to food services capital renovations of \$453,914 (2019 - nil) related to the Bistro (note 4). The loan bears interest at a fixed rate of 3.568% and has a contractual maturity date of December 17, 2020. Management, through its discussions with the bank, intends to renew the loan for another four years from the contractual maturity date.

## 7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of \$30,886 (201 - \$48,678), which includes amounts payable for PST, Employer Health Tax and payroll related taxes.

## 8. 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:

---

2021	\$	40,273
2022		40,273
2023		20,942
Thereafter		-
Total minimum lease payments		101,488
Less: amount representing interest at rates ranging from 0% to 5.93%		13,660
Present value of capital lease payments		87,828
Current portion		32,740
		<hr/>
		\$ 55,088

---

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

## 9. Deferred contributions:

	2020	2019
General Fund Contributions:		
City of Vancouver	\$ 373,730	\$ 192,987
Corporate sponsors	60,000	201,750
Other	624,857	204,334
	<u>\$ 1,058,587</u>	<u>\$ 599,071</u>

## 10. Retail operations:

	2020	2019
Sales:		
Gallery store	\$ 1,356,291	\$ 2,279,307
Art rental and sales	881,400	758,973
Rentals and food services	768,588	995,349
	<u>3,006,279</u>	<u>4,033,629</u>
Expenses:		
Cost of goods sold	1,207,129	1,668,571
Salaries and employee benefits	810,494	790,220
Administration	242,094	283,686
	<u>2,259,717</u>	<u>2,742,477</u>
Excess of revenue over expenses from operations	<u>\$ 746,562</u>	<u>\$ 1,291,152</u>

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

## 11. Special events:

The Association performs certain fundraising activities considered to be ancillary to its ongoing operations. These activities were deferred due to the COVID-19 pandemic during the year ended June 30, 2020 and resulted in an excess of expenses over revenues for the year ended June 30, 2020 of \$64,651 (2019 - excess of revenues over expenses \$306,178) which have been presented in the statement of operations on a gross basis. The gross revenue and expenses related to these activities are as follows:

	2020	2019
Revenue	\$ -	\$ 760,334
Expenses (included in marketing and development)	(64,651)	(454,156)
Excess of revenue over expenses	<u>\$ (64,651)</u>	<u>\$ 306,178</u>

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

## 12. 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:

	2020	2019
The Vancouver Art Gallery Endowment Fund for Acquisitions of Art	\$ 10,551,433	\$ 10,837,376
The Vancouver Art Gallery Endowment Fund	990,748	1,017,794
Market value	\$ 11,542,181	\$ 11,855,170
Cost	\$ 6,129,838	\$ 6,127,737

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income for the year ended June 30, 2020 of \$422,684 (2019 - \$409,642) 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, 2020 of \$39,693 (2019 - \$38,477) from the General and Life Benefactors components of the Vancouver Art Gallery Endowment Fund has been recorded in the General Fund.

## 13. 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 and are recorded as externally restricted revenues of the Building Fund in the year the funds are received. The Association received \$445,820 of such contributions in 2020 (2019 - \$10,095,852).

During the year, the Association made disbursements of \$1,491,856 (2019 - \$1,558,526) from the Building Fund related to the new Vancouver Art Gallery building project, including \$132,510 (2019 - \$107,979) of costs capitalized to building project under development, \$112,665 (2019 - \$78,059) of capitalized computer, software, and furniture and fixtures, and \$1,246,681 (2019 - \$1,372,488) in other Building Fund expenses which have not been capitalized.

Unspent funds are invested in accordance with the Association's Board approved investment policy. During the year ended June 30, 2020, unrestricted investment income earned on these investments and recorded under the General Fund was \$714,646 (2019 - \$878,818). The Board of Trustees approved the interfund transfer of the investment income earned during the year of \$714,646 (2019 - \$11,360) to the Building Fund. As at June 30, 2020, cumulative investment income transferred to the Building Fund totaled \$7,025,047 (2019 - \$6,310,401).

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

## 14. 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 Directors is elected by the membership of the Foundation, which consists of the Association's Trustees and the elected Foundation's Directors. 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, 2019, the latest fiscal year end of the Foundation, are as follows:

Financial position	2019	2018
Assets	\$ 4,131,528	\$ 3,908,265
Liabilities	161,415	143,974
Net assets	\$ 3,970,113	\$ 3,764,291

Results of operations	2019	2018
Revenue	\$ 829,958	\$ 507,947
Administrative and investment related expenses	(36,225)	(34,864)
Donation to the Association	(587,911)	(576,006)
Excess (deficiency) of revenue over expenses	\$ 205,822	\$ (102,923)

Cash flows	2019	2018
Cash from operations and investing, being a net increase (decrease) in cash	\$ 62,891	\$ (33,893)

For the year ended June 30, 2020, the Foundation's donation to the Association amounts to \$595,499 (2019 - \$581,959). 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, 2020 is \$11,580,069 (2019 - \$11,896,193).

As at June 30, 2020, the Association has \$117,447 (2019 - \$114,522) in interest receivable from the Foundation.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

## 14. Related parties and economic interest:

### (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 2020, Friends made a \$16,450 (2019 - \$132,206) donation to the Association, which is recorded in fundraising revenue in the statement of operations.

### (c) Other:

During the year, the Association recognized approximately \$478,213 (2019 - \$10.6 million) in contributions from members of the Board of Trustees, or organizations affiliated with these members, comprising donations, sponsorships and special event support.

## 15. 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. Artwork in the Association's collection, as held for the perpetual benefit of the City of Vancouver and its citizens, demonstrate outstanding cultural significance and is often certified as such by the Canadian Cultural Property Export Review Board.

The Association incurred \$436,548 (2019 - \$182,735) 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. The proceeds were returned to the Association's Acquisition Fund pursuant to the Association's Acquisition Policy.

A nominal value of \$1 for the collection is included in the statement of financial position of the Association (note 2(l)).

### 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 (2019 - 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, 2020 is \$594,317 (2019 - \$574,759).

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

---

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

For the year ended June 30, 2020, the Association paid total remuneration of \$1,653,278 (2019 - \$2,107,557 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.

## 17. 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:

Fixed interest rate instruments are subject to fair value risks while floating rate instruments are subject to cashflow risks. The Association is subject to cashflow risk with respect to its operating line of credit which bears a variable rate of interest and fair value risk with respect to its term loan facility which bears a fixed rate of interest (note 6).

### (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, 2020, the Association has payables outstanding denominated in various foreign currencies, most notably 41,161 in British Pounds (2019 - US\$99,915) 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 2019 other than the pervasive impact of COVID-19 as described in Note 1.

# VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Year ended June 30, 2020

## 18. 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 no contractual commitments outstanding at June 30, 2020 related to the new Vancouver Art Gallery building project.

## 19. Government grants and other funding:

Grants recognized in the General Fund are comprised of the following:

	2020	2019
City of Vancouver	\$ 2,340,642	\$ 2,268,346
Provincial:		
BC Arts Council	\$ 754,600	\$ 840,000
BC Gaming	225,000	225,000
Other	-	10,000
	979,600	1,075,000
Federal:		
Canada Council for the Arts	406,690	348,048
Canada Emergency Wage Subsidy	1,335,340	-
Other	-	18,000
	1,742,030	366,048
Other	155	36,218
<b>Total</b>	<b>\$ 5,062,427</b>	<b>\$ 3,745,612</b>

Federal funding of \$50,000 recognized in the Acquisitions Fund relates to amounts provided by Heritage Canada.

Due to the COVID-19 pandemic, the Canadian government introduced the Canada Emergency Wage Subsidy ("CEWS") to assist organizations who had lost a certain percentage of their eligible revenue. During the year ended June 30, 2020, government assistance accrued for eligible CEWS claims totaled \$1,335,340 and was recognized as Grant Revenue - Federal in the General Fund on the Statement of Operations. As at June 30, 2020, \$616,912 is included as grants, pledges, interest and accounts receivable with respect to these claims. Subsequent to year-end, the Association has submitted additional claims totaling \$417,551, of which \$399,285 has been received.