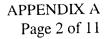
Financial Statements of

THE VANCOUVER ART GALLERY ASSOCIATION

Years ended December 31, 2001 and 2000



KPMG LLP
Chartered Accountants

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AUDITORS' REPORT

To the Members of The Vancouver Art Gallery Association

We have audited the balance sheet of The Vancouver Art Gallery Association as at December 31, 2001 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants

KPMGLLP

Vancouver, Canada

February 20, 2002



Balance Sheets

December 31, 2001 and 2000

	General	Acquisitions	Total	Total
	Fund	Fund	2001	2000
Assets				
Current assets:				
Cash and term deposits	\$ 1,010,332	\$ 209,145	\$ 1,219,477	\$ 1,080,240
Grants, interest and accounts receivable	143,576	177,612	321,188	306,165
Prepaid expenses	16,047	-	16,047	76,059
Inventories	335,723		335,723	375,108
	1,505,678	386,757	1,892,435	1,837,572
Restricted investments	-	1,281,291	1,281,291	1,237,794
Capital assets, net (note 4)	382,443	-	382,443	368,160
	\$ 1,888,121	\$ 1,668,048	\$ 3,556,169	\$ 3,443,526
Current liabilities: Accounts payable and accrued liabilities	\$ 490,870	\$ 305,772	\$ 796,642	\$ 611,42 5
	9 182	(9.182)	-	·
Interfund balance	9,182 570 137	(9,182) 1,455	- 571.592	-
Deferred income (note 5)	9,182 570,137 1,070,189	(9,182) 1,455 298,045	571,592 1,368,234	5 8 0,410
Deferred income (note 5)	570,137	1,455		580,410 1,191,835
Deferred income (note 5) Gerald and Sheahan McGavin Capital Grant to the Arts (note 6) Net assets:	570,137 1,070,189 359,594	1,455	1,368,234 359,594	580,410 1,191,835 359,594
Deferred income (note 5) Gerald and Sheahan McGavin Capital Grant to the Arts (note 6) Net assets: Invested in capital assets	570,137 1,070,189 359,594 382,443	1,455	1,368,234 359,594 382,443	580,410 1,191,835 359,594 368,160
Deferred income (note 5) Gerald and Sheahan McGavin Capital Grant to the Arts (note 6) Net assets: Invested in capital assets Unrestricted	570,137 1,070,189 359,594	1,455 298,045 - -	1,368,234 359,594 382,443 75,895	359,594 368,160 (77,206
Deferred income (note 5) Gerald and Sheahan McGavin Capital Grant to the Arts (note 6) Net assets: Invested in capital assets	570,137 1,070,189 359,594 382,443 75,895	1,455 298,045 - - 1,370,003	1,368,234 359,594 382,443 75,895 1,370,003	359,594 368,160 (77,206
Deferred income (note 5) Gerald and Sheahan McGavin Capital Grant to the Arts (note 6) Net assets: Invested in capital assets Unrestricted	570,137 1,070,189 359,594 382,443	1,455 298,045 - -	1,368,234 359,594 382,443 75,895	359,594 368,160 (77,206

Commitment (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Board:

George I Kelly Trustee

Trustee

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Statements of Operations

Years ended December 31, 2001 and 2000

	General	Acquisitions	Total	Tota
	Fund	Fund	2001	2000
evenue:				
Operational:				* 4 0 4 0 0 0 0
Admissions	\$ 1,052,539	\$ -	\$ 1,052,539	\$ 1,046,000
Art auction and special events	360,958	-	360,958	313,54
Corporate sponsorships	247,981	-	247,981	281,99
Exhibition loan fees	54,932	-	54,932	279,49
Fundraising	284,755	-	284,755	220,60
Gallery Shop operations (note 7)	98,410	-	98,410	259,87
Investment income (note 3)	80,313	628,089	708,402	711,28
	165,134	•	165,134	163,94
Memberships	95,596	165	95,761	52,48
Other	38,577		38,577	45,61
Public programming	260,692	_	260,692	281,40
Rentals and restaurant lease		_	10,000	4,57
Vancouver Art Gallery Foundation (not		628,254	3,378,141	3,660,82
	2,749,887	626,234	3,370,141	0,000,02
Grants:	045.007		615,887	556,50
BC Arts Council	615,887	-	50,000	50,00
BC Gaming Commission	50,000	-		406,25
Canada Council	265,175	30,000	295,175	
City of Vancouver	1,851,630	-	1,851,630	1,863,13
Department of Canadian Heritage	49,065	-	49,065	86,39
Department of Foreign Affairs and				70.54
International Trade	7,500	•	7,500	72,50
Greater Vancouver Regional District	5,000	-	5,000	5,00
Other	133,651	_	133,651	208,83
	2,977,908	30,000	3,007,908	3,248,62
	-5,7 27,795	658,254	6,386,049	6,909,4
xpenses:				
Administration and finance	495,081	-	495,081	511,6
Amortization of capital assets	64,723	-	64,723	65,3
Art acquisitions	-	870,067	870,067	378,2
Board and management services	544,049	· •	544,049	585,3
	955,249	-	955,249	1,007,5
Curatorial and programs	691,173	-	691,173	1,258,9
Exhibitions Maintenance and socurity	1,054,170	-	1,054,170	1,007,8
Maintenance and security	957,490	-	957,490	960,3
Marketing, development, visitor services	798,476	_	798,476	725,5
Museum services	130,410	19,327	19,327	29,7
Sundry acquisition costs	5,560,411	889,394	6,449,805	6,530,6
	0,000,111			
excess (deficiency) of revenue over expenses	\$ 167,384	\$ (231,140)	\$ (63,756)	\$ 378,8

See accompanying notes to financial statements.

Statements of Changes in Net Assets

Years ended December 31, 2001 and 2000

	Invested n capital assets	Uni	restricted	Δ	cquisitions Fund	Ben	Life efactors Fund	Total 2001	Total 2000
Balance, beginning of year	\$ 368,160	\$	(77,206)	\$	1,601,143	\$	-	\$ 1,892,097	\$ 1,513,291
Excess (deficiency) of revenue over expenses	(64,723)		232,107		(231,140)		-	(63,756)	378,8 06
Life Benefactors Endowment contribution	-		-		-		15,000	15,000	
Transfer to Vancouver Foundation	-		-		-		(15,000)	(15,000)	
Net change in investment in capital assets	 79,006		(79,006)		-		•	•	-
Balance, end of year	\$ 382,443	\$	75,895	\$	1,370,003	\$	-	\$ 1,828,341	\$ 1,89 2,097

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001		2000
Cash provided by (used in):			
Operations:	(00 750)	•	070 000
Excess (deficiency) of revenue over expenses	\$ (63,756)	\$	378,806
Amortization of capital assets, an item not involving cash	64,723		65,358
Net change in non-cash operating working capital:	(15,023)		143,555
Grants, interest and accounts receivable	60,012		50,728
Prepaid expenses	39,385		24,385
Inventories	185,217		(163,364)
Accounts payable and accrued liabilities	(8,818)		108,065
Deferred income	 261,740		607,533
	2017. 10		00.,000
Investments and financing:			
Increase in restricted cash and investments	(43,497)		(216,019)
Purchase of capital assets	(79,006)		(40,789)
T divindo of dapital addition	 (122,503)		(256,808)
Increase in cash and term deposits	139,237		350,725
Cash and term deposits, beginning of year	1,080,240		729,515
Cash and term deposits, end of year	\$ 1,219,477	\$	1,080,240
Represented by:		_	040 400
Cash (note below)	\$ 1,082,437	\$	649,433
Term deposits	 137,040		430,807
	\$ 1,219,477	\$	1,080,240

Cash includes funds provided by the Gerald and Sheahan McGavin Capital Grant to the Arts (note 6).

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 2001 and 2000

1. 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). Its objectives are to establish and maintain an art gallery for the perpetual benefit of the City of Vancouver and its citizens. It is a registered Canadian charity for Canadian income tax purposes.

2. Significant accounting policies:

The Association prepares its financial statements in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include the determination of the useful lives for amortization of capital assets and of employee future benefits. Actual results could differ from these estimates. Outlined below are those policies considered significant:

(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 with bequests from donors and receives income earned by The Vancouver Art Gallery Endowment Fund for Acquisitions of Art administered by the Vancouver Foundation (note 3).

(b) Basis of accounting:

(i) Cash and term deposits:

Cash and term deposits consist of cash and highly liquid investments with terms to maturity of six months or less when acquired.

(ii) Inventories:

Inventories are stated at the lower of cost and net realizable value.

(iii) Restricted investments:

Restricted investments consists of liquid investments with terms to maturity of twenty-four months or less.

(iv) Revenue recognition:

The Association follows the deferral method of accounting for contributions which include donations, bequests and government grants. Under this method of accounting, revenues received which relate to future periods are deferred and recognized in that subsequent period. Endowment contributions are recorded as direct increases in net assets.

Exhibition loan fees are recognized as revenue when received, except for the portion relating to future periods which are deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable. Pledged amounts are recognized when received.

Notes to Financial Statements

Years ended December 31, 2001 and 2000

2. Significant accounting policies (continued):

- (b) Basis of accounting (continued):
 - (v) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over the useful life of the asset. The useful lives of assets are as follows:

Rate
3 - 5 years
3 - 10 years
5 - 25 years
3 years

The Association is responsible for the management of these assets and enjoys beneficial ownership thereof. Title to the majority of these assets is vested in the City of Vancouver.

(vi) 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 charged to operating expenses. These costs totalled \$89,969 during 2001 (2000 - \$85,121).

(vii) Employee future benefits:

The Association accrues its obligations under employee benefit plans and the related costs, as the underlying services are provided. The Association recognizes the estimated cost of unused sick days that will become payable in future periods as the service is provided and benefits are earned.

(viii) Collection (see note 9):

Additions to the collection are expensed in the year of acquisition.

(ix) Donated works of art, materials and services:

The Association receives donated works of art, materials and services, the value of which is not reflected in these financial statements as the contributed items would not otherwise be purchased by the Association.

(c) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Notes to Financial Statements

Years ended December 31, 2001 and 2000

3. Endowment funds:

Endowment funds, administered by the Vancouver Foundation, are permanently restricted and consequently not included as assets of the Association in these financial statements. These funds at book and market values comprise:

	2001	2000
The Vancouver Art Gallery Endowment		
Fund for Acquisitions of Art	\$ 5,505,200	\$ 5,505,200
The Vancouver Art Gallery Endowment Fund:		
General	201,164	201,164
Life Benefactors	350,000	335,000
	551,164	536,164
Book value	\$ 6,056,364	\$ 6,041,364
Market value	\$ 10,023,730	\$ 11,330,384

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income of \$559,420 (2000 - \$559,148) from The Vancouver Art Gallery Endowment Fund for Acquisition of Art has been credited to the Acquisitions Fund. Income of \$50,821 (2000 - \$50,796) from the General and Life Benefactors components of The Vancouver Art Gallery Endowment Fund has been credited to the General Fund.

4. Capital assets:

			2001	2000
	Cost	 umulated ortization	Net book value	 Net book value
Computers	\$ 126,150	\$ 72,622	\$ 53,528	\$ 51,109
Equipment	246,713	126,681	120,032	136,542
Furniture and building fixtures	257,868	51,187	206,681	177,507
Vehicles	 5,702	3,500	 2,202	 3,002
	\$ 636,433	\$ 253,990	\$ 382,443	\$ 368,160

5. Deferred income:

	2001	2000
Canada Council Grant	\$ 78,750	\$ 73,925
City of Vancouver	22,450	24,580
Corporate sponsors	38,125	44,125
Department of Canadian Heritage	125,135	45,100
Exhibition loan fees	•	54,932
Membership	21,645	17,736
Other	77,284	53,690
Private foundations and trusts	208,203	266,322
	\$ 571,592	\$ 580,410

Notes to Financial Statements

Years ended December 31, 2001 and 2000

6. Gerald and Sheahan McGavin Capital Grant to the Arts:

Under a five year agreement with the Vancouver Arts Stabilization Team (VAST) dated February 25, 1998, the Association is entitled to receive a grant of up to \$898,985 in five equal annual instalments of \$179,797. These are provided, contingent on the Association maintaining net working capital equal to or exceeding the aggregate grant amount advanced to date and not showing an accumulated deficit on the balance sheet at the year end. The restricted grant is available to be drawn as revolving working capital provided that the amount is reinstated before the year end balance sheet date. Income on these funds becomes the property of the Association with no restrictions on use.

At the end of the five year term the Association, upon meeting all conditions under the agreement, will be entitled to use the grant monies in accordance with a written agreement between the Association and VAST.

The Association was advised that as of September 2000, it was temporarily ineligible to receive its annual instalment. The Association will apply to requalify itself in the VAST program during April 2002. VAST has advised the Association that this delay does not prevent eventual receipt of all of the three remaining grant instalment payments.

7. Gallery shop operations:

	2001	2000
Sales	\$ 1,200,599	\$ 1,345,677
Cost of goods sold	689,956	724,807
	510,643	620,870
Expenses:		
Advertising	6,102	1,754
Audit fees	4,512	4,512
Credit card commissions	16,429	16,182
Fixtures	17,028	1,775
Miscellaneous	26,593	14,467
Salaries and employee benefits	334,304	315,558
Satellite shop	1,869	2,429
Travel	5,396	4,323
	412,233	361,000
Income from operations	\$ 98,410	\$ 259,870

Notes to Financial Statements

Years ended December 31, 2001 and 2000

8. Vancouver Art Gallery Foundation:

The Vancouver Art Gallery Foundation (the "Foundation") was incorporated in February 1999 under the Society Act (British Columbia) and is a registered charity under the Income Tax Act. 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 Association's Board of Trustees appoints the Board of Directors of the Foundation.

The Foundation has not been consolidated in the Association's financial statements. As at December 31, 2001, the Foundation's fund balance is \$263,309 (2000 - \$211,419). In February 2002, the Foundation received a further \$100,000 and applied to the Canadian Heritage Endowment Incentives Programme for matching funds. During the year, the Foundation donated \$10,000 to the Association. This amount is included in accounts receivable.

9. Collection:

The Association is responsible for the management of the Vancouver Art Gallery collection and fine arts reference library. The collection comprises paintings, drawings, sculptures and other visual art materials. Ownership of the collection is vested in the City of Vancouver.

10. Commitment:

The Association is committed to minimum lease payments on an operating lease for the year ending December 31 as follows:

2002	\$ 13,829
2003	14,235
	•
2004	14,235
	14.005
2005	14,235
	14.005
2006	14,235

VANCOUVER ART GALLERY ASSOCIATION PROPOSED CHANGES TO BY-LAWS

- 1. That By-laws 3.6, 4.1(e), 4.3, 6.1(a), 6.5, 6.6, 6.10 and 10.1(c) be amended by deleting the word "President" as it appears and substituting therefor the words "Board Chair".
- 2. That By-laws 3.6 and 6.6 be amended by deleting the words "a Vice President" as they appear and substituting therefor the words "the Vice Chair".
- 3. That By-law 6.1(b) be amended by deleting the present By-law 6.1(b) in its entirety and substituting therefor a new By-law 6.1(b) to read as follows:
 - "(b) a Vice Chair;"
- 4. That By-law 6.10 be amended by deleting the present By-law 6.10 in its entirety and substituting therefor a new By-law 6.10 to read as follows:
 - "The Board Chair (or in his absence, the Vice-Chair) shall preside at all meetings of the Board. In the absence of the Board Chair and the Vice-Chair, any member duly elected to the chair by the members of the Board present shall preside."
- 5. That By-law 4.3 be amended by deleting the present By-law 4.3 in its entirety and substituting therefor a new By-law 4.3 to read as follows:
 - "4.3 (a) No individual shall serve as an Elective Trustee or Appointive Trustee for more than eight consecutive years; provided that the Elective Trustees may appoint an individual as a Trustee for an additional consecutive term not exceeding two years in order that such individual may serve as Board Chair.
 - (b) If an Elective Trustee or Appointive Trustee has been in office for eight consecutive years, or such longer term as permitted under paragraph (a) of this By-law 4.3, that individual may not stand for election or appointment at the end of that individual's term and must be out of office for at least one year before becoming eligible again to act as Trustee."

- 6. That By-law 4.1 be amended to reflect that Vancouver City Council no longer wishes to appoint a Trustee to the Vancouver Art Gallery.
 - That By-law 4.1 be amended by deleting the paragraph (c) in its entirety and by renumbering the present By-law 4.1 (d) as By-law 4.1 (c) and renumbering the present By-law 4.1 (e) as By-law 4.1 (d). "