

Financial Statements of

VANCOUVER ART GALLERY ASSOCIATION

Years ended December 31, 2002 and 2001



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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, 2002 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, 2002 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.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 14, 2003



VANCOUVER ART GALLERY ASSOCIATION

Balance Sheets

December 31, 2002 and 2001

	General Fund	Acquisitions Fund	Life Benefactors Fund	Total 2002	Total 2001
Assets					
Current assets:					
Cash and term deposits	\$ 1,553,643	\$ 56,390	\$ -	\$ 1,610,033	\$ 1,219,477
Grants, interest and accounts receivable	187,028	170,133	-	357,161	321,188
Prepaid expenses	24,626	-	-	24,626	16,047
Inventories	288,121	-	-	288,121	335,723
	2,053,418	226,523	-	2,279,941	1,892,435
Restricted investments	-	1,413,390	-	1,413,390	1,281,291
Plant and equipment, net (note 4)	345,940	-	-	345,940	382,443
	\$ 2,399,358	\$ 1,639,913	\$ -	\$ 4,039,271	\$ 3,556,169

Liabilities and Net Assets


Current liabilities:					
Accounts payable and accrued liabilities	\$ 609,094	\$ 227,387	\$ -	\$ 836,481	\$ 796,642
Interfund balance	49,900	(42,400)	(7,500)	-	-
Deferred income (note 5)	555,652	-	-	555,652	571,592
	1,214,646	184,987	(7,500)	1,392,133	1,368,234
Gerald and Sheahan McGavin Capital Grant to the Arts (note 6)	719,594	-	-	719,594	359,594
Net assets:					
Invested in plant and equipment	345,940	-	-	345,940	382,443
Unrestricted	119,178	-	-	119,178	75,895
Internally restricted	-	1,454,926	-	1,454,926	1,370,003
Endowment	-	-	7,500	7,500	-
	465,118	1,454,926	7,500	1,927,544	1,828,341
	\$ 2,399,358	\$ 1,639,913	\$ -	\$ 4,039,271	\$ 3,556,169

Commitments (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Trustee

 Trustee

VANCOUVER ART GALLERY ASSOCIATION

Statements of Operations

Years ended December 31, 2002 and 2001

	General Fund	Acquisitions Fund	Life Benefactors Fund	Total 2002	Total 2001
Revenue:					
Operational:					
Admissions	\$ 1,493,774	\$ -	\$ -	\$ 1,493,774	\$ 1,052,539
Art auction and special events	272,505	-	-	272,505	360,958
Corporate sponsorships	353,500	-	-	353,500	247,981
Exhibition loan fees	33,000	-	-	33,000	54,932
Fundraising (note 8)	433,368	-	7,500	440,868	284,755
Gallery Shop operations (note 7)	496,488	-	-	496,488	98,410
Investment income (note 3)	63,043	567,620	-	630,663	708,402
Memberships	208,514	-	-	208,514	165,134
Other	77,756	6,696	-	84,452	95,761
Public programming	74,648	-	-	74,648	38,577
Rentals and restaurant lease	299,372	-	-	299,372	260,692
Vancouver Art Gallery Foundation (note 8)	12,500	-	-	12,500	10,000
	3,818,468	574,316	7,500	4,400,284	3,378,141
Grants:					
BC Arts Council	522,300	-	-	522,300	615,887
BC Gaming Commission	50,000	-	-	50,000	50,000
Canada Council	327,000	50,000	-	377,000	295,175
City of Vancouver	1,910,738	-	-	1,910,738	1,851,630
Department of Canadian Heritage	137,038	-	-	137,038	49,065
Department of Foreign Affairs and International Trade	21,253	-	-	21,253	7,500
Greater Vancouver Regional District	7,000	-	-	7,000	5,000
Other	162,973	-	-	162,973	133,651
	3,138,302	50,000	-	3,188,302	3,007,908
	6,956,770	624,316	7,500	7,588,586	6,386,049
Expenses:					
Administration and finance	519,024	-	-	519,024	495,081
Amortization of plant and equipment	65,653	-	-	65,653	64,723
Art acquisitions	-	506,594	-	506,594	870,067
Board and management services	605,233	-	-	605,233	544,049
Curatorial and programs	1,054,325	-	-	1,054,325	955,249
Exhibitions	1,453,764	-	-	1,453,764	691,173
Maintenance and security	1,070,429	-	-	1,070,429	1,054,170
Marketing, development and visitor services	1,256,330	-	-	1,256,330	957,490
Museum services	925,232	-	-	925,232	798,476
Sundry acquisition costs	-	32,799	-	32,799	19,327
	6,949,990	539,393	-	7,489,383	6,449,805
Excess (deficiency) of revenue over expenses	\$ 6,780	\$ 84,923	\$ 7,500	\$ 99,203	\$ (63,756)

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Changes in Net Assets

Years ended December 31, 2002 and 2001

	Invested in capital assets	Unrestricted	Acquisitions Fund	Life Benefactors Fund	Total 2002	Total 2001
Balance, beginning of year	\$ 382,443	\$ 75,895	\$ 1,370,003	\$ -	\$ 1,828,341	\$ 1,892,097
Excess (deficiency) of revenue over expenses	(65,653)	72,433	84,923	7,500	99,203	(63,756)
Life Benefactors Endowment contribution	-	-	-	-	-	15,000
Transfer to Vancouver Foundation	-	-	-	-	-	(15,000)
Net change in investment in plant and equipment	29,150	(29,150)	-	-	-	-
Balance, end of year	\$ 345,940	\$ 119,178	\$ 1,454,926	\$ 7,500	\$ 1,927,544	\$ 1,828,341

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 99,203	\$ (63,756)
Amortization of plant and equipment, an item not involving cash	65,653	64,723
Net change in non-cash operating working capital:		
Grants, interest and accounts receivable	(35,973)	(15,023)
Prepaid expenses	(8,579)	60,012
Inventories	47,602	39,385
Accounts payable and accrued liabilities	39,839	185,217
Deferred income	(15,940)	(8,818)
	<u>191,805</u>	<u>261,740</u>
Investments and financing:		
Increase in restricted investments	(132,099)	(43,497)
Gerald and Sheahan McGavin Capital Grant to the Arts (note 6)	360,000	-
Purchase of plant and equipment	(29,150)	(79,006)
	<u>198,751</u>	<u>(122,503)</u>
Increase in cash and term deposits	390,556	139,237
Cash and term deposits, beginning of year	1,219,477	1,080,240
Cash and term deposits, end of year	<u>\$ 1,610,033</u>	<u>\$ 1,219,477</u>
Represented by:		
Cash (note below)	\$ 1,610,033	\$ 1,082,437
Term deposits	-	137,040
	<u>\$ 1,610,033</u>	<u>\$ 1,219,477</u>

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

See accompanying notes to financial statements.

Years ended December 31, 2002 and 2001

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 plant and equipment 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).
- (iii)* The Life Benefactors Endowment Fund was initially established during 1989 and the income from the Fund is intended to finance special projects as determined by the Board of Trustees in consultation with the Life Benefactors.

(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, revenue 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2002 and 2001

2. Significant accounting policies (continued):

(b) Basis of accounting (continued):

(v) Plant and equipment:

Plant and equipment 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:

Asset	Rate
Computers	3 - 5 years
Equipment	3 - 10 years
Furniture and building fixtures	5 - 25 years
Vehicles	5 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 totaled \$95,305 during 2002 (2001 - \$89,969).

(vii) Employee future benefits:

The Association accrues its obligations under employee benefit plans and the related costs as the underlying services are provided.

(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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Appendix A

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Years ended December 31, 2002 and 2001

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:

	2002	2001
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	350,000
	551,164	551,164
Book value	\$ 6,056,364	\$ 6,056,364
Market value	\$ 8,591,192	\$ 10,023,730

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income of \$535,361 (2001 - \$559,420) from The Vancouver Art Gallery Endowment Fund for Acquisition of Art has been credited to the Acquisitions Fund. Income of \$49,327 (2001 - \$50,821) from the General and Life Benefactors components of The Vancouver Art Gallery Endowment Fund has been credited to the General Fund.

4. Plant and equipment:

	2002		2001	
	Cost	Accumulated amortization	Net book value	Net book value
Computers	\$ 150,117	\$ 86,984	\$ 63,133	\$ 53,528
Equipment	209,072	127,457	81,615	120,032
Furniture and building fixtures	265,125	65,335	199,790	206,681
Vehicles	5,702	4,300	1,402	2,202
	\$ 630,016	\$ 284,076	\$ 345,940	\$ 382,443

5. Deferred income:

	2002	2001
Canada Council Grant	\$ 88,750	\$ 78,750
City of Vancouver	37,682	22,450
Corporate sponsors	74,625	38,125
Department of Canadian Heritage	106,716	125,135
Exhibition loan fees	15,000	-
Membership	29,880	21,645
Other	65,745	77,284
Private foundations and trusts	137,254	208,203
	\$ 555,652	\$ 571,592

Years ended December 31, 2002 and 2001

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 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. Four installments have been received totaling \$719,594. 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 grant program, 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.

7. Gallery shop operations:

	2002	2001
Sales	\$ 1,964,632	\$ 1,200,599
Cost of goods sold	1,038,587	689,956
	926,045	510,643
Expenses:		
Advertising	3,819	6,102
Audit fees	4,712	4,512
Credit card commissions	20,199	16,429
Fixtures	11,040	17,028
Miscellaneous	13,580	26,593
Salaries and employee benefits	361,460	334,304
Satellite shop	8,204	1,869
Travel	6,543	5,396
	429,557	412,233
Revenue from operations	\$ 496,488	\$ 98,410

8. Related parties:

(a) 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, 2002, the Foundation's fund balance is \$416,808 (2001 - \$263,309). During the year, the Foundation committed to donations of \$12,500 (2001 - \$10,000) to the Association. This amount was received subsequent to year end and is included in accounts receivable at December 31, 2002.

Years ended December 31, 2002 and 2001

8. Related parties (continued):

(b) Associates of the Vancouver Art Gallery:

The Associates of the Vancouver Art Gallery (the "Associates") are devoted to raising funds for the Association through social, educational and service enterprises. During the year, the Associates donated \$75,000 (2001 - \$60,000) to the Association.

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, photography, prints and other visual art materials. Ownership of the collection is vested in the City of Vancouver.

10. Commitments:

(a) Leases:

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

2003	\$ 14,235
2004	14,235
2005	14,235
2006	14,235
2007	1,186

(b) Art acquisitions:

The Association is committed to several art acquisitions totaling approximately \$2,500,000 in 2003, with a portion of the payments to be made in 2003 and the balance in 2004.