

Financial Statements of

VANCOUVER ART GALLERY ASSOCIATION

Years ended December 31, 2003 and 2002



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Telefax (604) 691-3031
www.kpmg.ca

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, 2003 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, 2003 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, after giving retroactive effect to the change in accounting policy as described in note 2(c) to the financial statements.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 24, 2004



VANCOUVER ART GALLERY ASSOCIATION

Balance Sheets

December 31, 2003 and 2002

	General Fund	Acquisitions Fund	Life Benefactors Fund	Vancouver Arts Stabilization Team Fund	Total 2003	Total 2002
Assets						
Current assets:						
Cash and cash equivalents	\$ 917,134	\$ 62,776	\$ -	\$ -	\$ 979,910	\$ 1,610,033
Grants, interest and accounts receivable	329,479	220	-	-	329,699	357,161
Prepaid expenses	273,770	-	-	-	273,770	24,626
Inventories	337,877	-	-	-	337,877	288,121
Interfund balances	(904,054)	(2,431)	7,500	898,985	-	-
	954,206	60,565	7,500	898,985	1,921,256	2,279,941
Restricted investments	-	-	-	-	-	1,413,390
Capital assets, net (note 4)	361,029	-	-	-	361,029	345,940
	\$ 1,315,235	\$ 60,565	\$ 7,500	\$ 898,985	\$ 2,282,285	\$ 4,039,271

Liabilities and Net Assets

Current liabilities:						
Accounts payable and accrued liabilities	\$ 478,520	\$ 818,885	\$ -	\$ -	\$ 1,297,405	\$ 836,481
Deferred revenue (note 5)	371,595	-	-	-	371,595	555,652
	850,115	818,885	-	-	1,669,000	1,392,133
Gerald and Sheahan McGavin Capital Grant to the Arts (note 6)	-	-	-	-	-	719,594
Net assets (deficiency):						
Invested in capital assets	361,029	-	-	-	361,029	345,940
Unrestricted	104,091	-	-	-	104,091	119,178
Internally restricted	-	(758,320)	-	-	(758,320)	1,454,926
Externally restricted (note 6)	-	-	-	898,985	898,985	-
Endowment	-	-	7,500	-	7,500	7,500
	465,120	(758,320)	7,500	898,985	613,285	1,927,544
	\$ 1,315,235	\$ 60,565	\$ 7,500	\$ 898,985	\$ 2,282,285	\$ 4,039,271

Commitments (note 11)

See accompanying notes to financial statements.

Approved on behalf of the Board:

George I Kelly Trustee

[Signature] Trustee

VANCOUVER ART GALLERY ASSOCIATION

Statements of Operations

Years ended December 31, 2003 and 2002

	General Fund	Acquisitions Fund	Life Benefactors Fund	Vancouver Arts Stabilization Team Fund	Total 2003	Total 2002
Revenue:						
Operational:						
Admissions	\$ 980,768	\$ -	\$ -	\$ -	\$ 980,768	\$ 1,493,774
Art auction and special events	76,170	-	-	-	76,170	272,505
Corporate sponsorships	298,625	-	-	-	298,625	353,500
Exhibition loan fees	50,000	-	-	-	50,000	33,000
Fundraising (note 8)	934,525	-	7,500	-	942,025	440,868
Gallery Store operations (note 7)	249,770	-	-	-	249,770	496,488
Gaming revenue	34,107	-	-	-	34,107	-
Investment income (note 3)	57,091	471,542	-	-	528,633	630,663
Memberships	288,453	-	-	-	288,453	208,514
Other	74,230	1,321	-	-	75,551	84,452
Public programming	61,847	-	-	-	61,847	74,648
Rentals and restaurant lease	278,189	-	-	-	278,189	299,372
Vancouver Art Gallery Foundation (note 8)	21,703	-	-	-	21,703	12,500
	3,405,478	472,863	7,500	-	3,885,841	4,400,284
Grants:						
BC Arts Council	512,300	-	-	-	512,300	522,300
BC Gaming Commission	45,000	-	-	-	45,000	50,000
Canada Council	305,000	52,500	-	-	357,500	377,000
City of Vancouver	1,966,975	-	-	-	1,966,975	1,910,738
Department of Canadian Heritage	110,722	3,351	-	-	114,073	137,038
Department of Foreign Affairs and International Trade	-	-	-	-	-	21,253
Greater Vancouver Regional District	7,000	-	-	-	7,000	7,000
Other	217,323	-	-	-	217,323	162,973
	3,164,320	55,851	-	-	3,220,171	3,188,302
	6,569,798	528,714	7,500	-	7,106,012	7,588,586
Expenses:						
Administration and finance	540,820	-	-	-	540,820	519,024
Amortization of capital assets	66,008	-	-	-	66,008	65,653
Art acquisitions	-	2,706,712	-	-	2,706,712	506,594
Board and management services	648,319	-	-	-	648,319	605,233
Curatorial and programs	1,049,765	-	-	-	1,049,765	1,054,325
Exhibitions	1,039,473	-	-	-	1,039,473	1,453,764
Maintenance and security	1,074,494	-	-	-	1,074,494	1,070,429
Marketing, development and visitor services	1,282,690	-	-	-	1,282,690	1,256,330
Museum services	868,227	-	-	-	868,227	925,232
Sundry acquisition costs	-	35,248	-	-	35,248	32,799
Transfer to Vancouver Foundation	-	-	7,500	-	7,500	-
	6,569,796	2,741,960	7,500	-	9,319,256	7,489,383
Excess (deficiency) of revenue over expenses before the undernoted	2	(2,213,246)	-	-	(2,213,244)	99,203
Vancouver Arts Stabilization Team Grant (note 6)	-	-	-	898,985	898,985	-
Excess (deficiency) of revenue over expenses	\$ 2	\$ (2,213,246)	\$ -	\$ 898,985	\$ (1,314,259)	\$ 99,203

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Changes in Net Assets

Years ended December 31, 2003 and 2002

	Invested in capital assets	Unrestricted	Acquisitions Fund	Life Benefactors Fund	Vancouver			Total 2002
					Stabilization Team Fund	Arts Fund	Total 2003	
Balance, beginning of year	\$ 345,940	\$ 119,178	\$ 1,454,926	\$ 7,500	\$ -	\$ -	\$ 1,927,544	\$ 1,828,341
Excess (deficiency) of revenue over expenses	(66,008)	66,010	(2,213,246)	-	898,985	(1,314,259)	7,500	99,203
Life Benefactors Endowment contribution	-	-	-	7,500	-	-	(7,500)	-
Transfer to Vancouver Foundation	-	-	-	(7,500)	-	-	-	-
Net change in investment in capital assets	81,097	(81,097)	-	-	-	-	-	-
Balance, end of year	\$ 361,029	\$ 104,091	\$ (758,320)	\$ 7,500	\$ 898,985	\$ 613,285	\$ 1,927,544	\$ 1,927,544

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	2003	2002
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (1,314,259)	\$ 99,203
Amortization of capital assets	66,008	65,653
Vancouver Arts Stabilization Team Grant	(898,985)	-
Net change in non-cash operating working capital:		
Grants, interest and accounts receivable	27,462	(35,973)
Prepaid expenses	(249,144)	(8,579)
Inventories	(49,756)	47,602
Accounts payable and accrued liabilities	460,924	39,839
Deferred revenue	(184,057)	(15,940)
	(2,141,807)	191,805
Investments and financing:		
Decrease (increase) in restricted investments	1,413,390	(132,099)
Gerald and Sheahan McGavin Capital Grant to the Arts (note 6)	179,391	360,000
Purchase of capital assets	(81,097)	(29,150)
	1,511,684	198,751
Increase (decrease) in cash and cash equivalents	(630,123)	390,556
Cash and cash equivalents, beginning of year	1,610,033	1,219,477
Cash and cash equivalents, end of year	\$ 979,910	\$ 1,610,033

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2003 and 2002

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 preparation of financial statements requires 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 the liability for 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.
- (iv) The Vancouver Arts Stabilization Team Fund was established from restricted contributions received from the Gerald and Sheahan McGavin Capital Grant to the Arts (note 6).

(b) Basis of accounting:

(i) 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 inception.

(ii) Prepaid expenses:

Prepaid expenses are comprised primarily of exhibition expenditures that have been paid by the Association and relate to exhibitions to be held the following year. Prepaid expenses also include insurance costs paid during the year, which relate to the following year.

(iii) Inventories:

Inventories are comprised primarily of books, jewellery, paper products, gifts, reproductions and clothing held for sale in the Gallery Store and are stated at the lower of cost and net realizable value.

(iv) Restricted investments:

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

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2003 and 2002

2. Significant accounting policies (continued):

(b) Basis of accounting (continued):

(v) 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 relates to a future period is 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 a future period which is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable. Pledged amounts are recorded as revenue when the amount to be received can be reasonably estimated, typically when signed pledge forms are received, and ultimate collection is reasonably assured.

(vi) 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:

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.

(vii) 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 \$106,243 during 2003 (2002 - \$95,305).

(viii) Employee future benefits:

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

(ix) Collection (see note 9):

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

(x) 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2003 and 2002

2. Significant accounting policies (continued):

(c) Change in accounting policy:

The Association has changed its method of recording pledged amounts. Such revenue, formerly recorded when the pledged amounts were received, is now being recorded as revenue when the amount to be received can be reasonably estimated, typically when signed pledge forms are received, and ultimate collection is reasonably assured. This change has been applied retroactively but has no impact on the prior year as no pledges were outstanding at the prior year end.

At December 31, 2003, the Association has recorded \$203,434 of pledges as revenue and accounts receivable. Substantially all such pledges have been received in 2004.

(d) Comparative figures:

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

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:

	2003	2002
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	357,500	350,000
	558,664	551,164
Book value	\$ 6,063,864	\$ 6,056,364
Market value	\$ 8,827,803	\$ 8,591,192

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income of \$464,434 (2002 - \$535,361) from The Vancouver Art Gallery Endowment Fund for Acquisition of Art has been credited to the Acquisitions Fund. Income of \$36,056 (2002 - \$49,327) from the General and Life Benefactors components of The Vancouver Art Gallery Endowment Fund has been credited to the General Fund.

4. Capital assets:

	2003		2002	
	Cost	Accumulated amortization	Net book value	Net book value
Computers	\$ 168,739	\$ 114,607	\$ 54,132	\$ 63,133
Equipment	244,195	148,952	95,243	81,615
Furniture and building fixtures	291,023	79,971	211,052	199,790
Vehicles	5,702	5,100	602	1,402
	\$ 709,659	\$ 348,630	\$ 361,029	\$ 345,940

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2003 and 2002

5. Deferred revenue:

	2003	2002
Canada Council Grant	\$ 89,750	\$ 88,750
City of Vancouver	20,807	37,682
Corporate sponsors	70,500	74,625
Department of Canadian Heritage	59,944	106,716
Exhibition loan fees	15,000	15,000
Membership	19,739	29,880
Other	94,355	65,745
Private foundations and trusts	1,500	137,254
	\$ 371,595	\$ 555,652

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 was entitled to receive a grant of \$179,797 each year for a five year period. These installments were 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.

As at December 31, 2003, the total grant has been received by the Association. In accordance with direction received from VAST, and based on a resolution passed by the Association Board, the Association has restricted the \$898,985 for a period of three years to be used as a working capital reserve.

7. Gallery Store operations:

	2003	2002
Sales	\$ 1,526,415	\$ 1,964,632
Cost of goods sold	843,867	1,038,587
	682,548	926,045
Expenses:		
Advertising	4,834	3,819
Audit fees	4,996	4,712
Credit card commissions	21,206	20,199
Fixtures	4,338	11,040
Miscellaneous	31,870	13,580
Salaries and employee benefits	356,489	361,460
Satellite shop	5,336	8,204
Travel	3,709	6,543
	432,778	429,557
Excess of revenue over expenses from operations	\$ 249,770	\$ 496,488

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2003 and 2002

8. Related parties:

(a) Vancouver Art Gallery Foundation:

The 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. 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. During the year, the Foundation donated \$21,703 (2002 - \$12,500) to the Association, of which \$14,600 is included in accounts receivable at December 31, 2003 and was received subsequent to year end. The Foundation maintains endowment funds, which are permanently held and administered by the Vancouver Foundation, and receives interest income on these funds. The balance of these funds at December 31, 2003 is \$1,197,000.

(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 \$54,989 (2002 - \$75,000) 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. Financial instruments:

Financial instruments of the Association are comprised of cash and cash equivalents, grants, interest and accounts receivable and accounts payable and accrued liabilities. The carrying value of the Association's financial instruments approximate their fair value due to their ability for prompt liquidation or settlement in the near term.

11. Commitments:

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

2004	\$ 16,585
2005	16,585
2006	16,585
2007	1,650
2008	-
