

CITY OF VANCOUVER

ADMINISTRATIVE REPORT



Report Date: May 31, 2006
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Meeting Date: June 29, 2006

TO: Standing Committee on City Services and Budgets

FROM: Assistant Director, Office of Cultural Affairs

SUBJECT: Vancouver Art Gallery - Annual Review & 2006 Grant Requests

RECOMMENDATION

THAT Council approve a 2006 operating grant of \$2,042,500 to the Vancouver Art Gallery Association; source of funds to be the 2006 "Other" Grants budget.

GENERAL MANAGERS' COMMENTS

The General Managers of Community and Corporate Services RECOMMEND approval of the foregoing.

COUNCIL POLICY

The City has provided funding to the Vancouver Art Gallery since its inception, and since 1992, Council has approved annual operating grants to the Vancouver Art Gallery Association to support ongoing operations. Approval of grants requires eight affirmative votes of Council.

PURPOSE

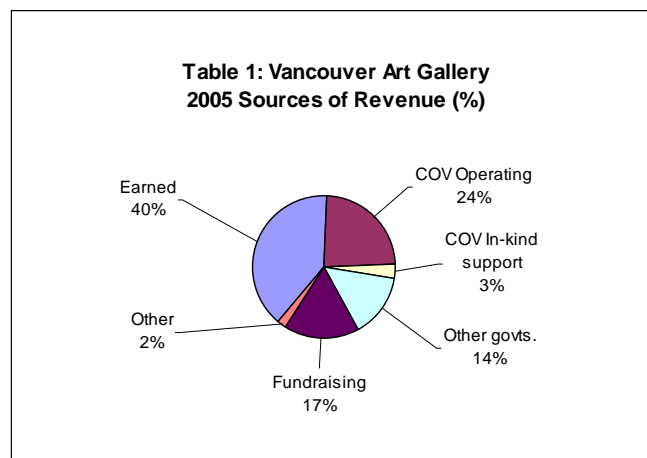
This report provides a review of the Vancouver Art Gallery's 2005 activities and recommends approval of the Association's 2006 Operating Grant.

BACKGROUND

Founded in 1931, the Vancouver Art Gallery Association (the 'Gallery') is an independent not-for-profit public art museum that collects, exhibits, preserves and holds in trust the City of Vancouver's collection of fine art. The collection comprises nearly 8,900 works with an estimated value of \$110 million. The Gallery is governed by a volunteer Board of Directors and has 45 full-time staff and 90 part-time staff. The organization has approximately 16,400 members and over 380 volunteers contributing 17,000 hours of service to the Gallery and its programs.

The Vancouver Art Gallery Association occupies a provincially-owned building which is leased to the City of Vancouver for a 99-year term at a nominal rent. The City in turn sub-leases to the Vancouver Art Gallery Association and its relationship with the City is generally outlined in lease terms approved by Council on June 27, 2002 for a fifteen year term. The City and the Gallery are currently in discussions and it is anticipated that the lease will be executed by the end of year.

In addition to an annual operating grant, the City currently provides additional in-kind support in the form of occupancy of the facility at a nominal rent, property tax exemption and some exterior maintenance. Table 1 reflects a breakdown of the Gallery's operating sources of revenue, including total support from the City (27% of revenues from all sources).



2005 Year in Review

The Gallery presented a diverse range of exhibitions and public programs from contemporary to historical master works, beginning with an exhibition highlighting the significant acquisition of a large photo-based collection *Real Pictures: Photographs from the Collection of Claudia Beck and Andrew Gruft*. This exhibition showcased more than 460 photographs representing the historic evolution of photography from the late 19th century to the present day. Other major temporary exhibitions included:

- *Rodney Graham: A Little Thought* - a mid-career retrospective focused on video and film by this Vancouver-based artist of international acclaim
- *Rodin: A Magnificent Obsession* - a major survey of this 19th century European sculptor's work included more than 60 bronzes, works on paper and photographs

- *Body Slam* - a series of four contemporary art exhibitions that focused on the human form (*New British Art, Franz West, Theodore Wan and Wang Du: Parade*)
- *Protean Picasso* - featured prints and drawings from the National Gallery of Canada and selected paintings from international collections
- *Classified Materials: Accumulations, Archives Artists* - featured contemporary works on loan and from the permanent collection by artists from Asia, Europe, the Middle East and the Americas

Touring shows featured *Massive Change: The Future of Global Design* at the Art Gallery of Ontario, and solo exhibitions by Rodney Graham and BC-Based aboriginal artist Brian Jungen, the latter premiering at The New Museum of Contemporary Art in New York.

The NEXT projects invited young and/or emerging artists from various disciplines, including architecture and design, to create site-specific works in the Gallery to animate both exhibition and unconventional spaces within the Gallery's lobby and Georgia Street windows. As part of the Gallery's efforts to expand local audiences, the Gallery introduced FUSE, a new multi-disciplinary evening event once per month targeted at young professionals in the downtown core, which averaged over 1,000 attendees per event.

In 2005, over 100 artworks were acquired for the permanent collection and 146 works were loaned to 35 institutions during the year. The Gallery also initiated two important projects to assess, document and conserve the collections of film, video, audio and digital works with funding assistance from the federal Museums Assistance Program. Collection activity also focused on updating the 20-year old Collections Policy, with Phase 1 of the revised document completed in 2005.

A Master Planning Committee, composed of board members, staff, artists and other museum professionals, was established in 2003 to oversee the master planning process. The Gallery has now concluded its investigation of options for expansion on the current site and determined that the Gallery needs to double the size of its facility to accommodate the Gallery's requirements for the next 25 years and beyond. Priorities include additional space for exhibitions, public programming, and art storage, as well revenue generation spaces.

2006 Plans

The Vancouver Art Gallery celebrates its 75th anniversary this year. The Gallery will embark upon the next phase of its master planning for facility expansion and a year-long program of exhibitions, public programs and events has been planned to celebrate the Gallery's anniversary, culminating in official programs around the anniversary date in October. The Gallery has requested \$150,000 in supplementary funding in support of the programming and marketing initiatives around the 75th anniversary. This request will be reviewed in the context of the \$700,000 increase to the 2006 cultural budget, once the framework for the allocation process has been determined and reported to Council in July.

The Gallery has expanded its public hours of operation opening on Mondays year-round, Tuesday evenings (in addition to Thursday evenings), and for the monthly FUSE events. Major temporary exhibitions scheduled for 2006 include:

- Solo exhibitions by BC artists *Takao Tanabe* and the Canadian debut of *Brian Jungen*

- *Raven Travelling: Two Centuries of Haida Art* - a major survey exhibition featuring over 200 works produced over the last 200 years
- *Emily Carr: New Perspectives* - a comprehensive retrospective of the work of Emily Carr organized jointly with the National Gallery of Canada
- *Arthur Erikson* - featuring 12 projects undertaken by this internationally-acclaimed Vancouver architect between 1963 and 2002

In 2006, touring exhibitions such as *Body: New Art from the UK; Brian Jungen; Takao Tanabe; and Emily Carr: New Perspectives* will travel nationally, and *Massive Change: The Future of Global Design* internationally. The Gallery also launched its BC Touring program in April, with funding assistance from the Province. The exhibition *Dawn: Group of Seven Sketches* will tour to Prince George, Victoria and Kelowna in 2006/07.

The Gallery plans to continue building the collection, primarily through donations, with an emphasis on work by BC artists. In addition, the Gallery will continue to work on final phase of its Collections Policy, which will include sections on access to the collections, copyright and risk management. Phase 1 & Phase 2 of this policy, which guide the care and maintenance of the City's fine art collection, have, along with the collection policies from the other two major collecting institutions (Vancouver Museum and Vancouver Maritime Museum) been reviewed by staff and is contained in a separate Council report.

DISCUSSION

The Gallery had a very successful year and concluded its 20th consecutive year with a balanced budget. Admission revenues reached a new high of almost \$1.9 million (a 16% increase over 2004) and membership revenues increased by 31%. Attendance performance affects other revenues and, as shown in **Table 1**, the Gallery's earned revenues accounted for 40% of the Gallery's operating budget in 2005, up from 34% the previous year.

Increasing attendance and admissions revenue have been key goals in the Gallery's 2003-2006 Strategic Plan. Paid attendance has been rising steadily since 2003, and in 2005 paid attendance reached 196,192 and total attendance exceeded 275,000. In order to achieve this and expand audiences, the Gallery hired a tourism marketing coordinator in 2005 to focus more on the tourist audience, as it was estimated that of the four million cultural tourists that come to the city annually only a small percentage were visiting the Gallery.

Overall donations met or exceeded targets (37% increase over 2004) and donors contributed \$350,000 to the endowment fund, which was matched by the BC Arts Renaissance Fund. The Gallery's endowment has grown from \$200,000 to \$5 million in four years. However, events and sponsorships were below projections, as the Gallery's relatively new fund raising event *Extraordinary*, an event that alternates with the art auction has not yet developed as high a revenue stream. Sponsorships were down by 40% over 2004, but increased by 37% over 2003, largely as result of a very successful year in 2004 with the *Massive Change* exhibition and related sponsorships. The Vancouver Art Gallery Association's 2005 financial statements are attached to this report as Appendix A.

Given the increased opportunities through additional operating hours and tourism marketing, the Gallery has projected increasing admissions by another 11%, and an increase of 13% in earned revenues for 2006. Fund raising targets have also been set high for 2006 (a 77% increase), and even though these targets are not always met, the Gallery continues to increase its operating budget and strengthen its financial position.

FINANCIAL IMPLICATIONS

Staff are recommending a 2006 operating grant of \$2,042,500 based on a general inflationary increase of 2.0% over the 2005 grant as approved by Council in the 2006 Operating Budget. The source of funds is the "Other" Grants allocation in the 2006 Operating Budget.

CONCLUSION

The Vancouver Art Gallery offered a range of noteworthy exhibitions and public programs in 2005, and will offer the public a year-long program of special exhibitions, programs and events to celebrate the Gallery's 75th anniversary in 2006. OCA and Finance staff have reviewed the 2006 operating budget and assumptions, and while the financial projections are ambitious, the Gallery has a track record of good fiscal management, achieving results, and maintaining a balanced budget for 20 consecutive years. Staff are therefore recommending a 2006 operating grant of \$2,042,500.

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Financial Statements of

VANCOUVER ART GALLERY ASSOCIATION

Years ended December 31, 2005 and 2004



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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, 2005 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, 2005 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 24, 2006

VANCOUVER ART GALLERY ASSOCIATION

Balance Sheets

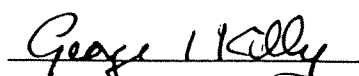
December 31, 2005 and 2004

	General Fund	Acquisitions Fund	Vancouver Arts Stabilization Team Fund	Total 2005	Total 2004
					(restated – note 14)
Assets					
Current assets:					
Cash and cash equivalents	\$ 593,338	\$ 176	\$ -	\$ 593,514	\$ 438,855
Grants, interest and accounts receivable	645,121	19,000	-	664,121	627,757
Prepaid and exhibition expenses	295,442	-	-	295,442	251,628
Inventories	554,378	-	-	554,378	482,642
	2,088,279	19,176	-	2,107,455	1,800,882
Capital assets (note 4)	381,404	-	-	381,404	365,799
	\$ 2,469,683	\$ 19,176	\$ -	\$ 2,488,859	\$ 2,166,681
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 746,017	\$ 1,590	\$ -	\$ 747,607	\$ 789,987
Current portion of long-term liabilities (note 12)	-	91,300	-	91,300	-
Deferred revenue (note 6)	408,131	-	-	408,131	390,508
Interfund balances	850,411	48,574	(898,985)	-	-
	2,004,559	141,464	(898,985)	1,247,038	1,180,495
Long-term liabilities (note 12)	-	540,000	-	540,000	631,300
Net assets (deficiency):					
Invested in capital assets	381,404	-	-	381,404	365,799
Unrestricted	83,720	(662,288)	-	(578,568)	(909,898)
Externally restricted (note 7)	-	-	898,985	898,985	898,985
	465,124	(662,288)	898,985	701,821	354,886
	\$ 2,469,683	\$ 19,176	\$ -	\$ 2,488,859	\$ 2,166,681

Commitments (note 13)

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, 2005 and 2004

	General Fund	Acquisitions Fund	Total 2005	Total 2004
				(restated – note 14)
Revenue:				
Admissions	\$ 1,876,181	\$ -	\$ 1,876,181	\$ 1,612,906
Exhibition loan fees	222,141	-	222,141	20,000
Fundraising (note 10(b) and (c))	779,619	29,995	809,614	591,487
Gallery Store and Artist Editions (note 9)	1,825,381	-	1,825,381	1,747,745
Investment income (note 3)	40,512	363,470	403,982	394,376
Memberships	451,334	-	451,334	345,030
Public programming	101,984	-	101,984	164,096
Rentals and restaurant lease	303,152	-	303,152	268,553
Special events (note 8)	40,390	-	40,390	465,406
Sponsorships	410,011	-	410,011	684,993
Vancouver Art Gallery Foundation (note 10(a))	168,825	-	168,825	73,500
Other	132,591	51,432	184,023	167,038
	6,352,121	444,897	6,797,018	6,535,130
Grants:				
BC Arts Council	512,300	-	512,300	512,300
BC Gaming Commission	40,000	-	40,000	40,000
Canada Council	305,387	19,000	324,387	273,700
City of Vancouver	2,002,665	-	2,002,665	2,033,642
Department of Canadian Heritage	174,743	18,350	193,093	177,941
Foreign Affairs Canada	12,232	-	12,232	22,768
Greater Vancouver Regional District	8,500	-	8,500	8,500
Other	139,707	-	139,707	56,672
	3,195,534	37,350	3,232,884	3,125,523
	9,547,655	482,247	10,029,902	9,660,653
Expenses:				
Administration and finance	596,088	-	596,088	506,224
Art acquisitions	-	111,361	111,361	645,375
Board and management services	671,828	-	671,828	611,565
Curatorial and programs	1,272,653	-	1,272,653	1,064,397
Exhibitions	1,655,840	-	1,655,840	2,180,547
Gallery Store and Artist Editions (note 9)	1,464,452	-	1,464,452	1,339,146
Maintenance and security	1,168,234	-	1,168,234	1,077,725
Marketing, development and visitor services	1,521,603	-	1,521,603	1,307,075
Master planning	188,055	-	188,055	245,100
Museum services	933,100	-	933,100	896,089
Sundry acquisition costs	-	23,953	23,953	63,197
Transfer to Vancouver Foundation	-	-	-	7,500
	9,471,853	135,314	9,607,167	9,943,940
Excess (deficiency) of revenue over expenses before the undernoted	75,802	346,933	422,735	(283,287)
Amortization of capital assets	(75,800)	-	(75,800)	(75,112)
Excess (deficiency) of revenue over expenses	\$ 2	\$ 346,933	\$ 346,935	\$ (358,399)

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Changes in Net Assets

Years ended December 31, 2005 and 2004

	General Fund		Vancouver Arts Stabilization Team Fund		Total 2005	Total 2004
	Invested in capital assets	Unrestricted	Acquisitions Fund			
Balance, beginning of year, as restated (note 14)	\$ 365,799	\$ 99,323	\$ (1,009,221)	\$ 898,985	\$ 354,886	\$ 713,285
Excess (deficiency) of revenue over expenses	(75,800)	75,802	346,933	-	346,935	(358,399)
Net change in investment in capital assets	91,405	(91,405)	-	-	-	-
Balance, end of year	\$ 381,404	\$ 83,720	\$ (662,288)	\$ 898,985	\$ 701,821	\$ 354,886

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Cash Flows

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 346,935	\$ (358,399)
Items not involving cash:		
Amortization of capital assets	75,800	75,112
Gain on disposal of capital assets	6,186	-
Net change in non-cash operating working capital:		
Grants, interest and accounts receivable	(36,364)	(298,058)
Prepaid and exhibition expenses	(43,814)	22,142
Inventories	(71,736)	(144,765)
Accounts payable and accrued liabilities	(42,380)	(407,418)
Current portion of long-term liabilities	91,300	-
Deferred revenue	17,623	18,913
	<u>343,550</u>	<u>(1,092,473)</u>
Investments and financing:		
Increase (decrease) in long-term liabilities	(91,300)	631,300
Purchase of capital assets	(97,591)	(79,882)
	<u>(188,891)</u>	<u>551,418</u>
Increase (decrease) in cash and cash equivalents	154,659	(541,055)
Cash and cash equivalents, beginning of year	438,855	979,910
Cash and cash equivalents, end of year	<u>\$ 593,514</u>	<u>\$ 438,855</u>

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

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 the net realizable value of inventories. 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, which is 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 7).

(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 and exhibition expenses:

The balance is comprised primarily of exhibition expenditures that have been paid by the Association and relate to exhibitions to be held 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

2. Significant accounting policies (continued):

(b) Basis of accounting (continued):

(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 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.

Gallery Store and Artist Edition revenue is recognized as revenue as sales are made.

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. At December 31, 2005, the Association has recorded \$110,577 (2004 - \$82,896) of pledges as revenue and accounts receivable.

Externally restricted contributions are reported as revenue when the restrictions imposed by the contributors on the use of the monies are satisfied.

(v) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over the useful lives of the assets. 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

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 \$123,764 during 2005 (2004 - \$112,165).

(vii) Employee future benefits:

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

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

2. Significant accounting policies (continued):

(viii) Collection (see note 11):

Additions to the collection are charged as an expense on the Acquisitions Fund 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.

(x) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(c) 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:

	2005	2004
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	365,000	365,000
	566,164	566,164
Book value	\$ 6,071,364	\$ 6,071,364
Market value	\$ 9,486,161	\$ 9,076,080

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income of \$363,470 (2004 - \$353,373) from The Vancouver Art Gallery Endowment Fund for Acquisitions of Art has been credited to the Acquisitions Fund. Income of \$34,891 (2004 - \$33,424) from the General and Life Benefactors components of The Vancouver Art Gallery Endowment Fund has been credited to the General Fund.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

4. Capital assets:

			2005	2004
	Cost	Accumulated amortization	Net book value	Net book value
Computers	\$ 184,679	\$ 151,978	\$ 32,701	\$ 32,185
Equipment	259,829	184,784	75,045	97,165
Furniture and building fixtures	386,197	112,539	273,658	236,449
	\$ 830,705	\$ 449,301	\$ 381,404	\$ 365,799

5. Line of credit:

The Association has an available operating line of credit of \$365,000 which bears interest at the prime rate. As at December 31, 2005, the balance outstanding on this operating line is nil (2004 - nil).

6. Deferred revenue:

	2005	2004
Canada Council Grant	\$ 113,163	\$ 54,800
City of Vancouver	7,000	265
Corporate sponsors	53,616	90,266
Department of Canadian Heritage	147,921	139,810
Foreign Affairs Canada	25,000	8,732
Province of British Columbia	25,500	4,500
Other	35,931	92,135
	\$ 408,131	\$ 390,508

As at December 31, 2005, included within the Canada Council Grant is nil (2004 - \$22,500) in deferred revenue relating to the Acquisitions Fund.

7. 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. As at December 31, 2003, the total grant had 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 ending December 31, 2006 to be used as a working capital reserve.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

8. Special events:

The Association performs certain fundraising activities considered to be ancillary to its ongoing operations. These activities, which generated an excess of revenue over expenses of \$40,390 (2004 - \$465,406), have been presented in the statements of operations on a net basis. The gross revenue and expenses related to these activities are as follows:

	Extraordinary 2005	Art Auction 2004
Sales	\$ 276,113	\$ 685,869
Expenses	235,723	220,463
Excess of revenue over expenses	\$ 40,390	\$ 465,406

9. Gallery Store and Artist Editions:

	2005	2004
Sales - Gallery Store	\$ 1,781,271	\$ 1,747,745
- Artist Editions	44,110	-
	1,825,381	1,747,745
Expenses:		
Administration	70,745	48,660
Cost of goods sold	997,049	893,645
Salaries and employee benefits	394,308	380,645
Satellite stores	2,350	16,196
	1,464,452	1,339,146
Excess of revenue over expenses from operations	\$ 360,929	\$ 408,599

10. 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

10. Related parties (continued):

(a) Vancouver Art Gallery Foundation (continued):

The financial position and operating results of the Foundation are as follows:

	2005	2004
Assets	\$ 79,909	\$ 208,283
Liabilities	50,796	115,934
Net assets	\$ 29,113	\$ 92,349
Revenue	\$ 1,073,268	\$ 2,458,790
Administrative expenses	(7,559)	(8,895)
Donation to the Association	(168,825)	(73,500)
Transfer to the Vancouver Foundation	(960,120)	(2,279,895)
Excess (deficiency) of revenue over expenses	\$ (63,236)	\$ 96,500

The Foundation's 4th quarter gift of \$46,285 (2004 - \$73,500 for full year's donation) to the Association is included in accounts receivable at December 31, 2005. The Foundation also maintains endowment funds, which are permanently held and administered by the Vancouver Foundation, and receives income on these funds. The market value of these funds at December 31, 2005 is \$4,750,363 (2004 - \$3,610,034).

In addition, as at December 31, 2005, included in accounts receivable is nil (2004 - \$39,059) relating to donations received by the Foundation that are attributable to the Association. As at December 31, 2005, included in accounts payable is \$23,350 (2004 - \$29,737) relating to donations received by the Association that are attributable to the Foundation.

(b) Friends of Vancouver Art Gallery:

Friends of Vancouver Art Gallery (Friends) is a nonprofit organization, incorporated in the United States, March 2003.

Its purpose is to receive donations, gifts, funds, and property from residents of the United States. The Association's Board of Trustees appoints the Board of Directors of Friends. Friends has not been consolidated in the Association's financial statements.

The financial position and operating results of Friends are as follows:

	2005	2004
Assets	\$ 115	\$ -
Liabilities	115	-
Net assets	-	-
Revenue	\$ 9,315	\$ -
Donation to the Association	9,315	-
	\$ -	\$ -

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2005 and 2004

10. Related parties (continued):

(b) Friends of Vancouver Art Gallery (continued):

2005 was the first year that Friends received cash gifts. The Board of Directors passed a motion to transfer 100% of the gifts to the Association.

\$9,200 has been received by the Association, and \$115 is in accounts receivable.

(c) 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 \$81,320 (2004 - \$53,210) to the Association.

11. 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.

12. Financial instruments:

Financial instruments of the Association are comprised of cash and cash equivalents, grants, interest and accounts receivable, accounts payable and accrued liabilities and long-term liabilities. The carrying value of the Association's financial instruments, other than long-term liabilities, approximates their fair value due to their ability for prompt liquidation or settlement in the near term. The fair value of the non-interest bearing long-term liabilities (including the current portion) at December 31, 2005 is approximately \$553,742 (2004 - \$514,000).

13. Commitments:

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

2006	\$ 28,941
2007	28,154
2008	27,054
2009	27,054
2010	7,025

14. Restatement:

The prior year balances have been restated to remove an art acquisition that was recorded as an expense in the Acquisitions Fund. This acquisition was committed to in the prior year, but no legal liability was in place and the Association is not planning to complete this acquisition. The impact of this change is to increase opening net assets in the Acquisitions Fund and reduce opening accounts payable by \$100,000.