



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: June 13, 2005
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Meeting Date: June 30, 2005

TO: Standing Committee on City Services and Budgets

FROM: Managing Director of Cultural Services

SUBJECT: Vancouver Art Gallery – Annual Review & 2005 Operating Grant Request

RECOMMENDATION

THAT Council approve a 2005 operating grant of \$2,002,400 to The Vancouver Art Gallery Association; source of funds to be the 2005 “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.

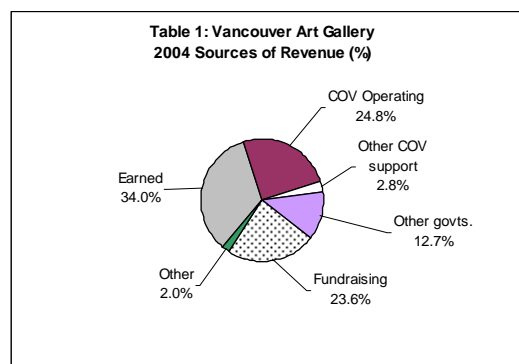
PURPOSE

This report provides a review of the Vancouver Art Gallery's 2004 activities and recommends approval of the Association's 2005 Operating Grant.

BACKGROUND

Founded in 1931, the Vancouver Art Gallery Association 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 over 8,500 works with an estimated value of \$100 million. 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 is continuing to work with the Gallery to conclude the lease and related operating agreements as outlined in the draft terms of reference approved by Council on June 27, 2002.

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 (27.6% of revenues from all sources).



2004 Year in Review

Major temporary exhibitions in 2004 ranged from design exhibitions such as *A Modern Life: Art & Design in BC 1945-1960* to international exhibitions such as *Andy Warhol: Prints and Drawings from the Warhol Museum* and *Baja to Vancouver: the West Coast and Contemporary Art*, which brought together four institutions and five curators to present 33 artists working on the West Coast of North America.

The *Baja to Vancouver* exhibition also toured to San Diego and San Francisco. Vancouver artist Rodney Graham's show travelled to the Art Gallery of Ontario and the Museum of Contemporary Art in Los Angeles, and the EJ Hughes exhibition went to the McMichael Canadian Art Gallery in Ontario and the Art Gallery of Greater Victoria.

Later in the year, the Gallery launched one of its most ambitious projects ever: *Massive Change: The Future of Global Design*. Guest-curated by Canadian designer Bruce Mau, this major multi-disciplinary exhibition of 13 modules investigated various aspects of design and its changing role within contemporary culture. This project was also the focus of a book, a 13-part television series and the *Visionaries* symposium hosted by Charlie Rose and Bruce Mau.

The Gallery also had a very successful year building the collection, acquiring more than 500 works valued at nearly \$3,000,000. The majority of these works were historical, modern and contemporary photographs from the extensive collection of Claudia Beck and Andre Gruft. Permanent collection exhibitions in 2004 highlighted significant Gallery donors and donations over the years:

- *Determined Pursuit: Highlights from the Longstaffe Collection*, featured selections from more than 800 works donated by the family;
- *Andy Warhol: Prints and Drawings from the Warhol Museum*, a travelling exhibition that also included 40 works from the collection; and
- *The Shadow of Production* featured works that addressed themes of industry, work and leisure.

Collection activity in 2004 focused upon developing a comprehensive collections policy which will guide the care and maintenance of the City's fine art collection. Submitted to City staff for review in May 2005, it will be brought forward to Council later this year.

Master Planning

A Master Planning Committee, composed of board members, staff, artists and other museum professionals, was established in 2003 to oversee the master planning process. In 2004, the Gallery engaged Michael Maltzan Architecture, Inc. (MMA) of Los Angeles who has been working with Vancouver-based Henriquez Partners Architects to develop the Master Plan.

The master planning process has been divided into a number of phases, and this past year focused on investigating options for expansion on the current site through a series of focus groups with various stakeholders. These workshops assisted the architectural team in developing six different spatial approaches to renovation and expansion on the current site.

Following consultation and research on the optimum needs of the Gallery for the next 25 years and beyond, the architects have recommended that the Gallery double its existing facility to accommodate the Gallery's needs. Priorities include additional space for exhibiting contemporary art, public programming, and art storage, as well revenue generation spaces. Through the master planning process, the Gallery wishes to determine whether it is feasible to expand upon the existing site and still achieve its long-term programmatic goals. A comprehensive program report on the facility requirements will be included in the final Master Plan.

The development of a master plan is also a requirement of the Memorandum of Understanding (MOU) among BC Buildings Corp. (BCBC)(head landlord), the City (sub-landlord) and the Gallery (City's tenant) if the Gallery wishes to expand towards Robson Square. The Gallery needs to signal any interest in expansion on the current site by June 30, 2005.

2005 Plans

The Master Plan report reviewing current site options was presented to the Board in March 2005 and a public document summarizing the master planning process to date was issued at the end of April. The Board will also review other potential downtown sites through a Master Planning sub-committee in order to evaluate and compare benefits and costs of alternative options with the existing site. The Gallery anticipates that the exploration of alternative sites will conclude by mid-summer.

Operationally, the Gallery will continue to present a diverse range of exhibitions and public programs including:

- *Rodin: A Magnificent Obsession* – a major survey of this sculptor’s work from the Cantor Foundation including more than 60 bronzes, works on paper and photographs
- *Body Slam* – a series of four contemporary art exhibitions that focus on the human form (*New British Art, Franz West, Theodore Wan and Wang Du: Parade*)
- *Protean Picasso* – featuring prints and drawings from the National Gallery of Canada and selected paintings from international collections

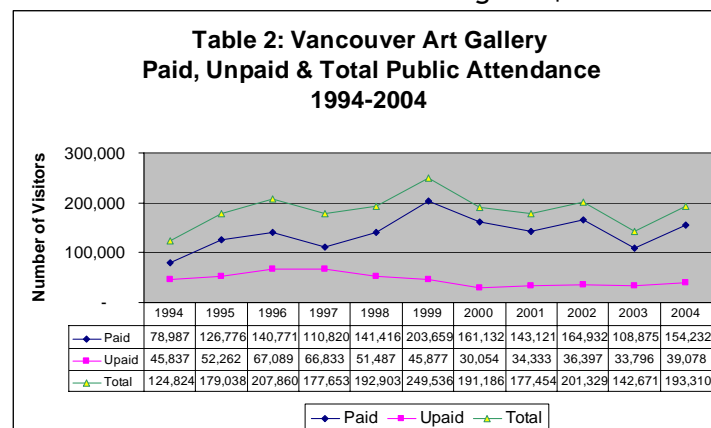
Through exhibitions such as these, the Gallery plans to attract more tourists, particularly in the summer and early fall. The Gallery will also focus efforts on expanding local audiences, particularly downtown workers and residents. Beginning July 1st, the Gallery will be open on Friday nights, with an enriched program every fourth Friday presenting lectures, music, dance and performance.

Several exhibitions will also highlight the collection, including the large recent acquisition of photographic works in *Real Pictures: Photographs from the Collection of Claudia Beck and Andrew Gruft*. Touring shows will feature Vancouver artists Rodney Graham and Brian Jungen in the United States, the latter opening at The New Museum in New York, as well as *Massive Change* at the Art Gallery of Ontario.

DISCUSSION

The Gallery had a successful year and achieved many of its strategic goals in 2004, both artistically and financially. Higher risk exhibitions and programs were balanced with careful management and impressive fund raising, such that the Gallery concluded its 19th consecutive year with a balanced budget. The Vancouver Art Gallery Association's 2004 financial statements are attached to this report as Appendix A.

In 2004, the Gallery projected aggressive revenue targets in order to invest in exhibitions such as *Massive Change* and still maintain a balanced budget. Artistically, the *Massive Change* project was ambitious in scope, both in term of resources required and the need to target new audiences. The results exceeded expectations – attendance increased by 35.5% over the previous year and admission revenues reached a new high at \$1.6 million.



As 2003 was not as strong a year, it is useful to compare performance over several years to identify trends. As indicated in Table 2, total attendance was slightly below 2002 levels. One of the Gallery’s challenges is to break through the 200,000 ceiling in annual attendance which

it has surpassed substantially only once in the past decade. Increasing attendance and admissions revenue, as well as maximizing other earned income are key goals in the Gallery's 2003-2006 Strategic Plan.

As shown in Table 1, the Gallery currently generates 34% in earned revenues and therefore has the potential to grow in this area. For 2005, the Gallery has hired a tourism marketing coordinator, as the focus continues to be on growing the tourist audience. The Gallery estimates that it has reached only 2% of the 4 million cultural tourists that come to the city annually. Attendance performance also impacts other earned revenues, and increasing attendance has a cascade effect. Net gift shop revenues increased by 51% and membership revenues increased by 20% over 2003. Total earned revenues increased by 46% over 2003 and 7% over 2002.

Fund raising targets were also set high for 2004. As a result of efforts by Board and staff, private sector revenues increased by 41% over 2003 and by 80% over 2002. Sponsorship revenues increased by 129%, and this is also attributable to the interest generated by the exhibitions and related programs in 2004. The direct relationship between programming decisions and revenues is evident – investment in exhibitions and marketing can result in higher attendance, which translates into increased earned and private sector revenues. A successful art auction also contributed to higher revenues.

Staff note that the Gallery's aggressive growth plan is achieving results, and while the Gallery may not always meet its ambitious revenue projections, revenues will exceed previous years' performances. However, there is still a question of whether this approach is sustainable over the long term, as ambitious programs and targets strain many aspects of operations. Staff, volunteer and donor burnout are potential risks, and to address this, the Gallery has reduced total revenue and expenditure targets by 5% for 2005 to ease the pace. Operating reserves accrued through the VAST (Vancouver Arts Stabilization Team) program could meet any short term cash flow problems and enable the Gallery to hire additional staff as necessary. The institution is also building its operating endowment, raising almost \$2.5 million in 2004.

FINANCIAL IMPLICATIONS

Staff are recommending a 2005 operating grant of \$2,002,400 based on a general inflationary increase of 2.0% over the 2004 grant as approved by Council in the 2005 Operating Budget. The source of funds is the "Other" Grants allocation in the 2005 Operating Budget.

CONCLUSION

The Vancouver Art Gallery offered a range of noteworthy exhibitions and public programs in 2004 and has successfully maintained a balanced budget for 19 years. The Gallery has been implementing its Strategic Plan effectively and operationally has demonstrated the effectiveness of mission-based management. OCA and Finance staff have reviewed the 2005 operating budget and assumptions and support the financial projections as reasonable in relation to the Gallery's strategic planning goals and previous performance. Staff are therefore recommending a 2005 operating grant of \$2,002,400.

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Financial Statements of

VANCOUVER ART GALLERY ASSOCIATION

Years ended December 31, 2004 and 2003



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APPENDIX A
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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, 2004 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, 2004 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

Vancouver, Canada

February 11, 2005

VANCOUVER ART GALLERY ASSOCIATION

Balance Sheets

December 31, 2004 and 2003

	General Fund	Acquisitions Fund	Vancouver Arts Stabilization Team Fund	Total 2004	Total 2003
Assets					
Current assets:					
Cash and cash equivalents	\$ 437,890	\$ 965	\$ -	\$ 438,855	\$ 979,910
Grants, interest and accounts receivable	627,757	-	-	627,757	329,699
Prepaid expenses	251,628	-	-	251,628	273,770
Inventories	482,642	-	-	482,642	337,877
	1,799,917	965	-	1,800,882	1,921,256
Capital assets (note 4)	365,799	-	-	365,799	361,029
	\$ 2,165,716	\$ 965	\$ -	\$ 2,166,681	\$ 2,282,285

Liabilities and Net Assets

Current liabilities:					
Accounts payable and accrued liabilities	\$ 771,101	\$ 118,886	\$ -	\$ 889,987	\$ 1,297,405
Deferred revenue (note 6)	368,008	22,500	-	390,508	371,595
Interfund balances	561,485	337,500	(898,985)	-	-
	1,700,594	478,886	(898,985)	1,280,495	1,669,000
Long-term liabilities (note 12)	-	631,300	-	631,300	-
Net assets (deficiency):					
Invested in capital assets	365,799	-	-	365,799	361,029
Unrestricted	99,323	(1,109,221)	-	(1,009,898)	(654,229)
Externally restricted (note 7)	-	-	898,985	898,985	898,985
Endowment	-	-	-	-	7,500
	465,122	(1,109,221)	898,985	254,886	613,285
	\$ 2,165,716	\$ 965	\$ -	\$ 2,166,681	\$ 2,282,285

Commitments (note 13)

See accompanying notes to financial statements.

Approved on behalf of the Board:

George I. Kilby Trustee

[Signature] Trustee

VANCOUVER ART GALLERY ASSOCIATION

Statements of Operations

Years ended December 31, 2004 and 2003

	General Fund	Acquisitions Fund	Life Benefactors Fund	Total 2004	Total 2003
Revenue:					
Admissions	\$ 1,612,906	\$ -	\$ -	\$ 1,612,906	\$ 980,768
Special events (note 8)	537,218	-	-	537,218	110,277
Corporate sponsorships	684,993	-	-	684,993	298,625
Exhibition loan fees	20,000	-	-	20,000	50,000
Fundraising (note 10(b))	591,487	-	-	591,487	942,025
Gallery Store (note 9)	1,747,745	-	-	1,747,745	1,526,415
Investment income (note 3)	41,003	353,373	-	394,376	528,633
Memberships	345,030	-	-	345,030	288,453
Other	121,447	4,298	-	125,745	75,551
Public programming	164,096	-	-	164,096	61,847
Rentals and restaurant lease	268,553	-	-	268,553	278,189
Vancouver Art Gallery Foundation (note 10(a))	73,500	-	-	73,500	21,703
	6,207,978	357,671	-	6,565,649	5,162,486
Grants:					
BC Arts Council	512,300	-	-	512,300	512,300
BC Gaming Commission	40,000	-	-	40,000	45,000
Canada Council	273,700	-	-	273,700	357,500
City of Vancouver	2,033,642	-	-	2,033,642	1,966,975
Department of Canadian Heritage	177,941	-	-	177,941	114,073
Department of Foreign Affairs and International Trade	22,768	-	-	22,768	-
Greater Vancouver Regional District	8,500	-	-	8,500	7,000
Other	56,672	-	-	56,672	217,323
	3,125,523	-	-	3,125,523	3,220,171
	9,333,501	357,671	-	9,691,172	8,382,657
Expenses:					
Administration and finance	506,224	-	-	506,224	540,820
Art acquisitions	-	645,375	-	645,375	2,706,712
Board and management services	611,565	-	-	611,565	643,248
Curatorial and programs	1,064,397	-	-	1,064,397	1,049,765
Exhibitions	2,180,547	-	-	2,180,547	1,039,473
Gallery Store (note 9)	1,369,665	-	-	1,369,665	1,276,645
Maintenance and security	1,077,725	-	-	1,077,725	1,074,494
Marketing, development and visitor services	1,307,075	-	-	1,307,075	1,282,690
Master planning	245,100	-	-	245,100	5,071
Museum services	896,089	-	-	896,089	868,227
Sundry acquisition costs	-	63,197	-	63,197	35,248
Transfer to Vancouver Foundation	-	-	7,500	7,500	7,500
	9,258,387	708,572	7,500	9,974,459	10,529,893
Excess (deficiency) of revenue over expenses before the undemoted	75,114	(350,901)	(7,500)	(283,287)	(2,147,236)
Amortization of capital assets	(75,112)	-	-	(75,112)	(66,008)
Vancouver Arts Stabilization Team Grant (note 7)	-	-	-	-	898,985
Excess (deficiency) of revenue over expenses	\$ 2	\$ (350,901)	\$ (7,500)	\$ (358,399)	\$ (1,314,259)

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Statements of Changes in Net Assets

Years ended December 31, 2004 and 2003

	General Fund		Vancouver				Total 2003
	Invested in capital assets	Unrestricted	Acquisitions Fund	Life Benefactors Fund	Stabilization Team Fund	Arts Fund	
Balance, beginning of year	\$ 361,029	\$ 104,091	\$ (758,320)	\$ 7,500	\$ 898,985	\$ 613,285	\$ 1,927,544
Excess (deficiency) of revenue over expenses	(75,112)	75,114	(350,901)	(7,500)	-	(358,399)	(1,314,259)
Net change in investment in capital assets	79,882	(79,882)	-	-	-	-	-
Balance, end of year	\$ 365,799	\$ 99,323	\$ (1,109,221)	\$ -	\$ 898,985	\$ 254,886	\$ 613,285

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (358,399)	\$ (1,314,259)
Items not involving cash:		
Amortization of capital assets	75,112	66,008
Vancouver Arts Stabilization Team Grant	-	(898,985)
Net change in non-cash operating working capital:		
Grants, interest and accounts receivable	(298,058)	27,462
Prepaid expenses	22,142	(249,144)
Inventories	(144,765)	(49,756)
Accounts payable and accrued liabilities	(407,418)	480,924
Deferred revenue	18,913	(184,057)
	<u>(1,092,473)</u>	<u>(2,141,807)</u>
Investments and financing:		
Decrease in restricted investments	-	1,413,390
Gerald and Sheahan McGavin Capital Grant to the Arts	-	179,391
Increase in long-term liabilities	631,300	-
Purchase of capital assets	(79,882)	(81,097)
	<u>551,418</u>	<u>1,511,684</u>
Decrease in cash and cash equivalents	(541,055)	(630,123)
Cash and cash equivalents, beginning of year	979,910	1,610,033
Cash and cash equivalents, end of year	<u>\$ 438,855</u>	<u>\$ 979,910</u>

See accompanying notes to financial statements.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2004 and 2003

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 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 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2004 and 2003

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.

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, 2004, the Association has recorded \$82,896 (2003 - \$203,434) of pledges as revenue and accounts receivable.

(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:

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 \$112,165 during 2004 (2003 - \$106,243).

(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 11):

Additions to the collection are charged as an expense of 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(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:

	2004	2003
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	357,500
	566,164	558,664
Book value	\$ 6,071,364	\$ 6,063,864
Market value	\$ 9,076,080	\$ 8,827,803

Under the terms of these endowment funds, the Association receives investment income earned on the capital. Income of \$353,373 (2003 - \$464,434) from The Vancouver Art Gallery Endowment Fund for Acquisition of Art has been credited to the Acquisitions Fund. Income of \$33,424 (2003 - \$36,056) from the General and Life Benefactors components of The Vancouver Art Gallery Endowment Fund has been credited to the General Fund.

4. Capital assets:

			2004	2003
	Cost	Accumulated amortization	Net book value	Net book value
Computers	\$ 179,290	\$ 147,105	\$ 32,185	\$ 54,132
Equipment	272,175	175,010	97,165	95,243
Furniture and building fixtures	332,374	95,925	236,449	211,052
Vehicles	5,702	5,702	-	602
	\$ 789,541	\$ 423,742	\$ 365,799	\$ 361,029

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, 2004, the balance outstanding on this operating line is nil (2003 - nil).

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2004 and 2003

6. Deferred revenue:

	2004	2003
Canada Council Grant	\$ 54,800	\$ 89,750
City of Vancouver	265	20,807
Corporate sponsors	90,266	70,500
Department of Canadian Heritage	139,810	59,944
Exhibition loan fees	2,000	15,000
Other	101,867	114,094
Private foundations and trusts	1,500	1,500
	\$ 390,508	\$ 371,595

As at December 31, 2004, included within the Canada Council Grant is \$22,500 (2003 - nil) 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.

8. Special events:

The Association performs certain fundraising activities considered to be ancillary to its ongoing operations. These activities, which generated an excess of revenues over expenses of \$537,218 (2003 - \$110,277), have been presented in the statements of operations on a net basis. The gross revenues and expenses related to these activities are as follows:

	Art Auction 2004	Extraordinary 2003	Lottery	
			2004	2003
Sales	\$ 685,869	\$ 275,440	\$ 232,858	\$ 216,062
Expenses	220,463	199,270	161,046	181,955
Excess of revenue over expenses	\$ 465,406	\$ 76,170	\$ 71,812	\$ 34,107

9. Gallery Store:

	2004	2003
Sales	\$ 1,747,745	\$ 1,526,415
Expenses:		
Administration	48,660	70,953
Cost of goods sold	924,164	843,867
Salaries and employee benefits	380,645	356,489
Satellite stores	16,196	5,336
	1,369,665	1,276,645
Excess of revenue over expenses from operations	\$ 378,080	\$ 249,770

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2004 and 2003

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.

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

	2004	2003
Assets	\$ 207,933	\$ 11,651
Liabilities	117,048	15,802
Net assets	\$ 90,885	\$ (4,151)
Revenues	\$ 2,458,790	\$ 318,135
Administrative expenses	(8,895)	(1,248)
Donation to the Association	(73,500)	(21,703)
Transfer to the Vancouver Foundation	(2,279,895)	(716,143)
	\$ 96,500	\$ (420,959)

The Foundation's donation of \$73,500 to the Association is included in accounts receivable at December 31, 2004. The Foundation also maintains endowment funds, which are permanently held and administered by the Vancouver Foundation, and receives income on these funds. The balance of these funds at December 31, 2004 is \$3,577,147 (2003 - \$1,197,000).

In addition, as at December 31, 2004, included in accounts receivable is \$39,059 (2003 - nil) relating to donations received by the Foundation that are attributable to the Association. These amounts are in addition to donations from the Foundation and have been received by the Association subsequent to year end. As at December 31, 2004, included in accounts payable is \$29,737 (2003 - nil) relating to donations received by the Association that are attributable to the Foundation.

(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 \$53,210 (2003 - \$54,000) 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.

VANCOUVER ART GALLERY ASSOCIATION

Notes to Financial Statements

Years ended December 31, 2004 and 2003

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 at December 31, 2004 is approximately \$514,000.

13. Commitments:

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

2005	\$ 18,395
2006	18,395
2007	2,477
