

Financial Statements

The Isabella Stewart Gardner Museum, Incorporated, Trustee under the Will of Isabella Stewart Gardner

June 30, 2010 and 2009



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Financial Statements

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Independent Auditors' Report

To the Trustees of The Isabella Stewart Gardner Museum, Incorporated
Trustee under the Will of Isabella Stewart Gardner
Boston, Massachusetts

We have audited the accompanying statements of financial position of The Isabella Stewart Gardner Museum, Incorporated, Trustee under the Will of Isabella Stewart Gardner (the "Museum") as of June 30, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

October 4, 2010
Cambridge, Massachusetts

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Statements of Financial Position

	<i>June 30,</i>	
	<i>2010</i>	<i>2009</i>
Assets		
Cash and cash equivalents	\$ 3,124,353	\$ 3,186,584
Receivables:		
Pledges receivable, net	14,313,526	14,888,962
Contributions receivable from remainder trusts	1,724,560	1,519,539
Other receivables	<u>703,501</u>	<u>306,544</u>
Total receivables, net	<u>16,741,587</u>	<u>16,715,045</u>
Inventory	234,191	288,589
Prepaid and other assets	737,115	191,662
Unexpended bond proceeds	10,908,020	-
Short-term investments	45,725,123	21,708,493
Museum property:		
Building improvements and other museum property	15,847,434	15,847,434
Construction in progress	<u>47,662,564</u>	<u>21,023,422</u>
	63,509,998	36,870,856
Less - accumulated depreciation	<u>(11,641,259)</u>	<u>(10,818,430)</u>
	51,868,739	26,052,426
Historic building, contents and land	<u>4,482,944</u>	<u>4,482,944</u>
Total museum property	<u>56,351,683</u>	<u>30,535,370</u>
Investments of endowed funds, at fair value	<u>99,927,911</u>	<u>84,260,735</u>
Total assets	<u>\$ 233,749,983</u>	<u>\$ 156,886,478</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses		
Accrued pension expense	\$ 1,068,870	\$ 1,063,678
Accounts payable and other accrued expenses	<u>6,261,052</u>	<u>2,204,750</u>
Total accounts payable and accrued expenses	7,329,922	3,268,428
Deferred income	15,284	32,743
Bonds payable	35,000,000	-
Unamortized premium on bonds payable	<u>1,342,591</u>	<u>-</u>
Total liabilities	<u>43,687,797</u>	<u>3,301,171</u>
Net assets:		
Unrestricted	32,238,070	35,168,143
Temporarily restricted	102,543,513	71,080,570
Permanently restricted	<u>55,280,603</u>	<u>47,336,594</u>
Total net assets	<u>190,062,186</u>	<u>153,585,307</u>
Total liabilities and net assets	<u>\$ 233,749,983</u>	<u>\$ 156,886,478</u>

See accompanying notes to the financial statements.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Statements of Activities

Years Ended June 30,

	<u>2010</u>				<u>2009</u>			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Revenue and other support:								
Sales and services:								
Admissions	\$ 1,180,408	\$ -	\$ -	\$ 1,180,408	\$ 1,112,335	\$ -	\$ -	\$ 1,112,335
Museum shop	619,974	-	-	619,974	645,349	-	-	645,349
Café	54,471	-	-	54,471	46,803	-	-	46,803
Corporate events	24,644	-	-	24,644	20,495	-	-	20,495
Concert ticket sales	103,471	-	-	103,471	116,229	-	-	116,229
Other	60,941	-	-	60,941	78,960	-	-	78,960
	<u>2,043,909</u>	<u>-</u>	<u>-</u>	<u>2,043,909</u>	<u>2,020,171</u>	<u>-</u>	<u>-</u>	<u>2,020,171</u>
Contributed, membership and pledged support:								
Grants and gifts	389,589	23,583,812	7,911,560	31,884,961	602,940	29,176,937	3,214,482	32,994,359
Satisfaction and changes of restricted grants and gifts	(79,740)	79,740	-	-	12,825,327	(12,825,327)	-	-
Annual appeal	1,652,090	-	-	1,652,090	1,608,406	-	-	1,608,406
Membership	329,203	-	-	329,203	319,990	-	-	319,990
Member and special events	779,517	-	-	779,517	568,420	-	-	568,420
Subtotal contributed, membership and pledged support	<u>3,070,659</u>	<u>23,663,552</u>	<u>7,911,560</u>	<u>34,645,771</u>	<u>15,925,083</u>	<u>16,351,610</u>	<u>3,214,482</u>	<u>35,491,175</u>
Investments:								
Investment income and net appreciation (depreciation)	1,292,142	10,974,669	3,568	12,270,379	(1,427,612)	(14,031,936)	(3,568)	(15,463,116)
Allocation of endowment income	3,144,644	(3,179,691)	35,047	-	4,111,995	(4,076,947)	(35,048)	-
Subtotal investments	<u>4,436,786</u>	<u>7,794,978</u>	<u>38,615</u>	<u>12,270,379</u>	<u>2,684,383</u>	<u>(18,108,883)</u>	<u>(38,616)</u>	<u>(15,463,116)</u>
Total revenue and other support	<u>9,551,354</u>	<u>31,458,530</u>	<u>7,950,175</u>	<u>48,960,059</u>	<u>20,629,637</u>	<u>(1,757,273)</u>	<u>3,175,866</u>	<u>22,048,230</u>
Expenses:								
Security and visitor services	1,510,939	-	-	1,510,939	1,585,917	-	-	1,585,917
Museum shop	446,847	-	-	446,847	477,423	-	-	477,423
Café	17,201	-	-	17,201	19,561	-	-	19,561
Public programs	2,156,042	-	-	2,156,042	2,211,837	-	-	2,211,837
Collection, interpretation and conservation	942,292	-	-	942,292	1,473,111	-	-	1,473,111
Development and external relations	2,735,938	-	-	2,735,938	2,703,988	-	-	2,703,988
Administration	2,004,724	-	-	2,004,724	2,125,743	-	-	2,125,743
Special projects	966,539	-	-	966,539	6,011	-	-	6,011
Facilities and maintenance	886,702	-	-	886,702	953,395	-	-	953,395
Depreciation	810,764	-	-	810,764	838,485	-	-	838,485
Interest expense	-	-	-	-	8,346	-	-	8,346
Total expenses	<u>12,477,988</u>	<u>-</u>	<u>-</u>	<u>12,477,988</u>	<u>12,403,817</u>	<u>-</u>	<u>-</u>	<u>12,403,817</u>
Change in net assets before adjustments	(2,926,634)	31,458,530	7,950,175	36,482,071	8,225,820	(1,757,273)	3,175,866	9,644,413
Net asset transfers	1,753	4,413	(6,166)	-	-	-	-	-
Pension expense excluding current year contributions and administrative costs	(5,192)	-	-	(5,192)	(955,034)	-	-	(955,034)
Total change in net assets	(2,930,073)	31,462,943	7,944,009	36,476,879	7,270,786	(1,757,273)	3,175,866	8,689,379
Net assets, beginning of year	35,168,143	71,080,570	47,336,594	153,585,307	27,897,357	72,837,843	44,160,728	144,895,928
Net assets, end of year	\$ 32,238,070	\$ 102,543,513	\$ 55,280,603	\$ 190,062,186	\$ 35,168,143	\$ 71,080,570	\$ 47,336,594	\$ 153,585,307

See accompanying notes to the financial statements.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>
Cash flows from operating activities:		
Change in net assets	\$ 36,476,879	\$ 8,689,379
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	822,829	866,835
Contributions and change in value of remainder trusts	(205,021)	(140,309)
Net realized and unrealized (gains) losses on investments	(12,939,582)	15,399,218
Changes in:		
Pledges and other receivables	178,479	(8,290,345)
Inventory	54,398	18,219
Prepaid and other assets	(545,453)	(52,280)
Accounts payable and accrued expenses	1,974,102	1,759,286
Deferred income	(17,458)	(645)
Restricted contributions	(30,563,483)	(22,158,634)
	<u>(4,764,310)</u>	<u>(3,909,276)</u>
Net cash used in operating activities	(4,764,310)	(3,909,276)
Cash flows from investing activities:		
Expenditures for museum property	(24,653,360)	(10,727,787)
Purchase of short-term investments	(34,924,651)	(7,096,069)
Purchase of long-term investments	(17,704,931)	(12,720,733)
Proceeds from sale of investments	14,977,337	14,678,166
	<u>(62,305,605)</u>	<u>(15,866,423)</u>
Net cash used in investing activities	(62,305,605)	(15,866,423)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Endowment	6,940,050	3,351,276
Plant and other	23,623,433	18,807,357
Other financing activities:		
Proceeds from bond issuance	36,444,201	-
Principal payments on loan payable	-	(1,740,000)
	<u>67,007,684</u>	<u>20,418,634</u>
Net cash provided by financing activities	67,007,684	20,418,634
Net change in cash and cash equivalents	(62,231)	642,935
Cash and cash equivalents, beginning of year	<u>3,186,584</u>	<u>2,543,649</u>
Cash and cash equivalents, end of year	\$ <u>3,124,353</u>	\$ <u>3,186,584</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 741,422</u>	<u>\$ 8,346</u>

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies

The Isabella Stewart Gardner Museum, Incorporated (the “Museum”) is the sole trustee under the will of Isabella Stewart Gardner. The Museum owns the property that is located at 2 Palace Road, Boston, Massachusetts, as well as Mrs. Gardner’s art collection contained therein. The Museum is open to the public and includes three floors of artwork, a garden, a cafe and a gift shop. The following is a summary of the significant accounting policies of the Museum.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting. Resources are classified into separate net asset classes in accordance with donor-imposed restrictions and legal restrictions under Massachusetts law. The categories unrestricted, temporarily restricted and permanently restricted net assets are defined as follows:

Unrestricted

Unrestricted net assets are resources over which the Trustees have discretionary control. The Museum records its property and equipment, other than its historical treasures, in this category because there are no time or use restrictions on the use of these assets.

Temporarily Restricted

Temporarily restricted net assets are those resources subject to donor-imposed restrictions which will be satisfied by the actions of the Museum or the passage of time. Appreciation on permanently restricted net assets is recorded in temporarily restricted net assets and may be expended under the standards of Massachusetts and other applicable laws.

Permanently Restricted

Permanently restricted net assets are those resources subject to the donor-imposed restriction that they be maintained permanently by the Museum. The donors of these resources require that the principal be invested in perpetuity and permit the income earned, including appreciation, to be used, all or in part, for unrestricted or temporarily restricted purposes. The Museum reports its historical treasures in this category because of their restricted use imposed by the will of Isabella Stewart Gardner.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market accounts and overnight repurchase agreements with initial maturities of three months or less when purchased. These assets are stated at cost, which approximates fair value. Cash and cash equivalents held by investment managers are considered part of investment balances. The Museum may hold amounts at a single financial institution in excess of federally insured limits. The Museum monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Pledges, Grants and Gifts and Annual Funds

The Museum recognizes contributions of cash and other property at fair value. Unconditional promises to give (pledges) are recognized when verifiably committed. The Museum does not recognize conditional promises and intentions to give until conditions have been met.

The Museum reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (i.e. when a stipulated time restriction ends or when expenses are incurred that satisfy the restricted purpose), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that are subject to restrictions requiring that the principal be invested in perpetuity are reported as increases to permanently restricted net assets.

The Museum recognizes contribution revenue for certain services that would be purchased, if not donated, at the fair value of those services. Those services included legal services of \$3,588 and \$19,940 for the years ended June 30, 2010 and 2009, respectively.

Inventory

Inventory for the Museum shop are recorded at the lower of cost (first-in, first-out basis) or market.

Unexpended Bond Proceeds

The Museum received funds from bond financing for the construction, furnishing, and equipping of a new museum building, and for renovations and equipment in its historic museum building. The unexpended bond proceeds are held in separate accounts and invested in money market funds and other short-term investments. Drawdowns from the accounts are made as expenditures for the funded projects occur. For more information on the Museum's bonds, see Note 6.

Museum Property

Museum property which existed in 1936 is stated at appraised values established as of December 24, 1936. Subsequent additions are stated at cost. The Museum capitalizes renovations and other additions that materially add to the value of the related assets and extend their useful lives. Equipment and furnishings of relatively small dollar amounts are expensed.

Construction in progress includes costs related to the construction of a new museum building and interior renovations to the historic museum building, as well as construction-period interest on bonds issued to finance these projects.

Depreciation of property, plant and equipment is computed using the straight-line method based on estimates of useful lives. The estimated useful lives are principally 10 to 20 years for buildings and improvements and 3 to 10 years for other property. Depreciation for construction in progress begins upon completion of the related project.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried at fair value. For more information on the fair value of the Museum's investments, see Note 4.

Fair Value Measurements

The Museum reports its required types of financial instruments at fair value. Fair value standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value standards require the Museum to categorize its financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique and on liquidity provisions, as discussed below.

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument and where there are withdrawal restrictions of more than 6 months. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Revenue Recognition

The Museum's revenues from sales and services are recognized when earned which, in most cases, is when paid for.

Income Taxes

The Museum is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes on related income. Accordingly, no provision for income taxes is made in the financial statements.

The Museum has determined that its status as a tax exempt entity is not an uncertain tax position within the meaning of generally accepted accounting principles for its open tax years.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates in the Preparation of Financial Statements

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

Subsequent Events

The Museum has evaluated subsequent events through October 4, 2010, the date the financial statements were issued.

Reclassifications

Certain reclassifications have been made to amounts in prior year's financial statements to conform to current year presentation. There is no effect on previously reported net assets.

Note 2 - Pledges Receivable

Unconditional promises to give (pledges receivable) which are expected to be collected within one year are recorded at face value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows, measured at a discount rate of 5%.

The Museum had the following pledges receivable outstanding at June 30:

	<i>2010</i>	<i>2009</i>
General operating support	\$ 25,000	\$ 140,000
Temporarily restricted non-operating support	15,276,694	17,033,260
Permanently restricted endowment	1,000,000	99,960
	<u>16,301,694</u>	<u>17,273,220</u>
Less: unamortized discount	(1,173,084)	(1,520,597)
Less: allowance for uncollectibles	(815,085)	(863,661)
	<u>(815,085)</u>	<u>(863,661)</u>
Pledges, net	\$ <u>14,313,526</u>	\$ <u>14,888,962</u>
Amounts due in:		
Less than one year	\$ 3,445,982	\$ 3,426,331
One to five years	12,855,712	13,846,889
	<u>12,855,712</u>	<u>13,846,889</u>
	\$ <u>16,301,694</u>	\$ <u>17,273,220</u>

In addition to the unconditional pledges receivable referenced above, the Museum had gross conditional pledges receivable of \$47,366,909 and \$67,360,808 as of June 30, 2010 and 2009, respectively.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Notes to Financial Statements

Note 3 - Contributions Receivable from Remainder Trusts

The Museum recorded contributions receivable of \$1,724,560 and \$1,519,539 at June 30, 2010 and 2009, respectively, relating to various charitable remainder trusts in its statement of financial position. The receivable is measured as the present value of estimated future cash flows to be received and recorded in the appropriate net asset category based on donor stipulation. During the term of these agreements, changes in the value are recognized based on amortization of discounts and changes in actuarial assumptions.

Note 4 - Investments of Endowed Funds

The Museum's endowed funds are managed by an Investment Committee made up of Trustees with investment experience and with assistance from professional investment consultants. The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain or enhance the purchasing power of the endowment assets.

The Museum employs external investment managers with discretion to manage a designated portion of the portfolio to best achieve the investment objectives and requirements of the Museum under guidelines set forth in the Museum's written investment policy statement. The investment portfolio is designed to provide a consistent or enhanced level of support for the Museum's operations with an average annual real total return (net of investment management fees) of at least 5% over the long term (rolling five-year periods).

To satisfy its long-term rate-of-return objectives, the Museum diversifies its investment portfolio both by asset class (e.g., equities, bonds, cash equivalents and other alternative investments) and within each asset class (e.g., within equities by economic sector/style, industry, quality, size, etc.). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total portfolio.

The Museum categorizes its investments into the following groups:

Global Developed Equity – includes investments in funds that seek to achieve income and/or capital appreciation through investments in equity-related securities and bonds of companies, some of which conduct significant activities in countries other than the United States.

Emerging Markets Equity – includes investments in funds that seek to achieve income and/or capital appreciation through investments in equity-related securities and bonds of companies engaged in business in countries undergoing rapid growth and industrialization.

Fixed Income

Cash & Cash Equivalents

Inflation Hedging – includes investments designed to protect against the loss of purchasing power from inflation.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Notes to Financial Statements

Note 4 - Investments of Endowed Funds (Continued)

Marketable Alternatives – includes investments in hedge funds employing varying strategies ranging from long-only to open mandate.

Non-Marketable Alternatives – includes investments in private equity funds and funds of funds.

The fair value of the Museum’s investment portfolio was as follows as of June 30:

	2010	2009
Global Developed Equity	\$ 23,323,020	\$ 21,719,124
Emerging Markets Equity	5,485,383	4,847,542
Fixed Income	2,988,087	2,895,080
Cash & Cash Equivalents	18,945,941	6,685,592
Inflation Hedging	5,139,434	4,306,407
Marketable Alternatives	40,723,492	41,072,862
Non-Marketable Alternatives	3,322,554	2,734,127
Investments	\$ 99,927,911	\$ 84,260,735

The Museum’s endowment consists of about 90 individual funds established for a variety of purposes. These funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

The Board of Trustees authorized the withdrawal of a portion of the cumulative investment return to support operating activities in the amounts of \$3,546,654 and \$4,680,051 in fiscal years ended June 30, 2010 and 2009, respectively. These amounts represent 5% of the 36-month rolling average market values of endowment funds for which market value exceeds historic cost.

From time to time, as a result of unfavorable market fluctuations, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with generally accepted accounting policies, deficiencies of this nature that are reported in unrestricted net assets were \$32,952 and \$111,285 as of June 30, 2010 and 2009, respectively.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
TRUSTEE UNDER THE WILL OF ISABELLA STEWART GARDNER**

Notes to Financial Statements

Note 4 - Investments of Endowed Funds (Continued)

The change in the Museum's endowment assets was as follows for the year ended June 30:

	<i>2010</i>			
	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>	
	<i>Net Assets</i>	<i>Restricted</i>	<i>Restricted</i>	<i>Total</i>
	<i>Net Assets</i>	<i>Net Assets</i>	<i>Net Assets</i>	
Endowments at beginning of year	\$ 8,252,958	\$ 34,645,141	\$ 41,412,409	\$ 84,310,508
Gifts and additions	-	-	6,940,050	6,940,050
Net investment gains (losses)	1,192,442	10,973,007	-	12,165,449
Amounts appropriated under endowment spending policy for operations	(485,567)	(3,061,087)	-	(3,546,654)
Reclassification for endowment losses exceeding corpus	78,333	(127,449)	49,116	-
Endowments at end of year	<u>\$ 9,038,166</u>	<u>\$ 42,429,612</u>	<u>\$ 48,401,575</u>	<u>\$ 99,869,353</u>
Balance due from working capital				58,558
Total investments				<u>\$ 99,927,911</u>
	<i>2009</i>			
	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>	
	<i>Net Assets</i>	<i>Restricted</i>	<i>Restricted</i>	<i>Total</i>
	<i>Net Assets</i>	<i>Net Assets</i>	<i>Net Assets</i>	
Endowments at beginning of year	\$ 10,450,375	\$ 52,744,931	\$ 38,116,415	\$ 101,311,721
Gifts and additions	16,666	-	3,334,610	3,351,276
Net investment gains (losses)	(1,618,298)	(14,054,140)	-	(15,672,438)
Amounts appropriated under endowment spending policy for operations	(484,500)	(4,195,551)	-	(4,680,051)
Reclassification for endowment losses exceeding corpus	(111,285)	149,901	(38,616)	-
Endowments at end of year	<u>\$ 8,252,958</u>	<u>\$ 34,645,141</u>	<u>\$ 41,412,409</u>	<u>\$ 84,310,508</u>
Balance due to working capital				(49,773)
Total investments				<u>\$ 84,260,735</u>

Note 5 - Fair Value Measurements

The Museum reports its investments of endowed funds using the so-called "practical expedient" rule, which allows net asset value per share (as determined by its investment managers) to represent fair value. The investments are classified into a three-level hierarchy based on the priority of inputs to the valuation technique and liquidity provisions, as described in Note 1.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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Notes to Financial Statements

Note 5 - Fair Value Measurements (Continued)

The valuation of the Museum's investments of endowed funds, based on the three-level hierarchy of fair value, was as follows at June 30:

<i>2010</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
	<i>Market</i>	<i>Observable</i>	<i>Management</i>	<i>Total</i>
	<i>Prices</i>	<i>Inputs</i>	<i>Judgment</i>	
Global Developed Equity	\$ -	\$ 23,290,662	\$ 32,357	\$ 23,323,020
Emerging Markets Equity	-	5,485,383	-	5,485,383
Fixed Income	2,988,087	-	-	2,988,087
Cash & Cash Equivalents	18,945,941	-	-	18,945,941
Inflation Hedging	5,139,434	-	-	5,139,434
Marketable Alternatives	-	36,560,822	4,162,671	40,723,492
Non-Marketable Assets	-	-	3,322,554	3,322,554
Total Investments	\$ 27,073,462	\$ 65,336,867	\$ 7,517,582	\$ 99,927,911

<i>2009</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
	<i>Market</i>	<i>Observable</i>	<i>Management</i>	<i>Total</i>
	<i>Prices</i>	<i>Inputs</i>	<i>Judgment</i>	
Global Developed Equity	\$ 2,693,462	\$ 19,025,662	\$ -	\$ 21,719,124
Emerging Markets Equity	-	4,847,542	-	4,847,542
Fixed Income	2,895,080	-	-	2,895,080
Cash & Cash Equivalents	6,685,592	-	-	6,685,592
Inflation Hedging	4,306,407	-	-	4,306,407
Marketable Alternatives	-	33,560,567	7,512,295	41,072,862
Non-Marketable Assets	-	-	2,734,127	2,734,127
Total Investments	\$ 16,580,542	\$ 57,433,771	\$ 10,246,422	\$ 84,260,735

The changes in investments measured at fair value for which the Museum has used Level 3 inputs to determine the fair value are as follows:

	<i>Global</i>	<i>Marketable</i>	<i>Non-Marketable</i>	
	<i>Developed</i>	<i>Alternatives</i>	<i>Alternatives</i>	<i>Total</i>
	<i>Equity</i>			
Balance as of June 30, 2009	\$ -	\$ 7,512,295	\$ 2,734,127	\$ 10,246,422
Net investment gain (loss)	-	317,406	828,427	1,145,833
Net purchases (redemptions)	-	(3,951,774)	(240,000)	(4,191,774)
Net transfers in (out)	32,357	284,744	-	317,101
Balance as of June 30, 2010	\$ 32,357	\$ 4,162,671	\$ 3,322,554	\$ 7,517,582

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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Notes to Financial Statements

Note 5 - Fair Value Measurements (Continued)

The Museum holds certain investments that are subject to withdrawal restrictions, including initial lock-in periods and specified exit dates with advance notification requirements. Any such investments that cannot be redeemed before January 1, 2011 are reported as Level 3 assets. The following investment balances were subject to withdrawal restrictions as of June 30, 2010:

	<i>Redemption Frequency</i>	<i>Notice Period</i>	<i>Fair Value</i>
Global Developed Equity	Monthly	5-6	\$ 9,716,776
Global Developed Equity	Quarterly	30-60	13,573,886
Global Developed Equity	N/A		32,357
Emerging Markets Equity	Monthly	7-30	5,485,383
Marketable Alternatives	Quarterly	60-65	9,712,805
Marketable Alternatives	Annually	60-180	26,848,017
Marketable Alternatives	N/A		4,162,671
Non-Marketable Assets	N/A		3,322,554
Total investments subject to liquidity restrictions			\$ <u><u>72,854,449</u></u>

Some investment managers reserve the right under certain circumstances to suspend withdrawals notwithstanding the redemption and notice periods above. The Museum has no commitments to invest additional funds as of the reporting date. Two funds are in the process of liquidation as of the reporting date, and the fund balances valued at \$452,532 are withheld subject to orderly divestment of illiquid assets by the fund managers.

The Museum invested \$5,000,000 in a Global Developed Equity fund during the year which is subject to initial lockup until December 31, 2010. Non-marketable assets include investments in a private equity fund of funds which is expected to liquidate its underlying assets and distribute the fund balances by December 31, 2010, and in a global credit opportunities fund which is structured as a long-term investment without right of withdrawal.

Fair value of financial instruments other than investments of endowed funds are generally stated at face value, except for pledges receivable due in more than one year and the liability for the defined benefit plan as described in Notes 2 and 7, respectively. Financial instruments reported at face value include the following:

- Cash and cash equivalents
- Prepaid assets and other receivables
- Unexpended bond proceeds
- Short-term investments
- Accounts payable
- Bonds payable

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Notes to Financial Statements

Note 6 - Bonds Payable

On November 6, 2009, the Museum issued Massachusetts Health and Educational Facilities Authority Revenue Bonds, Series A (2009) in the amount of \$35,000,000. The bonds bear fixed interest rates ranging from 3% to 5%, and mature between May 1, 2013 and May 1, 2029. The bonds were issued at a premium of \$1,444,201, which is being amortized over the life of the bonds. Proceeds from the bond issuance are to be expended on (i) construction, furnishing and equipping of a new museum building, and (ii) interior renovations to the historic museum building. The bonds are secured by all revenues of the Museum.

Costs of issuance of \$506,515 have been capitalized and are being amortized over the life of the bonds. Unamortized bond issuance costs are included in Prepaid and Other Assets.

During the year ending June 30, 2010, bond interest of \$1,012,674 was accrued and bond premium of \$101,611 was amortized, with the net amount being capitalized as construction period interest and added to the construction in progress cost of the new museum building and renovations.

Scheduled maturities of the bonds are as follows:

2011	\$	-
2012		-
2013		1,440,000
2014		1,485,000
2015		1,525,000
Thereafter		<u>30,550,000</u>
Total bonds payable	\$	<u><u>35,000,000</u></u>

As of June 30, 2010, the fair value of the Museum's bonds payable approximates \$39 million based on quoted market prices for the same or similar issues. The fair value reflects what the Museum would have to pay a creditworthy third party to assume its obligation and does not reflect an additional liability to the Museum.

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Notes to Financial Statements

Note 7 - Defined Benefit Plan

The Museum has a defined benefit pension plan which it froze as of June 30, 2006. Management intends to terminate this plan in the future when it is administratively convenient to do so. A summary of the funded status of the plan is as follows as of June 30:

	<i>2010</i>	<i>2009</i>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,364,883	\$ 3,371,569
Interest cost	205,410	202,807
Benefits paid	(156,009)	(145,362)
Actuarial (gain)/loss	358,486	(64,131)
Benefit obligation at end of year	<u>3,772,770</u>	<u>3,364,883</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	2,301,205	3,362,925
Actual return on plan assets	258,704	(1,016,358)
Employer contributions	300,000	100,000
Benefits paid	(156,009)	(145,362)
Fair value of plan assets at end of year	<u>2,703,900</u>	<u>2,301,205</u>
Funded status at end of year	<u>(1,068,870)</u>	<u>(1,063,678)</u>
Total pension liability at end of year	\$ <u>(1,068,870)</u>	\$ <u>(1,063,678)</u>

The following assumptions were used to determine the benefit obligation at June 30:

	<i>2010</i>	<i>2009</i>
Discount rate	5.45%	6.30%
Expected return on plan assets	6.00%	8.25%

The Museum expects to contribute approximately \$300,000 to the plan during the year ended June 30, 2011.

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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Notes to Financial Statements

Note 7 - Defined Benefit Plan (Continued)

The following benefit payments are expected to be paid during the fiscal years ended June 30:

2011	\$	173,000
2012		183,000
2013		193,000
2014		192,000
2015		220,000
2016-2020		1,177,000

The Museum's plan assets were comprised of the following at June 30:

	<i>2010</i>		<i>2009</i>		
Cash and cash equivalents	\$	429,629	16%	\$ 1,723,294	75%
Debt securities		<u>2,274,271</u>	<u>84%</u>	<u>577,911</u>	<u>25%</u>
Fair value of plan assets	\$	<u>2,703,900</u>	100%	\$ <u>2,301,205</u>	100%

Note 8 - Defined Contribution Plan

Effective July 1, 2006, the Museum adopted a 403(b) retirement plan in which eligible employees may contribute to the plan. Eligibility is based on the length of service. Employer contributions into the plan on behalf of eligible employees are discretionary and vest over a two-year period. Contributions made under this plan totaled \$211,076 and \$210,525 during fiscal years ended June 30, 2010 and 2009, respectively.

Note 9 - Net Assets

Unrestricted net assets include the following categories as of June 30:

	<i>2010</i>		<i>2009</i>	
Operating	\$	1,611,759	\$	1,541,361
Board-designated		8,944,356		8,062,587
Property		<u>21,681,955</u>		<u>25,564,195</u>
Total	\$	<u>32,238,070</u>	\$	<u>35,168,143</u>

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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Notes to Financial Statements

Note 9 - Net Assets (Continued)

Operating fund activity was as follows for the years ending June 30:

	<i>2010</i>	<i>2009</i>
Sales and services	\$ 2,043,909	\$ 2,020,170
Contributed income	4,375,980	4,356,414
Allocation of endowment	3,546,654	4,680,051
Expenses	<u>(9,796,145)</u>	<u>(10,884,166)</u>
Operating net surplus	<u>\$ 170,397</u>	<u>\$ 172,469</u>

Temporarily restricted net assets include the following categories as of June 30:

	<i>2010</i>	<i>2009</i>
Accumulated unspent gains on endowments:		
Not designated for specific purpose	\$ 36,417,688	\$ 32,405,368
Designated for operating activities	<u>5,246,561</u>	<u>1,609,921</u>
Total unspent gains on endowments, subject to Trustee appropriation	41,664,250	34,015,289
Gifts and grants designated for operating activities	1,668,397	1,595,973
Gifts and grants designated for nonoperating activities	45,568,865	20,485,246
Pledges receivable designated for operating activities	23,750	131,810
Pledges receivable designated for nonoperating activities	13,395,569	14,662,191
Contributions receivable from remainder trusts	<u>222,682</u>	<u>190,061</u>
Temporarily restricted net assets	<u>\$ 102,543,513</u>	<u>\$ 71,080,570</u>

Permanently restricted net assets are restricted as follows as of June 30:

	<i>2010</i>	<i>2009</i>
Endowed assets designated for the following purposes:		
Undesignated purposes	\$ 15,268,476	\$ 15,268,478
Curatorial programs and curator	8,619,814	8,613,872
Education programs and educator	3,815,211	3,815,211
Music, contemporary and horticulture programs	2,543,366	2,595,541
Collection conservation and building preservation	12,897,307	5,861,909
Other purposes, pledges and charitable remainder trusts	<u>7,653,485</u>	<u>6,698,639</u>
Investment in perpetuity, the income from which is expendable (with appreciation recorded in temporarily restricted endowment)	50,797,659	42,853,650
Historical treasures	<u>4,482,944</u>	<u>4,482,944</u>
Permanently restricted net assets	<u>\$ 55,280,603</u>	<u>\$ 47,336,594</u>

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Notes to Financial Statements

Note 10 - Restrictions on Operating Surplus

The Trustees are directed, under the will of Isabella Stewart Gardner, to pay to certain designated hospitals any surplus of income that, in the opinion of the Director and Trustees, will not be needed for the proper and reasonable maintenance of the Museum. These amounts, if any, are payable at the end of successive five-year periods, the most recent of which ended on December 31, 2009. The Trustees have determined that excesses, if any, are needed for the proper and reasonable maintenance of the Museum.

Note 11 - Functional Expenses

The following summarizes the functional expenses for the year ended June 30:

	<i>2010</i>	<i>2009</i>
Museum programs	\$ 4,744,255	\$ 4,338,224
Collection - exhibition, conservation, protection and management	3,015,665	3,570,941
Gardens and horticulture	930,042	807,914
Management and general	1,538,165	1,537,067
Fundraising	<u>2,249,860</u>	<u>2,149,671</u>
	<u>\$ 12,477,988</u>	<u>\$ 12,403,817</u>

The above functional expenses classifications reflect the ongoing programs of the Museum. Certain departments have been reassigned and depreciation, security and building operation expenses have been allocated to the functions benefited. Methods used in allocating these expenses include actual expenses incurred and proportional percentage allocation.

Note 12 - Commitments and Contingencies

As of June 30, 2010, the Museum was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation Asset Retirement Obligations (AROs). These conditional AROs are primarily related to the encapsulated structural fireproofing that is not subject to abatement unless the buildings are demolished and non-encapsulated asbestos that the Museum would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the Museum could not develop a reasonable estimate of their fair values. The Museum will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

On May 18, 2009, the Board of Trustees authorized the construction of a companion building to the Museum's historic structure. In conjunction with that project, the Trustees authorized a comprehensive campaign to provide enhanced operating and endowment support as well as to provide funds toward the construction of that building. As of June 30, 2010, the estimated cost to complete the construction of the new building is approximately \$52 million.