

Financial Statements

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

June 30, 2011 and 2010



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

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

Financial Statements

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

500 Boylston Street ■ Boston, MA 02116
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

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, 2011 and 2010 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, 2011 and 2010, 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 3, 2011
Boston, Massachusetts

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

Statements of Financial Position

	<i>June 30,</i>	
	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents	\$ 2,928,973	\$ 3,124,353
Receivables:		
Pledges receivable, net	11,422,165	14,313,526
Contributions receivable from remainder trusts	2,058,807	1,724,560
Other receivables	<u>361,530</u>	<u>703,501</u>
Total receivables, net	<u>13,842,502</u>	<u>16,741,587</u>
Inventory	101,579	234,191
Prepaid and other assets	664,946	737,115
Unexpended bond proceeds	811,351	10,908,020
Short-term investments	27,804,140	45,725,123
Museum property:		
Building improvements and other museum property	15,847,434	15,847,434
Construction in progress	<u>90,839,699</u>	<u>47,662,564</u>
	106,687,133	63,509,998
Less - accumulated depreciation	<u>(12,420,298)</u>	<u>(11,641,259)</u>
	<u>94,266,835</u>	<u>51,868,739</u>
Historic building, contents and land	<u>4,482,944</u>	<u>4,482,944</u>
Total museum property	<u>98,749,779</u>	<u>56,351,683</u>
Investments of endowed funds, at fair value	<u>114,590,285</u>	<u>99,927,911</u>
Total assets	<u>\$ 259,493,555</u>	<u>\$ 233,749,983</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses:		
Accrued pension expense	\$ 710,198	\$ 1,068,870
Accounts payable and other accrued expenses	<u>6,973,847</u>	<u>6,261,052</u>
Total accounts payable and accrued expenses	<u>7,684,045</u>	<u>7,329,922</u>
Deferred income	2,926	15,284
Bonds payable	35,000,000	35,000,000
Unamortized premium on bonds payable	<u>1,190,175</u>	<u>1,342,591</u>
Total liabilities	<u>43,877,146</u>	<u>43,687,797</u>
Net assets:		
Unrestricted	72,759,304	32,238,070
Temporarily restricted	87,098,547	102,543,513
Permanently restricted	<u>55,758,558</u>	<u>55,280,603</u>
Total net assets	<u>215,616,409</u>	<u>190,062,186</u>
Total liabilities and net assets	<u>\$ 259,493,555</u>	<u>\$ 233,749,983</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,

	<i>2011</i>				<i>2010</i>			
	<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	\$ 1,041,901	\$ -	\$ -	\$ 1,041,901	\$ 1,180,408	\$ -	\$ -	\$ 1,180,408
Museum shop	292,502	-	-	292,502	619,974	-	-	619,974
Café	24,482	-	-	24,482	54,471	-	-	54,471
Corporate events	21,435	-	-	21,435	24,644	-	-	24,644
Concert ticket sales	84,966	-	-	84,966	103,471	-	-	103,471
Other	50,411	-	-	50,411	60,941	-	-	60,941
	<u>1,515,697</u>	<u>-</u>	<u>-</u>	<u>1,515,697</u>	<u>2,043,909</u>	<u>-</u>	<u>-</u>	<u>2,043,909</u>
Contributed, membership and pledged support:								
Grants and gifts	456,000	13,413,486	477,955	14,347,441	389,589	23,583,812	7,911,560	31,884,961
Satisfaction and changes of restricted grants and gifts	41,611,553	(41,611,553)	-	-	(79,740)	79,740	-	-
Annual appeal	1,793,058	-	-	1,793,058	1,652,090	-	-	1,652,090
Membership	302,828	-	-	302,828	329,203	-	-	329,203
Member and special events	554,525	-	-	554,525	779,517	-	-	779,517
	<u>44,717,964</u>	<u>(28,198,067)</u>	<u>477,955</u>	<u>16,997,852</u>	<u>3,070,659</u>	<u>23,663,552</u>	<u>7,911,560</u>	<u>34,645,771</u>
Investments:								
Investment income and net appreciation	1,913,755	16,894,134	-	18,807,889	1,292,142	10,974,669	3,568	12,270,379
Allocation of endowment income	4,141,033	(4,141,033)	-	-	3,144,644	(3,179,691)	35,047	-
	<u>6,054,788</u>	<u>12,753,101</u>	<u>-</u>	<u>18,807,889</u>	<u>4,436,786</u>	<u>7,794,978</u>	<u>38,615</u>	<u>12,270,379</u>
Total revenue and other support	<u>52,288,449</u>	<u>(15,444,966)</u>	<u>477,955</u>	<u>37,321,438</u>	<u>9,551,354</u>	<u>31,458,530</u>	<u>7,950,175</u>	<u>48,960,059</u>
Expenses:								
Security and visitor services	1,516,701	-	-	1,516,701	1,510,939	-	-	1,510,939
Museum shop	289,943	-	-	289,943	446,847	-	-	446,847
Café	8,955	-	-	8,955	17,201	-	-	17,201
Public programs	2,129,306	-	-	2,129,306	2,156,042	-	-	2,156,042
Collection, interpretation and conservation	752,360	-	-	752,360	942,292	-	-	942,292
Development and external relations	2,618,609	-	-	2,618,609	2,735,938	-	-	2,735,938
Administration	2,381,133	-	-	2,381,133	2,004,724	-	-	2,004,724
Special projects	706,113	-	-	706,113	966,539	-	-	966,539
Facilities and maintenance	946,389	-	-	946,389	886,702	-	-	886,702
Depreciation	776,378	-	-	776,378	810,764	-	-	810,764
	<u>12,125,887</u>	<u>-</u>	<u>-</u>	<u>12,125,887</u>	<u>12,477,988</u>	<u>-</u>	<u>-</u>	<u>12,477,988</u>
Change in net assets before adjustments	40,162,562	(15,444,966)	477,955	25,195,551	(2,926,634)	31,458,530	7,950,175	36,482,071
Net asset transfers	-	-	-	-	1,753	4,413	(6,166)	-
Pension expense (credit) excluding current year contributions and administrative costs	358,672	-	-	358,672	(5,192)	-	-	(5,192)
Total change in net assets	40,521,234	(15,444,966)	477,955	25,554,223	(2,930,073)	31,462,943	7,944,009	36,476,879
Net assets, beginning 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
Net assets, end of year	\$ 72,759,304	\$ 87,098,547	\$ 55,758,558	\$ 215,616,409	\$ 32,238,070	\$ 102,543,513	\$ 55,280,603	\$ 190,062,186

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>2011</i>	<i>2010</i>
Cash flows from operating activities:		
Change in net assets	\$ 25,554,223	\$ 36,476,879
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	779,039	822,829
Contributions and change in value of remainder trusts	(334,251)	(205,021)
Net realized and unrealized gains on investments	(18,866,561)	(12,939,582)
Changes in:		
Pledges and other receivables	3,233,333	178,479
Inventory	132,613	54,398
Prepaid and other assets	72,169	(545,453)
Accounts payable and accrued expenses	(387,369)	1,974,102
Deferred income	(12,358)	(17,458)
Restricted contributions	(16,448,554)	(30,563,483)
	<u>(6,277,716)</u>	<u>(4,764,310)</u>
Net cash used in operating activities	(6,277,716)	(4,764,310)
Cash flows from investing activities:		
Expenditures for museum property	(42,588,058)	(24,653,360)
(Purchase) sale of short-term investments	28,017,653	(34,924,651)
Purchase of long-term investments	(13,000,004)	(17,704,931)
Proceeds from sale of investments	17,204,191	14,977,337
	<u>(10,366,218)</u>	<u>(62,305,605)</u>
Net cash used in investing activities	(10,366,218)	(62,305,605)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Endowment	612,550	6,940,050
Plant and other	15,836,004	23,623,433
Other financing activities:		
Proceeds from bond issuance	-	36,444,201
	<u>16,448,554</u>	<u>67,007,684</u>
Net cash provided by financing activities	16,448,554	67,007,684
Net change in cash and cash equivalents	(195,380)	(62,231)
Cash and cash equivalents, beginning of year	<u>3,124,353</u>	<u>3,186,584</u>
Cash and cash equivalents, end of year	\$ <u>2,928,973</u>	\$ <u>3,124,353</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 1,627,513</u>	<u>\$ 741,422</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 Corporation operates the Museum, which 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 terms of the gift instrument or, in the absence of specific terms, in accordance with Massachusetts law.

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 has shown 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 and money market accounts. 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

Unconditional promises to give are recorded at fair value when initially pledged. Pledges that are expected to be collected in more than one year are recorded at present value using a risk-adjusted rate to account for the inherent risk associated with the expected future cash flows. This represents a non-recurring Level 2 fair value measurement. Amortization of the discount is included in gift and grant revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plan on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

Inventories

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

Unexpended Bond Proceeds

Unexpended bond proceeds are carried at fair value. In November 2009, 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 have been made to fund project expenditures and bond interest. For more information on the Museum's issuance of 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. Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases. For more information on the fair value of the Museum's investments, see Note 4.

Fair Value Measurements

The Museum reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include contributions receivable from remainder trusts, unexpended bond proceeds, and both short-term investments and investments of endowed funds. Non-recurring measures include pledges receivable.

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. The Museum reports certain investments under the so-called "practical expedient" rule, which allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. 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 based on liquidity provisions, as discussed below.

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities, publicly traded on a stock exchange.

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 2 assets include investments reported at net asset value per share with withdrawal restrictions of six months or less.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 assets include investments reported at net asset value per share with withdrawal restrictions of more than six months.

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.

**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)

Fair Value Measurements (Continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Museum's financial instruments, see Note 5 – Fair Value Measurements.

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 Museum's Federal and state income tax returns are generally open for examination for 3 years following the date filed.

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. Significant management estimates include reserves for doubtful pledges, discounts on pledges receivable, fair value of certain investments, useful lives of depreciable assets, and pension plan assumptions. Actual results could differ from those estimates.

Subsequent Events

The Museum has evaluated subsequent events through October 3, 2011, the date the financial statements were issued.

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

Notes to Financial Statements

Note 2 - Pledges Receivable

Unconditional promises to give (pledges receivable) which are expected to be collected within one year are recorded at their net realizable 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>2011</i>	<i>2010</i>
General operating support	\$ -	\$ 25,000
Temporarily restricted non-operating support	12,212,511	15,276,694
Permanently restricted endowment	500,000	1,000,000
	12,712,511	16,301,694
Less: unamortized discount	(654,720)	(1,173,084)
Less: allowance for uncollectibles	(635,626)	(815,084)
	\$ 11,422,165	\$ 14,313,526
 Amounts due in:		
Less than one year	\$ 3,589,025	\$ 3,445,982
One to five years	9,123,486	12,855,712
	\$ 12,712,511	\$ 16,301,694

In addition to the unconditional pledges receivable referenced above, the Museum had gross conditional pledges receivable of approximately \$38 million and \$47 million as of June 30, 2011 and 2010, respectively.

Note 3 - Contributions Receivable from Remainder Trusts

The Museum records the fair value of contributions from remainder trusts upon notification that it has an irrevocable interest in trust assets. This represents a non-recurring Level 2 fair value measurement. The receivable is measured at the present value of estimated future cash flows and recorded presuming a time restriction plus the effects of any further donor restriction. Present values are updated annually for remaining life expectancies using the discount rates set when the contributions were initially recorded.

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 ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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Notes to Financial Statements

Note 4 - Investments of Endowed Funds (Continued)

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). The Museum believes the investment management fees are comparable to the industry average, however, the fees have not been broken out as some fees are netted by the investment managers against the total investment returns.

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:

Equities:

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, many 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 and Cash Equivalents

Inflation Hedging:

Natural Resources – includes investment in funds that invest primarily in securities of global energy and natural resources companies, associated businesses and utilities.

Fixed Income Arbitrage – includes investment in funds that use a series of complex fixed income strategies combined with significant leverage to exploit inefficiencies in the global fixed income markets to produce absolute returns.

Marketable Alternatives:

Long/Short, Global Sector – includes investments in funds that seek to provide a long-term return in excess of that generated by the overall public equity markets while reducing the market risk of the portfolios through selective short positions.

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

Note 4 - Investments of Endowed Funds (Continued)

Marketable Alternatives (Continued):

Long/Short, Value Hedge – includes investments in funds that focus on securities which, due to market inefficiencies, trade at prices significantly below their intrinsic economic value.

Multi-Strategy, Event Driven – includes investment in funds that seek to achieve capital appreciation, with a focus on event-driven investments which seek to exploit situations in which announced or anticipated events create inefficiencies in the pricing of securities.

Multi-Strategy, Open Mandate – includes investments in funds that invest in various asset types and employ various investment objectives and methodologies.

Non-Marketable Assets:

Credit Opportunities – includes investment in funds that invest in distressed debt, mezzanine, structured products and special situations.

Fund of Funds – includes investment in funds that invest in private equity partnerships in the venture capital, buyout and capital restructuring sectors.

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 \$4,615,578 and \$3,546,654 in fiscal years ended June 30, 2011 and 2010, respectively. These amounts represent 5% of the 36-month rolling average market values of endowment funds for which market value exceeded historic cost at the time the withdrawal amount was authorized. The Board has authorized the withdrawal of \$4,772,616 for the fiscal year ending June 30, 2012.

From time to time, 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 GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$32,952 as of June 30, 2011 and 2010, respectively. The deficiency in 2010 resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

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

Note 4 - Investments of Endowed Funds (Continued)

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

	<i>2011</i>			
	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>	<i>Total</i>
	<i>Net Assets</i>	<i>Restricted</i>	<i>Restricted</i>	
Endowments at beginning of year	\$ 9,038,166	\$ 42,429,612	\$ 48,401,575	\$ 99,869,353
Gifts and additions	-	50,000	612,550	662,550
Net investment gains	1,682,339	16,935,959	-	18,618,298
Amounts appropriated under endowment spending policy for operations	(474,545)	(4,141,033)	-	(4,615,578)
Reclassification for endowment losses exceeding corpus	32,950	(32,950)	-	-
Endowments at end of year	\$ <u>10,278,910</u>	\$ <u>55,241,588</u>	\$ <u>49,014,125</u>	\$ <u>114,534,623</u>
Balance due to working capital				55,662
Total investments				\$ <u><u>114,590,285</u></u>

	<i>2010</i>			
	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>	<i>Total</i>
	<i>Net Assets</i>	<i>Restricted</i>	<i>Restricted</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	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 to working capital				58,558
Total investments				\$ <u><u>99,927,911</u></u>

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

Note 5 - Fair Value Measurements

The following tables present financial assets at June 30, 2011 and 2010 that the Museum measures at fair value on a recurring basis, by level within the fair value hierarchy:

	<i>2011</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>Market</i>	<i>Observable</i>	<i>Management</i>	
	<i>Prices</i>	<i>Inputs</i>	<i>Judgment</i>	
<hr/>	<hr/>	<hr/>		
Global Developed Equity	\$ -	\$ 30,742,551	\$ 33,643	\$ 30,776,194
Emerging Markets Equity	-	7,059,818	-	7,059,818
Total Equities	<hr/>	<hr/>	<hr/>	<hr/>
Fixed Income	3,036,492	-	-	3,036,492
Cash & Cash Equivalents	5,739,575	-	-	5,739,575
Natural Resources	7,155,892	-	-	7,155,892
Fixed Income Arbitrage	-	1,786,402	3,572,805	5,359,207
Total Inflation Hedging	<hr/>	<hr/>	<hr/>	<hr/>
Long/Short, Global Sector	-	5,156,819	4,423,955	9,580,774
Long/Short, Value Hedge	-	4,921,936	5,910,779	10,832,715
Multi-Strategy, Event Driven	-	3,805,255	-	3,805,255
Multi-Strategy, Open Mandate	-	22,852,951	4,885,588	27,738,539
Total Marketable Alternatives	<hr/>	<hr/>	<hr/>	<hr/>
Distressed Securities	-	-	2,715,269	2,715,269
Hedge Fund of Funds	-	-	790,555	790,555
Total Non-Marketable Assets	<hr/>	<hr/>	<hr/>	<hr/>
Total Investments of Endowment Funds	<hr/> \$ 15,931,959	<hr/> \$ 76,325,732	<hr/> \$ 22,332,594	<hr/> \$ 114,590,285
Short-Term Investments	<hr/> \$ 27,804,140	<hr/> \$ -	<hr/> \$ -	<hr/> \$ 27,804,140
Unexpended Bond Proceeds	<hr/> \$ 811,351	<hr/> \$ -	<hr/> \$ -	<hr/> \$ 811,351

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

Note 5 - Fair Value Measurements (Continued)

	2010			Total
	Level 1 Market Prices	Level 2 Observable Inputs	Level 3 Management Judgment	
Global Developed Equity	\$ -	\$ 23,290,662	\$ 32,357	\$ 23,323,019
Emerging Markets Equity	-	5,485,383	-	5,485,383
Total Equities	-	28,776,045	32,357	28,808,402
Fixed Income	2,988,087	-	-	2,988,087
Cash & Cash Equivalents	18,945,941	-	-	18,945,941
Natural Resources	5,139,433	-	-	5,139,433
Fixed Income Arbitrage	-	-	-	-
Total Inflation Hedging	5,139,433	-	-	5,139,433
Long/Short, Global Sector	-	6,232,563	1,368,123	7,600,686
Long/Short, Value Hedge	-	4,439,784	253,958	4,693,742
Multi-Strategy, Event Driven	-	3,480,242	-	3,480,242
Multi-Strategy, Open Mandate	-	22,408,234	2,540,590	24,948,824
Total Marketable Alternatives	-	36,560,823	4,162,671	40,723,494
Distressed Securities	-	-	2,299,691	2,299,691
Hedge Fund of Funds	-	-	1,022,863	1,022,863
Total Non-Marketable Assets	-	-	3,322,554	3,322,554
Total Investments of Endowment Funds	\$ 27,073,461	\$ 65,336,868	\$ 7,517,582	\$ 99,927,911
Short-Term Investments	\$ 45,725,123	\$ -	\$ -	\$ 45,725,123
Unexpended Bond Proceeds	\$ 10,908,020	\$ -	\$ -	\$ 10,908,020

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

Note 5 - Fair Value Measurements (Continued)

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

	<i>Equities</i>	<i>Inflation Hedging</i>	<i>Marketable Alternatives</i>	<i>Non- Market</i>	<i>Total Level 3</i>
Balance as of July 1, 2009	\$ -	\$ -	\$ 4,054,542	\$ 2,734,127	\$ 6,788,669
Net investment gain (loss)	-	-	317,406	828,427	1,145,833
Transfers to/from Level 2	32,357	-	3,742,496	-	3,774,853
Redemptions and distributions	-	-	(3,951,773)	(240,000)	(4,191,773)
Balance as of June 30, 2010	<u>32,357</u>	-	<u>4,162,671</u>	<u>3,322,554</u>	<u>7,517,582</u>
Net investment gain (loss)	1,286	239,472	197,980	573,234	1,011,972
Transfers to/from Level 2	-	-	2,955,115	-	2,955,115
Purchases	-	3,333,333	8,000,000	-	11,333,333
Redemptions and distributions	-	-	(95,444)	(389,964)	(485,408)
Balance as of June 30, 2011	<u>\$ 33,643</u>	<u>\$ 3,572,805</u>	<u>\$ 15,220,322</u>	<u>\$ 3,505,824</u>	<u>\$ 22,332,594</u>

The Museum holds certain investment instruments which 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, 2012 are reported as Level 3 assets. Some investment managers reserve the right under certain circumstances to suspend withdrawals notwithstanding the redemption and notice periods above. Some investment managers maintain "side pockets" or designated illiquid investments, and such funds are reported as Level 3 assets. The Museum has no commitments to invest additional funds as of the reporting date. The following investment balances were subject to withdrawal restrictions as of June 30, 2011:

<i>Next Available Exit Date</i>	<i>Equities</i>	<i>Inflation Hedging</i>	<i>Marketable Alternatives</i>	<i>Non-Market Assets</i>	<i>Total</i>
Awaiting Redemption	\$ 33,643	\$ -	\$ 7,024,395	\$ -	\$ 7,058,038
On or before 12/31/2011	37,802,369	1,786,402	36,719,077	-	76,307,848
After 12/31/2011	-	3,572,805	8,213,811	-	11,786,616
Indeterminate	-	-	-	3,505,824	3,505,824
	<u>\$ 37,836,012</u>	<u>\$ 5,359,207</u>	<u>\$ 51,957,283</u>	<u>\$ 3,505,824</u>	<u>\$ 98,658,326</u>

Management has determined that fair value approximates carrying value for cash and cash equivalents, prepaid assets, other receivables, accounts payable and accrued expenses. Management has no practical or cost effective way of determining fair value for pledges receivable. Fair value of unexpended bonds payable is discussed in Note 6 - 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 existing 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 years ended June 30, 2011 and 2010, bond interest of \$1,627,513 and \$1,012,674, respectively, was accrued and bond premium of \$152,416 and \$101,611, respectively, was amortized. The net of these amounts was 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:

2013	\$	1,440,000
2014		1,485,000
2015		1,525,000
2016		1,590,000
Thereafter		<u>28,960,000</u>
Total bonds payable	\$	<u><u>35,000,000</u></u>

As of June 30, 2011 and 2010, the fair value of the Museum's bonds payable approximated \$38 and \$39 million, respectively, 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.

Unexpended bond proceeds were as follows at June 30:

	<i>2011</i>	<i>2010</i>
Project funds	\$ -	\$ 8,473,460
Capitalized interest funds	<u>811,351</u>	<u>2,434,560</u>
Total	<u><u>\$ 811,351</u></u>	<u><u>\$ 10,908,020</u></u>

**THE ISABELLA STEWART GARDNER MUSEUM, INCORPORATED,
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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>2011</i>	<i>2010</i>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,772,770	\$ 3,364,883
Interest cost	200,263	205,410
Benefits paid	(153,710)	(156,009)
Actuarial (gain)/loss	(21,251)	358,486
Benefit obligation at end of year	<u>3,798,072</u>	<u>3,772,770</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	2,703,900	2,301,205
Actual return on plan assets	137,684	258,704
Employer contributions	400,000	300,000
Benefits paid	(153,710)	(156,009)
Fair value of plan assets at end of year	<u>3,087,874</u>	<u>2,703,900</u>
Funded status at end of year	<u>(710,198)</u>	<u>(1,068,870)</u>
Total pension liability at end of year	\$ <u>(710,198)</u>	\$ <u>(1,068,870)</u>

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

	<i>2011</i>	<i>2010</i>
Discount rate	5.50%	5.45%
Expected return on plan assets	6.00%	6.00%

The Museum expects to contribute approximately \$300,000 to the plan during the year ending June 30, 2012.

**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 ending June 30:

2012	\$	180,000
2013		191,000
2014		190,000
2015		219,000
2016		234,000
2017-2021		1,211,000

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

	<u>2011</u>		<u>2010</u>			
Cash and cash equivalents	\$	641,126	21%	\$	429,629	16%
Debt securities		2,446,748	79%		2,274,271	84%
Fair value of plan assets	\$	3,087,874	100%	\$	2,703,900	100%

All investments held by the plan at June 30, 2011 and 2010 were Level 1 assets.

Note 8 - Defined Contribution Plan

Effective July 1, 2006, the Museum has 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 \$214,091 and \$211,076 during fiscal years ended June 30, 2011 and 2010, respectively.

Note 9 - Net Assets

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

	<u>2011</u>		<u>2010</u>	
Operating	\$	1,683,931	\$	1,611,759
Board-designated		10,693,773		8,944,356
Property		60,381,600		21,681,955
Total	\$	72,759,304	\$	32,238,070

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Notes to Financial Statements

Note 9 - Net Assets (Continued)

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

	<i>2011</i>	<i>2010</i>
Sales and services	\$ 1,515,697	\$ 2,043,909
Contributed income	3,970,254	4,375,980
Allocation of endowment	4,615,578	3,546,654
Expenses	(9,879,358)	(9,796,146)
Transfers to operating reserve	<u>(150,000)</u>	<u>(100,000)</u>
Operating net surplus	\$ <u>72,171</u>	\$ <u>70,397</u>

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

	<i>2011</i>	<i>2010</i>
Accumulated unspent gains on endowments:		
Not designated for specific purpose	\$ 43,619,143	\$ 36,417,688
Designated for operating activities	<u>11,085,067</u>	<u>5,246,562</u>
Total unspent gains on endowments (subject to Trustee appropriation)	54,704,210	41,664,250
Gifts and grants designated for operating activities	1,375,904	1,668,397
Gifts and grants designated for nonoperating activities	19,798,950	45,568,865
Pledges receivable designated for operating activities	-	23,750
Pledges receivable designated for nonoperating activities	10,993,650	13,395,569
Contributions receivable from remainder trusts	<u>225,833</u>	<u>222,682</u>
Temporarily restricted net assets	\$ <u>87,098,547</u>	\$ <u>102,543,513</u>

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

Note 9 - Net Assets (Continued)

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

	<i>2011</i>	<i>2010</i>
Endowed assets designated for the following purposes:		
Undesignated purposes	\$ 15,268,477	\$ 15,268,476
Curatorial programs and curator	8,619,814	8,619,814
Education programs and educator	3,815,211	3,815,211
Music, contemporary, and horticulture programs	2,553,366	2,543,366
Collection conservation and building preservation	13,499,857	12,897,307
Other purposes, pledges, and charitable remainder trusts	7,518,889	7,653,485
Investment in perpetuity, the income from which is expendable (with appreciation recorded as temporarily restricted)	51,275,614	50,797,659
Historical treasures	4,482,944	4,482,944
Permanently restricted net assets	\$ 55,758,558	\$ 55,280,603

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>2011</i>	<i>2010</i>
Museum programs	\$ 4,420,791	\$ 4,744,255
Collection - exhibition, conservation, protection and management	2,761,160	3,015,665
Gardens and horticulture	1,112,339	930,042
Management and general	1,637,083	1,538,166
Fundraising	2,194,514	2,249,860
	\$ 12,125,887	\$ 12,477,988

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

Note 11 - Functional Expenses (Continued)

The above functional expenses classifications reflect the ongoing programs of the Museum. Certain expenses such as employee benefits, depreciation, security, and building operations have been allocated to the functions identified above. Methods used in allocating these expenses include actual expenses incurred and proportional percentage allocation.

Note 12 - Commitments and Contingencies

As of June 30, 2011, 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, 2011, the estimated cost to complete the construction of the new building was approximately \$15 million. The new building is scheduled to open in January 2012.