

THREE GUINEAS FUND

FINANCIAL STATEMENTS

For The Year Ended December 31, 2003

with

INDEPENDENT AUDITOR'S REPORT

**THREE GUINEAS FUND
FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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Independent Auditor's Report

To the Board of Directors
Three Guineas Fund
San Francisco, California

I have audited the accompanying statement of financial position of Three Guineas Fund as of December 31, 2003 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The 2002 comparative information has been derived from the 2002 financial statements and, in my report dated March 27, 2003, I expressed an unqualified opinion on those financial statements.

I have conducted my audit in accordance with U. S. generally accepted auditing standards. Those standards require that I 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Three Guineas Fund as of December 31, 2003 and the changes in its net assets and its cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

Carl M. Arntzen, CPA

Carl M. Arntzen, CPA
March 18, 2004

THREE GUINEAS FUND
Statement of Financial Position
At December 31, 2003, With Comparative Totals for December 31, 2002

	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$249,952	\$291,833
Investments, short-term portion	3,052,165	2,615,855
Accounts receivable	20,982	18,285
Prepaid expenses	8,379	4,848
	3,331,478	2,930,821
Total Current Assets		
Investments, long-term	1,201,799	1,371,414
Property and equipment, net of accumulated depreciation	37,153	64,352
Deposits	3,273	51,625
	\$4,573,703	\$4,418,212
Total Assets		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$6,304	\$43,269
Accrued lease termination costs		828,000
Deferred revenue		21,685
Accrued vacation liability	5,538	18,867
Grants payable	65,000	77,500
Refundable deposits	892	24,545
	77,734	1,013,866
Total Current Liabilities		
NET ASSETS		
Unrestricted net assets	4,495,969	3,334,909
Temporarily restricted net assets		69,437
	4,495,969	3,404,346
Total Net Assets		
Total Net Assets and Liabilities	\$4,573,703	\$4,418,212

The accompanying notes are an integral part of these financial statements.

THREE GUINEAS FUND

Statement of Activities

Year Ended December 31, 2003, With Comparative Totals for 2002

	2003		2003		2002		2002	
	Unrestricted	Temporarily Restricted	Unrestricted	Total	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE								
Contributions	\$1,079,949	\$1,300	\$1,081,249		\$28	\$167,240	\$167,268	
Rental income	36,227		36,227		211,817		211,817	
Partnership and sponsorship revenue	95,664		95,664		258,375		258,375	
Rent parking and subsidy income	5,270		5,270		14,432		14,432	
Programs and events	4,744		4,744		15,226		15,226	
Interest and dividends	2,360		2,360		31,860		31,860	
Honoraria and other income	6,860		6,860		5,894		5,894	
Net gain (loss) from investment	756,003		756,003		(312,240)		(312,240)	
Net assets released from restrictions:								
Purpose accomplished	70,737	(70,737)			97,803	(97,803)		
Total Support and Revenue	2,057,814	(69,437)	1,988,377		323,195	69,437	392,632	
EXPENSES								
Women's Technology Cluster	288,451		288,451		1,182,463		1,182,463	
Young Women's Technology Cluster					2,074		2,074	
3GF Programs	120,287		120,287		98,075		98,075	
Grants to others	315,036		315,036		218,700		218,700	
Total Program Expenses	723,774		723,774		1,501,312		1,501,312	
Administration	146,103		146,103		198,297		198,297	
Lease termination costs					855,474		855,474	
Fundraising	26,877		26,877		67,882		67,882	
Total Expenses	896,754		896,754		2,622,965		2,622,965	
Change in net assets	1,161,060	(69,437)	1,091,623		(2,299,770)	69,437	(2,230,333)	
Net assets at beginning of period	3,334,909	69,437	3,404,346		5,634,679	0	5,634,679	
Net assets at end of period	\$4,495,969	\$0	\$4,495,969		\$3,334,909	\$69,437	\$3,404,346	

The accompanying notes are an integral part of these financial statements.

THREE GUINEAS FUND
Statement of Functional Expenses
Year Ended December 31, 2003, With Comparative Totals for 2002

	Women's Technology Cluster (Note 7)	3GF Programs	Grants to Others	Administration	Fundraising	2003 Total	2002 Total
Staff	\$49,027	\$62,882		\$41,521	\$19,828	\$173,258	\$399,744
Payroll taxes	5,987	5,292		3,571	2,119	16,969	30,892
Staff benefits	4,726	7,014		4,529	1,478	17,747	31,825
Rent	170,280	17,649		8,523	1,800	198,252	720,000
Rent subsidy	3,820					3,820	8,782
Professional services	14,453	2,341		67,297	302	84,393	134,572
Utilities	9,968	442		327	299	11,036	37,540
Facility maintenance and repairs	9,323	505		505	261	10,594	19,135
Supplies	233	678		478		1,389	5,644
Expendable furniture and equipment	823	598		879		2,300	2,317
Telecommunications	1,374	1,465		839	324	4,002	9,753
Computer and network administration	2,458	815		1,623	17	4,913	11,063
Printing and copying	4,947	703		508		6,158	3,606
Equipment rental and repair	904	19		18		941	2,904
Travel	138	767		16	267	1,188	6,542
Meals, entertainment and hospitality	883	5,204		316	76	6,479	13,821
Depreciation	5,970	6,039		6,840		18,849	77,187
Conferences and meetings	95	962			90	1,147	2,078
Postage and delivery	69	669		391		1,129	1,094
Membership and dues		2,600				2,600	5,238
Subscriptions and publications		269		101		370	536
Insurance	1,555	2,499		4,815	16	8,885	13,469
Grants to others (including WTC-Note 7)			\$315,036			315,036	218,700
Miscellaneous expenses	1,418	875		3,006		5,299	11,049
Lease termination costs	288,451	120,287	315,036	146,103	26,877	896,754	1,767,491
Total Expenses	\$288,451	\$120,287	\$315,036	\$146,103	\$26,877	\$896,754	\$2,622,965

The accompanying notes are an integral part of these financial statements.

THREE GUINEAS FUND
Statement of Cash Flows
Year Ended December 31, 2003, With Comparative Totals for 2002

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$1,091,623	(\$2,230,333)
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation and leasehold amortization	18,849	104,662
Net loss (gain) on investments	(756,003)	312,240
Furniture and equipment donated to others	8,350	
(Increase) decrease in operating assets:		
Grants receivable		250,000
Accounts receivable	(2,697)	(6,178)
Prepaid expenses and deposits	44,821	13,596
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(864,965)	833,355
Vacation liability	(13,329)	8,970
Grants payable	(12,500)	7,500
Refundable deposits	(23,653)	(4,418)
Deferred revenue	(21,685)	21,685
	<u>(531,189)</u>	<u>(688,921)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	1,392,328	950,000
Purchase of investments	(903,020)	(71,956)
	<u>489,308</u>	<u>878,044</u>
Net cash provided (used) by investing activities		
Net increase (decrease) in cash and cash equivalents	(41,881)	189,123
Cash and cash equivalents at beginning of year	<u>291,833</u>	<u>102,710</u>
Cash and cash equivalents at end of year	<u><u>\$249,952</u></u>	<u><u>\$291,833</u></u>

The accompanying notes are an integral part of these financial statements.

THREE GUINEAS FUND

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

Three Guineas Fund (the Fund) was incorporated on December 23, 1994, as a nonprofit corporation under the laws of the State of California. The Fund's purposes are to support, benefit and carry out the purposes of other public charities whose charitable activities include the support of education and the advancement of social justice, with a focus on improving the position of girls and women in our economy and society.

Note 2 - Summary of Significant Accounting Policies

- (a) Accrual Basis - The financial statements of the Fund have been prepared on the accrual basis.
- (b) Basis of Presentation - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Fund and changes therein are classified and reported as follows:
 - Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations. The current year contributions are primarily from the Fund's Founder and President.
 - Temporarily restricted net assets** - Net assets subject to donor-imposed stipulations that may or will be met by the actions of the Fund and/or the passage of time.
- (c) Accounting For Restricted Support - The Fund reports gifts of cash and other assets as restricted support if they are received with a donor stipulation that limits the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. T
- (d) Investments - Investments are stated at market value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the statement of activities.
- (e) Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash and cash equivalents include funds in demand deposit accounts, short term and highly liquid investments with an initial maturity of three months or less. As of December 31, 2003, cash and cash equivalents included \$215,105 in a short-term investment account that is not insured by the Federal Deposit Insurance Corporation
- (f) Property and Equipment - Property and equipment are stated at cost if purchased and fair value if acquired through donation. Depreciation is calculated using the straight-line method of depreciation over the estimated useful lives of the assets, generally three years for equipment and improvements and five years for furniture and fixtures. Art and photographs are for display purposes and are not depreciated.
- (g) Estimates - Preparation of financial statements in conformity with Generally Accepted Accounting Principals requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THREE GUINEAS FUND
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

- (h) Income Tax Status - The Fund is exempt from Federal and State income tax under Section 501(c)(3) of the Internal Revenue Code as a Public Charity and Section 23701(d) of the State Revenue and Taxation Code, whereby only unrelated business income is subject to Federal and State income tax. Management believes the Fund continues to qualify and to operate as a tax-exempt organization.
- (i) Comparative Totals – The financial statements include certain 2002 summarized comparative information in total. Such information does not include sufficient detail to constitute a complete presentation in conformity with generally accepted accounting principles and should be read in conjunction with the 2002 financial statements from which the information was derived.

Note 3 - Investments

Investments at December 31, 2003 consisted of:

Common stock	\$206,999
Hedge partnerships	4,046,965
Venture capital partnership	-
	<u>\$4,253,964</u>

The SEC does not regulate the hedge private partnerships. A hedge fund is an investment partnership that seeks to balance its risks by “hedging” long positions in some stocks with short sales of others. The partnerships have tremendous flexibility in the types of investments they can make and the strategies they can follow. Partners are not generally able to look at the detail contents of the portfolio by individual company. This lack of regulation and disclosure might make it more difficult for investors to identify potential problems in the portfolio. The investments in the portfolios consist of stocks which generally may have readily determinable fair values, but certain securities have no efficient market to easily determine values. Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents and the investments. Hedge partnerships are subject to liquidity risks, including restrictions on withdrawals, and risks related to changes in management, changes in strategy risk and the size of the partnership. The partnerships in the normal course of business enter into transactions involving derivative financial instruments that are subject to market, credit, liquidity and operational risks, including market risks from short sales, credit risks of bond issuers, and foreign securities that involve special risks not typically associated with investing in U. S. companies, including devaluation of currencies, less reliable information about issuers, different securities practices and future political and economic developments. The Fund relies on advice of an investment advisor in making and holding investments.

The investment in a venture capital partnership represents investments in small privately held companies. The market value of these investments is determined by the principals of the partnership based on historical selling prices, strengths and key risks, stage of technology, intellectual property, strength of the management team, future financing, regulatory provisions, distribution priority and the length of time from product introduction.

THREE GUINEAS FUND
NOTES TO FINANCIAL STATEMENTS

Note 4 - Temporarily Restricted Net Assets

There were no temporarily restricted net assets at December 31, 2003.

Note 5 – Property and Equipment

Property and equipment at December 31, 2003 consisted of:

Furniture and equipment	\$37,153
Arts and photographs	<u>36,218</u>
	74,150
Accumulated depreciation	<u>(36,997)</u>
	<u>\$37,153</u>

Note 6 - Commitments Under Operating Leases

The office lease is for thirty-six months which began March 31, 2003, with monthly payments of \$2,028 for the first year, \$2,141 for the second year and \$2,253 for the third year.

Note 7– Spin-Off

In 1999, the Fund launched a project called The Women’s Technology Cluster (WTC) as a model for breaking down the structural and cultural barriers that women entrepreneurs face in accessing capital. The WTC, located in San Francisco, provides a site where early-stage technology companies can start-up in one location with the benefits of shared facilities and resources. The WTC staff and mentors provide business consulting, mentoring, financing assistance, marketing and business plan assistance, as well as referrals to a broad network of resources for other assistance. In 2002, the Fund extended the WTC model to provide incubation opportunities for social entrepreneurs, through the Social Entrepreneurship Incubator. Because the WTC has reached a level of maturity that enables it to stand on its own, as originally planned, WTC was spun-off as an independent nonprofit organization during 2003. Grants paid to others for 2003 included \$135,524 to WTC, including allocated revenue, temporarily restricted net assets, equipment, matching grants and other funds.

All WTC participating companies are partly owned and managed by women, and each company gives back to the community through their contribution to the WTC’s venture philanthropy fund by signing a warrant when they become members. These warrants give WTC options to purchase from member organizations shares of common stock equal to approximately 2% of the member company’s fully diluted capitalization at the earlier of (a) the exercise of the warrant, or (b) a qualified financing, effective upon the issue date set forth in each warrant, at the exercise price of approximately \$.001 per share of common stock. The value of these options is not determinable and therefore was not included in the accompanying financial statements. These options were transferred to WTC upon its spin-off.