

THREE GUINEAS FUND

REPORT ON AUDIT OF FINANCIAL STATEMENTS

**Eighteen Months Ended
December 31, 2000**

**HYDEH GHAFFARI
CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Three Guineas Fund
San Francisco, California

We have audited the accompanying statement of financial position of Three Guineas Fund as of December 31, 2000, and the related statements of activities and cash flows for the eighteen months then ended. These financial statements are the responsibility of Three Guineas Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with 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 basic 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. We believe that our audit provides 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 Three Guineas Fund as of December 31, 2000, and the changes in its net assets and cash flows for the eighteen months then ended, in conformity with generally accepted accounting principles.

The accompanying schedule of functional income and expenses is presented for purposes of additional analysis as required by specific grant documents, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

April 6, 2001
Oakland, California

THREE GUINEAS FUND

Statement of Financial Position
At December 31, 2000

ASSETS

Current Assets:

Cash and cash equivalents	\$549,403
Investments	7,313,731
Grants receivable	65,000
Accounts receivable	55,107
Prepaid expenses	90,198
Deposits	<u>50,672</u>

Total Current Assets 8,124,111

Property and equipment 237,758

Total Assets \$8,361,869

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	\$100,537
Accrued vacation liability	7,993
Grants payable	72,500
Tenant deposits	<u>75,651</u>

Total Current Liabilities 256,681

Deferred rent 82,445

Total Liabilities 339,126

NET ASSETS

Unrestricted net assets	7,972,743
Temporarily restricted net assets	<u>50,000</u>

Total Net Assets 8,022,743

Total Net Assets and Liabilities \$8,361,869

See notes to financial statements

THREE GUINEAS FUND

Statement of Activities Eighteen Months Ended December 31, 2000

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$566,375	\$522,759	\$1,089,134
In-kind contributions	67,082	0	67,082
Rental income	1,454,509	0	1,454,509
Programs and events	23,855	0	23,855
Net gain from investment	1,834,113	\$0	1,834,113
Interest and dividends	120,428	0	120,428
Loss on disposal of fixed assets	(46,718)	0	(46,718)
Other income	10,886	0	10,886
Net assets released from restrictions:			
Purpose accomplished	873,113	(873,113)	0
Total Support and Revenue	4,903,643	(350,354)	4,553,289
EXPENSES			
Administration	465,154	0	465,154
Grants to others	402,958	0	402,958
Women's Technology Cluster	2,332,354	0	2,332,354
Total Expenses	3,200,466	0	3,200,466
Change in net assets	1,703,177	(350,354)	1,352,823
Net assets at beginning of period	6,269,566	400,354	6,669,920
Net assets at end of period	\$7,972,743	\$50,000	\$8,022,743

See notes to financial statements

THREE GUINEAS FUND

Statement of Cash Flows
Eighteen Months Ended December 31, 2000

Cash flows from operating activities:	
Change in net assets	\$1,352,823
Adjustments to reconcile change in net assets to cash from operating activities:	
Depreciation	80,611
Net (gain) loss on investments	(1,834,113)
Loss from disposal of fixed assets	46,718
(Increase) decrease in operating assets:	
Grants and accounts receivable	131,718
] Prepaid expenses	(87,799)
] Deposits	(13,172)
] Increase (decrease) in operating liabilities:	
] Accounts payable and accrued expenses	85,552
] Vacation liability	7,993
Grants payable	25,500
Refundable deposits	66,486
Deferred rent	82,445
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Net cash provided (used) by operating activities	(55,238)
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Cash flows from investing activities:	
Proceeds from sale of investments	3,567,616
Purchase of investments	(3,229,336)
Purchase of furniture and equipment	(201,643)
Purchase of arts and photographs	(23,993)
Leasehold improvements	(89,826)
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Net cash provided (used) by investing activities	22,818
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Net increase (decrease) in cash and cash equivalents	(32,420)
Cash and cash equivalents at beginning of year	581,823
	<hr/>
Cash and cash equivalents at end of year	<u><u>\$549,403</u></u>

See notes to financial statements

THREE GUINEAS FUND

Statement of Functional Income and Expenses
Eighteen Months Ended December 31, 2000
(Supplemental)

	<u>Administration</u>	<u>Grants to Others</u>	<u>Women's Technology Cluster</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$566,375	\$0	\$0	\$566,375
In-kind contributions	0	0	67,082	67,082
Rental income	0	0	1,454,509	1,454,509
Programs & events	0	0	23,855	23,855
Net gain from investments	1,843,389	0	(9,276)	1,834,113
Interest and dividends	120,428	0	0	120,428
Loss on disposal of fixed assets	0	0	(46,718)	(46,718)
Other income	0	0	10,886	10,886
Net assets released from restrictions:				
Purpose accomplished	11,916	0	861,197	873,113
Total Support and Revenue	<u>2,542,108</u>	<u>0</u>	<u>2,361,535</u>	<u>4,903,643</u>
EXPENSES				
Staff	90,833	0	300,071	390,904
Professional services	64,951	0	218,960	283,911
Management fees	52,200	0	24,883	77,083
Rent	36,339	0	1,277,081	1,313,420
Equipment rental	237	0	17,983	18,220
Postage and delivery	1,837	0	2,905	4,742
Supplies	3,951	0	21,009	24,960
Printing and copying	18,288	0	2,503	20,791
Telecommunications	5,882	0	12,027	17,909
Subscriptions and publications	3,319	0	302	3,621
Maintenance and repairs	16,379	0	65,667	82,046
Travel	7,683	0	5,903	13,586
Conferences	14,119	0	595	14,714
Membership and dues	0	0	1,310	1,310
Meals and entertainment	6,210	0	13,355	19,565
Programs and events	18,847	0	33,371	52,218
Promotion and advertising	73,058	0	24,672	97,730
Bank and other fees	1,223	0	1,009	2,232
Insurance	0	0	9,620	9,620
Website	0	0	2,900	2,900
Board expenses	10,101	0	182	10,283
Utilities	1,550	0	41,740	43,290
Expendable furniture and equipment	19,030	0	103,650	122,680
Computer and network administration	15,452	0	74,073	89,525
Depreciation	8,867	0	71,744	80,611
Miscellaneous expense	(5,202)	0	4,839	(363)
Grants to Others	0	402,958	0	402,958
Total Expenses	<u>465,154</u>	<u>402,958</u>	<u>2,332,354</u>	<u>3,200,466</u>
Surplus (Deficit)	<u>\$2,076,954</u>	<u>(\$402,958)</u>	<u>\$29,181</u>	<u>\$1,703,177</u>

See 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 is a supporting organization of the Tides Foundation and its 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. In 1999, the Fund started a new project called The Women's Technology Cluster (WTC). The WTC located in San Francisco, provides a site where 20-25 multimedia, internet, software or networking companies can start-up in one location. The WTC staff and network of business mentors provide business consulting, mentoring, financing assistance, marketing and business plan assistance, as well as referrals to numerous local resources for professional assistance. The WTC provides a focal point for individuals and groups wishing to invest in such early stage companies and will enhance the financing opportunities for start-ups in the Cluster.

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

- (d) Investments - Investments are stated at market value except for venture capital investments (see Note 3). 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.
- (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 five years for furniture, fixtures and improvements. Art and photographs are for display purposes and are not depreciated.
- (g) Estimates - Preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (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, consequently, income taxes have not been provided for, in the accompanying financial statements.

Note 3 - Investments

Investments at December 31, 2000 consisted of:

Note 3 – Investments (Continued)

Cash in transit	\$1,000,000
Stocks	1,740,871
Mutual funds	1,665,689
Long/short hedge partnerships	2,683,171
Venture capital partnerships	224,000

	\$7,313,731
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Investment in venture capital partnerships represents investment 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 and the length of time from product introduction. This valuation is done quarterly. At December 31, 2000, the cost of investment in venture capital partnerships was \$141,035.

The SEC does not regulate the long/short hedge partnerships. They are operated as private partnerships. Partners are not generally able to look at the contents of the portfolio. This lack of regulation and disclosure might make it more difficult for investors to identify potential problems in the portfolio. However, the type of investments in the portfolio consists of securities with readily determinable fair values.

Note 4 – Property and Equipment

Property and equipment at December 31, 2000 consisted of:

Furniture and equipment	\$213,162
Arts and photographs	36,219
Leasehold improvements	70,057

	319,438
Accumulated depreciation	(81,680)

	\$237,758
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Note 5 – Deferred Rent

The fund rents its offices in San Francisco under a non-cancelable lease agreement expiring on

January 31, 2005. Under the terms of this lease agreement, total rent of \$5,849,700 is payable in monthly payments with scheduled increases. In accordance with generally accepted accounting principles, the Fund records rent expense equal to the total rent divided by sixty months, the duration of the lease. The difference between this amount and amounts paid in accordance with the scheduled rents, are therefore recorded as deferred rent on the statement of financial position.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2000 consisted of \$50,000 available for general support of Women’s Technology Cluster’s program.

Note 8 - Commitments Under Operating Leases

As described under Note 5 above, the Fund has a non-cancelable operating lease for its office location expiring on January 31, 2005, with an option to renew the lease for an additional term of sixty months at the then fair market value, but not for less than \$109,500 per month with annual increases of four percent. The Fund also has a non-cancelable operating lease on its copier. The minimum commitment on these leases is as follows:

Year ending December 31, 2001	\$1,124,244
Year ending December 31, 2002	1,169,039
Year ending December 31, 2003	1,211,372
Year ending December 31, 2004	1,259,430
Year ending December 31, 2005	105,290

	\$4,869,375
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Total rent expense related to the above arrangements was \$1,079,411 during the eighteen months ended December 31, 2000, which includes \$82,445 in deferred rent as explained in Note 5.

Note 9 – Related Party Transactions

The Fund is a supporting organization of Tides Foundation (a community foundation). During the eighteen months ended December 31, 2000, the Fund paid a total of \$47,742 in accounting and management fees to Tides Foundation. At December 31, 2000, balance payable to Tides Foundation was \$12,195.

Note 10 – Concentrations of Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents and investments. Cash and cash equivalents are kept in a short-term investment account that is not insured by the Federal Deposit Insurance Corporation. Balance of this account at December 31, 2000 was \$607,467.

Also the Fund invested in four privately held partnerships, as described under Note 3 above, and the stock of one company. Such investments at December 31, 2000 amounted to \$5,646,475, which represented 77% of total investments.

Note 11 – Option to Purchase Equity

As described in Note 1 above, the Women's Technology Cluster (WTC) is an entrepreneurial campus that provides key resources, training and services to its member companies. WTC and its network of business experts turn innovative concepts into market-leading companies. All 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 gives the Fund option 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 is not included in the accompanying financial statements.