

# ***THREE GUINEAS FUND***

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*FINANCIAL STATEMENTS*

*For The Year Ended December 31, 2001*

*with*

*INDEPENDENT AUDITOR'S REPORT*

**THREE GUINEAS FUND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

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## **CARL M. ARNTZEN, CPA**

44 Amber Drive, San Francisco, CA 94131

Member American Institute of Certified Public Accountants

Member California Society of Certified Public Accountants

E Mail: CarlArnt@pacbell.net

Tel: (415) 285-8886 Fax: (415) 285-8307

### **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, 2001, and the related statements of activities, functional expenses and cash flows for the year 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.

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, 2001, 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  
May 9, 2002

## THREE GUINEAS FUND

### Statement of Financial Position At December 31, 2001

#### ASSETS

##### Current Assets:

Cash and cash equivalents	\$102,710
Investments, short-term portion	3,824,571
Grants receivable	250,000
Accounts receivable, net of \$35,000 allowance for bad debts	12,107
Prepaid expenses	<u>18,869</u>

Total Current Assets 4,208,257

Investments, long-term 1,352,982

Property and equipment, net of accumulated depreciation 169,014

Deposits 51,200

Total Assets \$5,781,453

#### LIABILITIES

##### Current Liabilities:

Accounts payable and accrued expenses	\$37,914
Accrued vacation liability	9,897
Grants payable	70,000
Tenant deposits	<u>28,963</u>

Total Current Liabilities 146,774

#### NET ASSETS

Unrestricted net assets 5,634,679

Total Net Assets and Liabilities \$5,781,453

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

## THREE GUINEAS FUND

Statement of Activities  
Year Ended December 31, 2001

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Contributions	\$50	\$358,100	\$358,150
Rental income	351,177		351,177
Partnership revenue	293,750		293,750
Sponsorship revenue	28,000		28,000
Programs and events	26,048		26,048
Net gain (loss) from investment	(1,080,363)		(1,080,363)
Interest and dividends	31,353		31,353
Rent parking and subsidy income	18,959		18,959
Honoraria and other income	23,755		23,755
Net assets released from restrictions:			
Purpose accomplished	408,100	(408,100)	
Total Support and Revenue	100,829	(50,000)	50,829
<b>EXPENSES</b>			
Women's Technology Cluster	1,652,376		1,652,376
Young Women's Technology Cluster	125,814		125,814
Other programs	115,495		115,495
Grants to others	180,000		180,000
Total Program Expenses	2,073,685		2,073,685
Administration	312,749		312,749
Fundraising	52,459		52,459
Total Expenses	2,438,893		2,438,893
Change in net assets	(2,338,064)	(50,000)	(2,388,064)
Net assets at beginning of period	7,972,743	50,000	8,022,743
Net assets at end of period	\$5,634,679	\$0	\$5,634,679

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

THREE GUINEAS FUND

Statement of Functional Expenses  
Year Ended December 31, 2001

	Women's Technology Cluster	Young Women's Technology Cluster	Other Programs	Grants to Others	Administration	Fundraising	Total
Staff	\$214,653	\$45,934	\$42,191		\$69,861	\$41,590	\$414,229
Payroll taxes	11,530	3,044	1,630		2,936	2,913	22,053
Staff benefits	9,077	1,889	1,022		4,500	2,142	18,630
Rent	980,568	25,005	733		30,266	583	1,037,155
Rent subsidy	11,683						11,683
Professional services	115,975	26,471	22,354		150,132	3,186	318,118
Utilities	41,657	221	126		2,109	34	44,147
Facility maintenance and repairs	72,363	752	195		2,620	196	76,126
Supplies	6,114	1,128	38		3,098	20	10,398
Expendable furniture and equipment	2,880	14,281	395		4,183		21,739
Telecommunications	6,345	410	530		3,660	194	11,139
Computer and network administration	27,288	320	154		2,857	123	30,742
Provision for bad debts	38,103						38,103
Printing and copying	4,408	98	14,447		3,606	95	22,654
Equipment rental	10,692	12			361	240	11,305
Travel	108	309	11,994		65	79	12,555
Meals, entertainment and hospitality	5,541	402	7,163		564	121	13,791
Depreciation	69,429	4,451	3,560		11,572		89,012
Taxes	10,757				5,145		15,902
Conferences and meetings	105	168	4,451		495	210	5,429
Postage and delivery	723	14	760		1,565	265	3,327
Programs and events			3,000				3,000
Membership and dues	365		578		3,560		4,503
Subscriptions and publications	295	48			399	42	784
Insurance	5,648	509	156		3,195	326	9,834
Grants to others				180,000			180,000
Miscellaneous expenses	6,069	348	18		6,000	100	12,535
<b>Total Expenses</b>	<b>\$1,652,376</b>	<b>\$125,814</b>	<b>\$115,495</b>	<b>\$180,000</b>	<b>\$312,749</b>	<b>\$52,459</b>	<b>\$2,438,893</b>

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

## THREE GUINEAS FUND

### Statement of Cash Flows Year Ended December 31, 2001

Cash flows from operating activities:	
Change in net assets	(\$2,388,064)
Adjustments to reconcile change in net assets to cash from operating activities:	
Depreciation	89,012
Net loss on investments	1,080,363
(Increase) decrease in operating assets:	
Grants receivable	(185,000)
Accounts receivable	43,000
Prepaid expenses and deposits	70,801
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(62,623)
Vacation liability	1,904
Grants payable	(2,500)
Refundable deposits	(46,688)
Deferred rent	(82,445)
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Net cash provided (used) by operating activities	(1,482,240)
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Cash flows from investing activities:	
Proceeds from sale of investments	2,615,442
Purchase of investments	(1,559,627)
Purchase of furniture and equipment	(20,268)
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Net cash provided (used) by investing activities	1,035,547
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Net increase (decrease) in cash and cash equivalents	(446,693)
Cash and cash equivalents at beginning of year	549,403
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Cash and cash equivalents at end of year	<u>\$102,710</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. 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 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.
- (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, 2001, cash and cash equivalents included \$66,881 in a short-term investment account that is not insured by the Federal Deposit Insurance Corporation

THREE GUINEAS FUND  
NOTES TO FINANCIAL STATEMENTS

**Note 2 - Summary of Significant Accounting Policies (Continued)**

- (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 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.
- (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.

**Note 3 - Investments**

Investments at December 31, 2001 consisted of:

Common stock	\$314,607
Mutual fund	333,122
Hedge partnerships	4,529,824
Venture capital partnership	-
	<u>\$5,177,553</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 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 – Property and Equipment**

Property and equipment at December 31, 2001 consisted of:

Furniture and equipment	\$233,431
Arts and photographs	36,218
Leasehold improvements	<u>70,057</u>
	339,706
Accumulated depreciation	<u>(170,692)</u>
	<u>\$169,014</u>

**Note 5 - Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2000 consisted of \$50,000 available for 2001 general support of Women's Technology Cluster's program. There were no temporarily restricted net assets at December 31, 2001.

**Note 6 - Commitments Under Operating Leases**

The Fund rents its offices in San Francisco under a non-cancelable lease agreement expiring on January 31, 2005. Under a December 2001 amendment to the lease, the space was reduced, an option to renew was eliminated and the monthly rent was reduced to \$60,000 for the balance of the term. In accordance with generally accepted accounting principles, in prior years the Fund recorded rent expense equal to the total rent divided by the duration of the lease, with the difference between these amounts and amounts paid recorded as deferred rent. This resulted in a deferred rent balance of \$82,445 as of December 31, 2000, and this amount was released in 2001 upon amendment of the lease. Total rent expense was \$1,119,600, less the \$82,445 deferral for a net of \$1,037,155.

**Note 7- 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 give the Fund 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 is not included in the accompanying financial statements.