

# ***THREE GUINEAS FUND***

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***FINANCIAL STATEMENTS***

***For The Year Ended December 31, 2005***

***with***

***INDEPENDENT AUDITOR'S REPORT***

**THREE GUINEAS FUND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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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, 2005 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, 2005 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  
January 11, 2007

THREE GUINEAS FUND  
Statement of Financial Position  
At December 31, 2005

ASSETS

Current Assets:

Cash and cash equivalents	\$579,989
Investments, short-term portion	2,557,918
Accounts receivable	9,984
Prepaid expenses	<u>82</u>

Total Current Assets 3,147,973

Investments, long-term 1,352,336

Property and equipment, net of accumulated depreciation 36,218

Total Assets \$4,536,527

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses \$5,041

Total Current Liabilities 5,041

NET ASSETS

Unrestricted net assets 4,531,486

Temporarily restricted net assets 0

Total Net Assets 4,531,486

Total Net Assets and Liabilities \$4,536,527

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

THREE GUINEAS FUND  
Statement of Activities  
Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Interest and dividends	\$4,030		\$4,030
Other income	3,005		3,005
Net gain from investment	397,759		397,759
Total Support and Revenue	<u>404,794</u>	<u>0</u>	<u>404,794</u>
<b>EXPENSES</b>			
Grants to others	208,500		208,500
Other program expenses	93,918		93,918
Total Program Expenses	<u>302,418</u>		<u>302,418</u>
Administration	81,809		81,809
Total Expenses	<u>384,227</u>		<u>384,227</u>
Change in net assets	20,567	0	20,567
Net assets at beginning of period	4,510,919	0	4,510,919
Net assets at end of period	<u>\$4,531,486</u>	<u>\$0</u>	<u>\$4,531,486</u>

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

THREE GUINEAS FUND  
Statement of Cash Flows  
Year Ended December 31, 2005

Cash flows from operating activities:	
Change in net assets	\$20,567
Adjustments to reconcile change in net assets to cash from operating activities:	
Net (gain) on investments	(397,759)
(Increase) decrease in operating assets:	
Accounts receivable	(9,984)
Prepaid expenses and deposits	7,108
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(175)
Vacation liability	(9,682)
Grants payable	(27,550)
	<u>(417,475)</u>
Net cash provided (used) by operating activities	<u>(417,475)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	551,418
Purchase of investments	(100,000)
	<u>451,418</u>
Net cash provided by investing activities	<u>451,418</u>
Net increase in cash and cash equivalents	33,943
Cash and cash equivalents at beginning of year	<u>546,046</u>
Cash and cash equivalents at end of year	<u><u>\$579,989</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 primary 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.
  - 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, 2005, cash and cash equivalents included \$557,829 in money market funds. Such funds are 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. As of December 31, 2005, this consisted of art and photographs which are not depreciated because of their indefinite lives.
- (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.

## THREE GUINEAS FUND NOTES TO FINANCIAL STATEMENTS

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### Note 2 - Summary of Significant Accounting Policies

- (a) Accrual Basis - The financial statements of the Fund have been prepared on the accrual basis.
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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) Contributed Services - The Fund records contributed services, at fair value, if the services 1) create or enhance a non-financial asset or 2) would require special skills, are provided by individuals with those skills, and would otherwise be purchased. The Fund receives important donated services which do not fall under the above criteria and donated services by board members. While the Fund does receive important benefit from these services, as well as donated administrative support and office space the value of which has not been determined, the estimated value of these are not included in the financial statements.

**Note 3 - Investments**

Investments at December 31, 2005 consisted of:

Common stock	\$145,897
Hedge partnerships	<u>3,764,357</u>
	<u>\$3,910,254</u>
Current	\$2,557,918
Long-term	<u>1,352,336</u>
	<u>\$3,910,254</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.

**Note 4 - Temporarily Restricted Net Assets**

There were no temporarily restricted net assets at December 31, 2005.

## THREE GUINEAS FUND NOTES TO FINANCIAL STATEMENTS

### Note 5 – Subsequent Events

Three Guineas Fund has begun to participate in a concept that focuses on maximizing the use of its capital assets, and minimizing operating expenses. The idea is to apply the value of the net assets to the mission, rather than only use income from the capital assets to make grants. The Fund may still make grants, but the emphasis has shifted toward strategic use of the capital assets. The principal idea is to leverage the capital for impact. Accordingly, in August 2006, Three Guineas Fund committed \$1 million to guarantee loans through Micro Credit Enterprises (MCE), a non-profit entity. The Fund continues to hold its own investments as a guarantor by granting a first priority security interest in its investments and cash by pledging them as collateral. Any losses realized by MCE on Microcredit Loans shall be allocated pro rata, based upon each guarantor's commitment to the program, with the guarantors as a group acting as a risk pool.

MCE offers an innovative approach to mobilize private capital to help the impoverished by leveraging private capital as collateral for loans to finance the micro-business of women entrepreneurs throughout the developing world. MCE borrows money through guarantor-collateralized lines of credit in order to make loans to microfinance institutions (MFIs) in developing countries which, in turn, provide micro-credit business loans to women entrepreneurs in those countries. Each \$1 million of collateral approximates up to 5,000 new micro-credit business loans feeding as many as 25,000 people in the developing world. New micro-credit business loans (for a 4-6 month term) can begin as low as \$25 per borrower.

Seventeen other Micro Credit Enterprise "guarantors" currently share the risk of default. Since all loan portfolios have defaults, it is expected at some point that expenses will be incurred, but in the meantime the Fund continues to earn income on the capital. <http://www.mcenterprises.org/>

The Fund is in the process of setting up a guarantee of a \$1.3 million line of credit for PolicyLink. The line of credit is with City National Bank in Oakland, and is occasionally used by PolicyLink when the timing of committed foundation grants requires cash flow resources. While PolicyLink is not focused particularly on women, the organization fits the broad mission of economic equity and social justice.

<http://www.policylink.org/>

The Fund is also working to structure a financial deal creating a revolving loan fund with a portfolio company which is building a distribution network of e-kiosks to deliver products and services to rural India. The idea for a revolving loan fund for women entrepreneurs is being considered because it is especially difficult for them to get loans from conventional banks. The idea is for a fund to lend directly to women entrepreneurs. The Fund is exploring possible roles, including a variation of a PRI (program related investment).

<http://www.acumenfund.org/Work/HealthTechnology/drishtee.asp>