

THREE GUINEAS FUND

FINANCIAL STATEMENTS

For The Years Ended December 31, 2006 and 2005

with

INDEPENDENT AUDITOR'S REPORT

*THREE GUINEAS FUND
FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005*

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Independent Auditor's Report

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

I have audited the accompanying statements of financial position of Three Guineas Fund as of December 31, 2006 and 2005 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.

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, 2006 and 2005 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.

Carl M. Arntzen, CPA

Carl M. Arntzen, CPA
August 13, 2007

THREE GUINEAS FUND
Statements of Financial Position
At December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$308,654	\$579,989
Investments, short-term portion	3,454,832	2,557,918
Accounts receivable		9,984
Prepaid expenses	81	82
Total Current Assets	3,763,567	3,147,973
Investments, long-term	1,548,419	1,352,336
Art and photos	42,064	36,218
Total Assets	\$5,354,050	\$4,536,527
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$14,179	\$5,041
Total Current Liabilities	14,179	5,041
NET ASSETS		
Unrestricted net assets	5,339,871	4,531,486
Temporarily restricted net assets	0	0
Total Net Assets	5,339,871	4,531,486
Total Net Assets and Liabilities	\$5,354,050	\$4,536,527

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

THREE GUINEAS FUND
Statements of Activities
Years Ended December 31, 2006 and 2005

	2006	2006	2006	2005	2005	2005
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Interest and dividends	\$7,440		\$7,440	\$4,030		\$4,030
Other income	2,500		2,500	3,005		3,005
Net gain from investment	880,944		880,944	397,759		397,759
Total Support and Revenue	<u>890,884</u>	<u>0</u>	<u>890,884</u>	<u>404,794</u>	<u>0</u>	<u>404,794</u>
EXPENSES						
Grants to others	22,500		22,500	208,500		208,500
Other program expenses	19,443		19,443	93,918		93,918
Total Program Expenses	<u>41,943</u>		<u>41,943</u>	<u>302,418</u>		<u>302,418</u>
Administration	40,556		40,556	81,809		81,809
Total Expenses	<u>82,499</u>		<u>82,499</u>	<u>384,227</u>		<u>384,227</u>
Change in net assets	808,385	0	808,385	20,567	0	20,567
Net assets at beginning of period	<u>4,531,486</u>	<u>0</u>	<u>4,531,486</u>	<u>4,510,919</u>	<u>0</u>	<u>4,510,919</u>
Net assets at end of period	<u>\$5,339,871</u>	<u>\$0</u>	<u>\$5,339,871</u>	<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
Statements of Functional Expenses
Years Ended December 31, 2006 and 2005

	2006	2006	2006	2006	2005	2005	2005	2005
	Grants to Others	Other Program Expenses	Administration	Total	Grants to Others	Other Program Expenses	Administration	Total
Staff						\$49,742	\$23,554	\$73,296
Payroll taxes						4,519	2,235	6,754
Staff benefits						5,999	3,371	9,370
Other payroll expenses							682	682
Rent						11,576	3,859	15,435
Professional services			\$39,185	\$39,185		5,050	35,752	40,802
Supplies						15	368	383
Expendable furniture and equipment						187	62	249
Software						174	79	253
Telephone			185	185		672	469	1,141
Web hosting and internet			519	519		407	612	1,019
Postage and delivery		25	40	65		171	197	368
Printing and copying			9	9			483	483
Equipment rental							491	491
Travel		19,021		19,021		7,750		7,750
Conferences and meetings						2,100		2,100
Meals and entertainment		397	31	428		200	237	437
Hospitality						1,608	5,101	6,709
Board expenses							2,122	2,122
Membership and dues						500	400	900
Subscriptions and publications						782		782
Insurance						2,466	1,610	4,076
Grants to others	\$22,500			22,500	\$208,500			208,500
Miscellaneous expenses			587	587			125	125
Total Expenses	\$22,500	\$19,443	\$40,556	\$82,499	\$208,500	\$93,918	\$81,809	\$384,227

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

THREE GUINEAS FUND
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$808,385	\$20,567
Adjustments to reconcile change in net assets to cash from operating activities:		
Net (gain) on investments	(880,944)	(397,759)
(Increase) decrease in operating assets:		
Accounts receivable	9,984	(9,984)
Prepaid expenses and deposits	1	7,108
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	9,138	(175)
Vacation liability		(9,682)
Grants payable		(27,550)
	(53,436)	(417,475)
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Proceeds from investment distributions and sales	575,909	551,418
Purchase of investments	(787,962)	(100,000)
Purchase of art	(5,846)	
	(217,899)	451,418
Net cash provided (used) by investing activities		
Net increase (decrease) in cash and cash equivalents	(271,335)	33,943
Cash and cash equivalents at beginning of year	579,989	546,046
Cash and cash equivalents at end of year	\$308,654	\$579,989

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, 2006, cash and cash equivalents included \$301,930 in money market funds. Such funds are not insured by the Federal Deposit Insurance Corporation
- (f) Art and Photos - Art and photos are stated at cost if purchased and fair value if acquired through donation. These 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

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 material 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 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, 2006 consisted of:

Common stock	\$232,906
Hedge partnerships	<u>4,770,345</u>
	<u>\$5,003,251</u>
Current	\$3,454,832
Long-term	<u>1,548,419</u>
	<u>\$5,003,251</u>

Fund investments are primarily concentrated in 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. Limited 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 may 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 - Restricted Net Assets

There were no temporarily or permanently restricted net assets at December 31, 2006.

THREE GUINEAS FUND NOTES TO FINANCIAL STATEMENTS

Note 5 – Contingencies

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.

Other Micro Credit Enterprise "guarantors" 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 has also guaranteed a \$1,350,000 line of credit for PolicyLink. The line of credit is with City National Bank in Oakland, California and is occasionally used by PolicyLink when the timing of committed foundation grants requires cash flow resources. The audited financial statements of Policy Link as of December 31, 2006 showed assets of \$5,494,797 liabilities of \$1,356,440, temporarily restricted net assets of \$4,362,918 and a deficit in unrestricted net assets of \$224,561. Policy Link has only used the line of credit on an occasional temporary basis and there was no balance on the line as of December 31, 2006. 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 has not incurred any losses from guarantees to date. However, as noted above, all loan portfolios have defaults and it is expected that expenses will be incurred in the future, the amount of which cannot currently be determined.