

TIDES NETWORK

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Tides Network

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
TIDES NETWORK
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **TIDES NETWORK (the “Organization”)** which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair representation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Francisco, California
June 28, 2013

Tides Network

Statement of Financial Position

December 31, 2012

Assets

Cash and cash equivalents	\$ 1,533,383
Accounts receivable (primarily related entities)	782,764
Grants receivable	400,000
Property and equipment, net	188,806
Other assets	95,824

Total assets	\$ 3,000,777
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Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 2,195,674
Security deposits	93,857

Total liabilities	2,289,531
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Net Assets:

Unrestricted	311,246
Temporarily restricted	400,000

Total net assets	711,246
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Total liabilities and net assets	\$ 3,000,777
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The accompanying notes are an integral part of this statement.

Tides Network

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2012

Changes in Unrestricted Net Assets:

Support and Revenue:

Program service revenue (primarily related entities)	\$ 14,156,442
Grants (\$2,109,000 from related entities)	2,871,945
Rental income	224,109
Interest and dividends	10,661
Other revenue	61,503

Total support and revenue	17,324,660
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Net Assets Released from Restriction

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Expenses:

Salaries, benefits and payroll taxes	11,289,183
Consulting and contract services	1,624,143
Depreciation and amortization	224,561
Facilities and office expenses	2,135,553
Travel, conferences and events	768,734
Professional services	340,226
Other operating expenses	641,614

Total expenses	17,024,014
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Changes in unrestricted net assets	300,646
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Changes in Temporarily Restricted Net Assets:

Grants	400,000
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Net Assets Released from Restriction	-
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Change in temporarily restricted net assets	400,000
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Increase or Change in Net Assets	700,646
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Net Assets - Beginning of Year	10,600
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Net Assets - End of Year	\$ 711,246
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The accompanying notes are an integral part of this statement.

Tides Network

Statement of Cash Flows

Year Ended December 31, 2012

Cash Flows from Operating Activities:

Change in net assets	\$ 700,646
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	224,561
Non-cash contributions of property and equipment	(385,836)
Loss on disposal of assets	191
Changes in operating assets and liabilities:	
Accounts receivable	(782,764)
Grants receivable	(400,000)
Other assets	(95,824)
Accounts payable and accrued expenses	2,195,664
Security deposits	(23,178)

Net cash provided by operating activities	1,433,460
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Cash Flows from Investing Activities:

Purchase of equipment	(27,721)
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Net cash used by investing activities	(27,721)
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Net Increase in Cash and Cash Equivalents	1,405,739
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Cash and Cash Equivalents - Beginning of Year	127,644
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Cash and Cash Equivalents - End of Year	\$ 1,533,383
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The accompanying notes are an integral part of this statement.

Tides Network

Notes to Financial Statements

Note 1 - Description of the Organization:

Effective on January 1, 2012, Tides Network (the “Organization”) began operations as a service provider to other Tides entities (Tides Center, Tides Foundation, Tides, Inc. and Tides Two Rivers Fund). Certain employees of the Tides entities became employees of Tides Network. Certain assets, net of liabilities, of the Tides entities were granted or transferred to Tides Network. Tides Network now participates in a cost sharing agreement with the other entities related to the provision of operating services.

The activities of the Organization fall into two primary areas: executive leadership and administrative services for related Tides entities and other nonprofit organizations; and development of replication models for creating sustainable, affordable facilities like the Thoreau Center (operated by Tides Inc.) in other locales, including a national education program on multi-tenant nonprofit centers (“The NonprofitCenters Network”). The administrative services provided by the Organization to the related entities include executive and financial leadership, communications, administration of human resources, office administration, including the functions of receptionist, mail services, telephone and telecommunication; and administration of information technology systems and services.

Tides Network, The Tides Center, Tides Foundation, Tides Inc. and Tides Two Rivers Fund are aligned independent entities (collectively the related entities). Tides Network supports the operating entities and appoints board members for Tides Foundation, Tides Center, Tides Two Rivers Fund and Tides, Inc.. Tides Network sets the general direction and policy orientation for and has economic interest in all of the Tides organizations. Effective January 1, 2012, all direct and indirect costs including management salaries and supporting services of Tides’ central office are incurred within Tides Network.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The financial statements of the Organization are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Accordingly, the Organization presents information regarding its net assets and activities based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support all activities of the Organization. Temporarily restricted net assets are those subject to donor imposed stipulations that may be met by the action of the Organization or passage of time. Accordingly, net assets of the Organization and changes therein are classified as permanently restricted, temporarily restricted or unrestricted. The Organization did not have any permanently restricted net assets as of December 31, 2012.

b. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, savings accounts, and highly liquid investments with original maturities of ninety days or less.

Tides Network

Notes to Financial Statements

c. Accounts Receivable

Accounts receivable consist primarily of program service and rental income, primarily from related entities.

Management determines the allowance for doubtful accounts by regularly evaluating the individual receivable.

Accounts receivable from program service and rental activities are considered by management to be fully collectible at December 31, 2012.

d. Property and Equipment

Property and equipment are stated at transferred net cost (see Note 3) and depreciated using a straight-line method over estimated useful lives, generally three years. The Organization expenses those assets whose cost is less than \$5,000.

e. Revenue Recognition

Program service revenue

The Organization provides shared executive, general and administrative services to the Tides related entities. These expenses include all administrative, management and program personnel, with the exception of Tides Center project personnel, as well as direct costs incurred by each of the related entities and allocations of both indirect costs involving the related entities and shared common overhead functions. The expenses for these personnel, direct, indirect, and shared functions are charged based on which function personnel within each related entity work, direct cost incurrence and allocation methods such as headcount, actual time spent and percentage of usage. The allocation methods and amounts are determined by Network management on an annual basis at the beginning of the year and adjusted at the end of the year. Those adjustments may include accounting for some allocations as either donated services or grants back to the Network in an overcharged situation. For the year ended December 31, 2012, there was approximately \$1,464,000 that was charged to related entities as donated services and approximately \$1,101,000 granted back to the Network.

The Organization recognizes program service revenue when earned.

Grants

Grants received are recorded at their estimated fair values on the date of receipt or upon satisfaction of any grantor conditions. All grants are considered to be available for unrestricted use unless specifically restricted by the grantor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as temporarily restricted net assets.

Tides Network

Notes to Financial Statements

Rental income

The Organization recognizes rental income on a straight line basis over the terms of the leases.

Grants receivable

As of December 31, 2012, the Organization has a grant receivable of \$400,000 with \$200,000 to be received in each of the two subsequent years. The grants receivable is recorded as temporarily restricted net assets as of December 31, 2012 and is not discounted to present value based on immateriality of the discount.

f. Functional Expenses

Program expenses are determined and allocated based on the methodology described above relating to program service revenue. Management and fundraising are allocated based on estimates determined by management on what functions the expense relates to.

g. Income Taxes

The Organization was incorporated on August 8, 2005 and is exempt from federal income tax on related income under Section 501(c)(3) of Internal Revenue Code (the "Code") and has been classified as an organization which is not a private foundation as defined in Sections 509(a)(1) and 170(b)(i)(A)(vi) of the Code. In addition, the Organization may be subject to tax on unrelated business income, if any, generated by its investments.

The Organization follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of December 31, 2012, management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by the Internal Revenue Service for the years ending December 31, 2008 and before. Similarly, the Organization is no longer subject to tax examination by the California Franchise Tax Board for the years ending December 31, 2007 and before.

Tides Network

Notes to Financial Statements

h. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Organization's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value. As of December 31, 2012 the Organization does not have any assets or liabilities that would be subject to fair value measurement.

i. Fair Value of Financial Instruments

Financial instruments included in the Organization's Statement of Financial Position as of December 31, 2012 which are not required to be measured at fair value include cash equivalents, accounts receivable, accounts payable, and security deposits. For cash equivalents, accounts receivable, accounts payable, and security deposits the carrying amounts represent a reasonable estimate of the corresponding fair values.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

k. Subsequent Events

The Organization evaluated subsequent events through June 28, 2013, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Tides Network

Notes to Financial Statements

Note 3 - Property and Equipment:

Property and equipment consist of the following at December 31, 2012:

Leasehold improvements	\$ 88,503
Computer hardware	141,337
Internal use software	131,647
Furniture, fixtures and equipment	51,169
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Subtotal	412,656
Less accumulated depreciation and amortization	223,850
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Total	\$ 188,806

Depreciation and amortization expense for the year ended December 31, 2012 was \$224,561.

Approximately \$386,000 of property and equipment were acquired by transfers of property and equipment from related entities at their net cost basis, inclusive of accumulated depreciation and amortization, the amount of which was considered to approximate fair market value at time of transfer.

Note 4 - Leases:

The Organization is involved with leases as both lessee and lessor.

As lessee:

As of December 31, 2012, minimum rental commitments under the operating leases for the Organization's offices are approximately as follows:

2013	\$ 1,247,000
2014	1,252,000
2015	264,000
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Total	\$ 2,763,000

The minimum rental commitments relate primarily to the lease with Tides, Inc. Rental expense for 2012 was approximately \$1,308,000.

Tides Network

Notes to Financial Statements

As lessor:

The Organization has long term operating leases for various periods to 2014 for sub leasing its office space. Future minimum rents receivable under noncancelable leases with terms in excess of one year are:

2013	\$	175,000
2014		18,000
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Total	\$	193,000

Note 5 - Net Assets:

The Organization's management estimates that approximately \$75,000 of the Organization's net assets is being held at the direction of the Board of Directors in a fund committed to future initiatives of Tides Network.

Temporarily restricted net assets of \$400,000 are available to support specific programs of the Organization.

Note 6 - Pension Plan:

The Organization has a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The Organization makes contribution to the plan equal to a percentage of each participant's salary, depending on years of service. The Organization's contribution was \$207,636 for 2012.

Note 7 - Functional Expenses:

The costs of programs and supporting services have been reflected on a functional basis below. Accordingly, certain costs have been allocated by management among the program and supporting services benefited.

	Program	Management & General	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 10,498,788	\$ 747,545	\$ 42,850	\$ 11,289,183
Consulting and contract services	1,510,432	107,547	6,164	1,624,143
Depreciation and amortization	208,838	14,870	853	224,561
Facilities and office expenses	1,986,035	141,412	8,106	2,135,553
Travel, conference and events	714,912	50,904	2,918	768,734
Professional services	316,406	22,529	1,291	340,226
Other operating expenses	596,692	42,487	2,435	641,614
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Total	\$ 15,832,103	\$ 1,127,294	\$ 64,617	\$ 17,024,014

Tides Network

Notes to Financial Statements

Approximately \$14,383,000 of the expenses is allocated to Tides Foundation, Tides Center, Tides Inc., and Tides Two Rivers Fund. The expense allocations are based on direct and indirect cost allocation estimated by management. The above amounts included donated services granted in 2012 to Tides Center, Tides Inc., and Tides Two Rivers Fund which were \$1,464,463, \$73,725 and \$47,122, respectively, and were never billed.

Note 8 - Related Party Transactions

Certain staff and directors of the Organization also serve as directors and board members of other entities within the Tides related entities.

Amounts due to/from Tides related entities at December 31, 2012, and the amounts paid for administrative services and network costs for the year then ended, are as follows:

Tides, Inc.

Accounts payable to Tides, Inc.	\$	19,103
Accounts receivable from Tides, Inc.		376,480
Amounts paid to Tides, Inc. for cost sharing		73,725
Donated services granted to Tides, Inc. to cover cost sharing		73,725
Note receivable transferred from Tides, Inc. (non-cash item)		160,041
Property and equipment granted from Tides, Inc. (non-cash item)		186,576
Management & administrative services received from Tides, Inc.		285,264
Transfer of various assets from Tides, Inc.		49,473
Grant arrangements transferred from Tides, Inc.		325,635
Rent paid to Tides, Inc.		1,033,683

Tides Center

Accounts payable to Tides Center	\$	587,566
Accounts receivable from Tides Center		220,431
Amounts received from Tides Center for cost sharing		8,644,463
Donated services granted to Tides Center for cover cost sharing		1,464,463
Property and equipment granted from Tides Center (non-cash item)		164,167
Other asset granted from Tides Center (non-cash item)		137,233
Rent received from Tides Center (CCI)		57,264

Tides Foundation

Accounts payable to Tides Foundation	\$	29,882
Accounts receivable from Tides Foundation		33,766
Amounts received from Tides Foundation for cost sharing		5,618,530
Property and equipment granted from Tides Foundation (non-cash item)		35,094
Grants from Tides Foundation		3,000
Grants from Tides Foundation – cost sharing overpayment		1,101,470
Management & administrative services paid to Tides Foundation		55,900

Tides Network

Notes to Financial Statements

Tides Two Rivers Fund

Accounts receivable from Tides Two Rivers Fund	\$	4,018
Amounts charged to Tides Two Rivers Fund for cost sharing		47,122
Grants-in kind to Tides Two Rivers Fund to cover cost sharing		47,122
Rent paid to Tides Two Rivers Fund		217,471

Note 11 - Concentration of Credit Risk:

The Organization places its cash and cash equivalents with credit-worthy, high-quality financial institutions. A portion of the funds are not insured by the FDIC.