

# TIDES TWO RIVERS FUND

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **Tides Two Rivers Fund**

## **Independent Auditors' Report and Financial Statements**

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
TIDES TWO RIVERS FUND  
San Francisco, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **TIDES TWO RIVERS FUND (TTRF)** which comprise the statement of financial position as of December 31, 2012, and the related statements of activities 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 presentation 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 presentation 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.

*Consultants and*

*Business Advisors*

*100 First Street*

*14<sup>th</sup> Floor*

*San Francisco*

*CA 94105*

*415.781.0793*

*fax 415.421.2976*

*60 S. Market Street*

*Suite 200*

*San Jose*

*CA 95113*

*408.998.8400*

*fax 408.998.8485*



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 TTRF 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.

### **Report on Summarized Comparative Information**

We have previously audited TTRF's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 9, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
June 28, 2013

# Tides Two Rivers Fund

## Statement of Financial Position

<i>December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 283,999	\$ 308,616
Funds held by trustee	349,087	349,087
Accounts receivable, net	19,222	57,996
Property and equipment, net	12,385,520	12,653,510
Bond issuance costs, net	379,831	393,643
Deferred lease assets	296,394	208,026
Other assets	197,246	235,765
<b>Total assets</b>	<b>\$ 13,911,299</b>	<b>\$ 14,206,643</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 166,389	\$ 170,277
Security deposits	235,983	224,148
Notes payable, related party	7,608,470	7,458,470
Bonds payable	9,525,000	9,675,000
<b>Total liabilities</b>	<b>17,535,842</b>	<b>17,527,895</b>
<b>Net Assets:</b>		
Unrestricted	(3,624,543)	(3,321,252)
<b>Total net assets</b>	<b>(3,624,543)</b>	<b>(3,321,252)</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,911,299</b>	<b>\$ 14,206,643</b>

The accompanying notes are an integral part of this statement.

# Tides Two Rivers Fund

## Statement of Activities and Changes in Net Assets

*Year Ended December 31, 2012 (with comparative totals for 2011)*

	2012	2011
<b>Support and Revenue:</b>		
Program service revenue	\$ 1,244,066	\$ 1,110,573
In-kind donation-Tides Network	47,122	
Other revenue	81,380	84,306
<b>Total support and revenue</b>	<b>1,372,568</b>	<b>1,194,879</b>
<b>Expenses:</b>		
Interest	709,246	716,909
Management and building operations	464,106	414,000
Depreciation and amortization	374,126	349,648
Network services - Administration and management	47,122	139,548
Consulting/contract services and professional fees	25,371	43,366
Facilities and office expense	29,463	31,995
Insurance	13,895	22,317
Other operating expense	12,530	19,036
<b>Total expenses</b>	<b>1,675,859</b>	<b>1,736,819</b>
<b>Changes in Net Assets</b>	<b>(303,291)</b>	<b>(541,940)</b>
<b>Net Assets - Beginning of Year</b>	<b>(3,321,252)</b>	<b>(2,779,312)</b>
<b>Net Assets - End of Year</b>	<b>\$ (3,624,543)</b>	<b>\$ (3,321,252)</b>

The accompanying notes are an integral part of this statement.

# Tides Two Rivers Fund

## Statement of Cash Flows

*Year Ended December 31, 2012 (with comparative totals for 2011)*

	2012	2011
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (303,291)	\$ (541,940)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	374,126	349,648
Changes in operating assets and liabilities:		
Funds held by trustee	-	25
Accounts receivable	38,774	(47,692)
Deferred lease asset	(88,368)	(208,026)
Other assets	38,519	(13,348)
Accounts payable and accrued expenses	(3,888)	(21,237)
Security deposits	11,835	8,275
Net cash provided (used) by operating activities	67,707	(474,295)
<b>Cash Flows from Investing Activities:</b>		
Construction of tenant improvements	(92,324)	(607,883)
Net cash used by investing activities	(92,324)	(607,883)
<b>Cash Flows from Financing Activities:</b>		
Proceeds of notes payable to related party	150,000	1,275,000
Payment on bond principal	(150,000)	(140,000)
Net cash provided by financing activities	-	1,135,000
<b>Net Increase in Cash and Cash Equivalents</b>	(24,617)	52,822
<b>Cash and Cash Equivalents - Beginning of Year</b>	308,616	255,794
<b>Cash and Cash Equivalents - End of Year</b>	\$ 283,999	\$ 308,616
<b>Supplemental Information:</b>		
Cash paid for interest	\$ 709,776	\$ 717,403

The accompanying notes are an integral part of this statement.

# Tides Two Rivers Fund

## Notes to Financial Statements

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### Note 1 - Description of the Organization:

Tides Two Rivers Fund (TTRF) is a California nonprofit public benefit corporation formed in 2003 to act as a supporting organization to Tides Foundation (the Foundation), a grant making foundation, and The Tides Center (the Center), a comprehensive fiscal sponsor of nonprofit activities. TTRF holds and manages assets and conducts charitable programs in furtherance of the Foundation's and the Center's charitable missions of improving effectiveness of the charitable sector generally and promoting the ability of individual nonprofit organizations to carry out their missions. TTRF serves this function by acquiring, developing and operating multi-tenant nonprofit centers and providing value-added services to nonprofit tenants to better allow them to accomplish their charitable missions.

TTRF, along with three other nonprofit organizations, purchased office condominium space at 55 Exchange Place in downtown Manhattan New York. In its condominium units, TTRF created a green nonprofit center, called Thoreau Center New York (the Facility) which it continues to operate. The Facility is aimed at preserving nonprofit tenancy in lower Manhattan as well as creating stable, quality workspace for organizations working for healthy communities.

Tides Network, Tides Foundation, The Tides Center, Tides Inc. and Tides Two Rivers Fund are aligned organizations. Tides Network controls the operating entities and appoints the Board members for the Foundation, The Tides Center and Tides, Inc., although each is an independent legal entity. Tides Network sets the general direction and policy orientation for and has economic interest in all of the Tides organizations.

On January 1, 2012, Tides Network began operations as a service provider to other Tides entities (see Note 12). 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. Certain direct and indirect costs including management salaries and supporting services are incurred within Tides Network.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Presentation

The financial statements of TTRF 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. TTRF presents information regarding its net assets and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of TTRF and changes therein are classified as permanently restricted, temporarily restricted or unrestricted. Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support all activities of TTRF. TTRF did not have any temporarily or permanently restricted net assets as of December 31, 2012.

# Tides Two Rivers Fund

## Notes to Financial Statements

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b. Cash and Cash Equivalents

For the purpose of the statement of cash flows, TTRF considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

c. Funds Held by Trustee

TTRF is required to maintain a reserve fund for debt service on outstanding bonds (see Note 7). The fund is recorded at fair value based on the underlying assets.

d. Accounts Receivable

Accounts receivable are mainly from rental income.

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

Accounts receivable are considered by management to be fully collectible and accordingly no allowance for doubtful accounts is considered necessary at December 31, 2012.

e. Property and Equipment

Property and equipment are stated at cost and depreciated using a straight-line method over their estimated useful lives.

f. Revenue Recognition

Program service revenue mainly consists of rental revenue. Rental revenue is recognized when earned. Certain rental leases contain fluctuating or escalating payments and free rental periods. The related rent revenue is recorded on a straight-line basis over the lease term. The cumulative excess of rent revenue over rent received is accounted for as a deferred lease asset.

g. Income Taxes

TTRF is exempt from federal income tax on related income under Section 501(c)(3) of the 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, TTRF may be subject to tax on unrelated business income, if any, generated by its investments.

TTRF 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 TTRF had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, TTRF is no longer subject to income tax examinations by the Internal Revenue Service for the years ending December 31, 2008 and before. Similarly, TTRF is no longer subject to tax examination by the California Franchise Tax Board for the years ending December 31, 2007 and before.

# Tides Two Rivers Fund

## Notes to Financial Statements

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### 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. TTRF 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 TTRF'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.

### i. Fair Value of Financial Instruments

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

The fair value of the notes payable and bonds payable approximates their carrying value.

### j. Summarized Comparative Information

Information as of and for the year ended December 31, 2011 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification for 2011 are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TTRF's financial statements as of and for the year ended December 31, 2011, from which the summarized comparative information was derived.

### k. 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.

### l. Subsequent Events

TTRF evaluated subsequent events through the date these financial statements were issued. There were no material subsequent events that required recognition or disclosure in these financial statements.

# Tides Two Rivers Fund

## Notes to Financial Statements

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### Note 3 - Fair Value of Financial Instruments:

TTRF does not hold any Level 3 assets or liabilities.

The table below presents the balance of assets measured at fair value at December 31, 2012 on a recurring basis.

	<u>Level 2</u>
Funds held by trustee:	
Mutual Fund in Government	
Securities (U.S.)	\$ 349,087

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### Note 4 - Property and Equipment:

Property and equipment at December 31 consist of the following:

	2012	2011
Land	\$ 1,710,828	\$ 1,710,828
Structures	12,534,809	12,442,484
Furniture and equipment	76,213	76,213
Computer equipment	35,852	35,853
	<hr/>	<hr/>
Subtotal	14,357,702	14,265,378
Less: accumulated depreciation	1,972,182	1,611,868
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Total	\$ 12,385,520	\$ 12,653,510

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Depreciation expense for the year ended December 31, 2012 was \$360,314.

The land and structures include the fourth floor and lower level of the office condominium building. The fourth floor of the office condominium is collateral for the Revenue Bonds outstanding (see Note 7.)

# Tides Two Rivers Fund

## Notes to Financial Statements

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### Note 5 - Minimum Future Rents:

TTRF has long-term operating leases for various periods to 2026. Future minimum rents receivable under noncancelable leases with terms in excess of one year are:

2013	\$1,108,808
2014	1,093,793
2015	779,447
2016	491,329
2017	318,990
Thereafter	3,220,121
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Total	\$ 7,012,488

### Note 6 - Notes Payable:

#### *Promissory Notes*

#### Tides Foundation

In November 2006, the Foundation entered into a credit agreement with Calvert Foundation, and correspondingly issued a promissory note reflecting the same terms to TTRF. The term of the credit agreement, with a maximum amount of \$1,500,000, was from November 30, 2006 through November 30, 2011. However, the note was cancelled in January 2011 as described below.

On January 7, 2011, Tides Foundation repaid this \$1,500,000 amount in full to the Calvert Foundation and cancelled the 2006 promissory note to TTRF. TTRF then entered into a new credit agreement with the Tides Foundation for \$1,500,000. The term of the promissory note, with a maximum amount of \$1,500,000, is from January 7, 2011 through December 31, 2013. Interest accrues monthly at a fixed rate of 3% per annum and is paid semi-annually in June and December. Any interest accrued but not paid is added to the outstanding balance and shall also bear interest. The entire unpaid indebtedness under this note is due and payable in full on December 31, 2013. During 2012, TTRF incurred \$44,260 in interest expense on this note. The outstanding balance on the Note at December 31, 2012 was \$1,500,000.

In 2012, TTRF then entered into a new credit agreement with Tides Foundation for \$5,798,470. This agreement replaced a promissory note whose terms had been borrowed on a line of credit between Tides Foundation and Wells Fargo Bank, which expired. The term of the promissory note is from February 15, 2012 through December 31, 2018. Interest accrues monthly at a fixed rate of 2% per annum and is paid semi-annually in June and December beginning 2014. Any interest accrued but not paid when due shall be added to principal and also bear interest. The entire unpaid indebtedness under this note is due and payable in full on December 31, 2018. During 2012 TTRF incurred \$101,394 in interest expense on this note. The outstanding balance on the Note at December 31, 2012 was \$5,798,470.

# Tides Two Rivers Fund

## Notes to Financial Statements

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### Tides, Inc.

In 2009, TTRF borrowed \$160,000 pursuant to resolutions adopted in 2008 by Tides Network, Tides, Inc. and TTRF Boards which authorized TTRF to borrow, as needed, from the operations surplus of Thoreau Center San Francisco (a component of Tides, Inc.) to pay for operating expenses. The outstanding principal balance of this note is due December 31, 2018. This is a non-interest bearing note. If any amount is not paid when due, including any amount not paid on the maturity date, the amount unpaid will bear interest until paid in full, computed at a fixed interest rate equal to 10% per annum.

On February 28, 2012, TTRF borrowed an additional \$150,000 from Tides, Inc. pursuant to the authorization described above. The outstanding balance on the Note at December 31, 2012 was \$310,000.

### **Note 7 - Bonds Payable:**

In June 2007, the New York City Industrial Development Agency issued "Civic Facility Revenue Bonds (2007 Tides Two Rivers Fund Project)" totaling \$9,950,000. TTRF used the proceeds to refinance debt incurred from the purchase of the Facility. The Revenue Bonds require that interest be paid quarterly on the 1st of each March, June, September and December respectively. The interest rate on the bonds is 5.65%. The Bonds are secured by the fourth floor of the office condominium. The Tides Foundation has guaranteed up to \$2,000,000 of any deficiency in the Debt Service Fund upon any failure of TTRF to pay any such deficiency. Such guarantee will expire in 2017.

The Revenue Bond agreements contain various disclosure and project use covenants. Management has satisfied such covenants with respect to this borrowing that were required as of December 31, 2012.

Long term debt maturities are as follows:

2013	\$ 160,000
2014	165,000
2015	175,000
2016	185,000
2017	195,000
Thereafter	8,645,000
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Total	\$ 9,525,000

Total interest expense on this note amounted to \$546,108 for the year ended December 31, 2012.

# Tides Two Rivers Fund

## Notes to Financial Statements

### Note 8 - 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.

	Management & General	Program	Total
Interest		\$ 709,246	\$ 709,246
Facilities management		464,106	464,106
Depreciation and amortization		374,126	374,126
Network Services- Administration and management	\$ 47,122		47,122
Consulting /Professional services	23,600	1,771	25,371
Facilities and office expense		29,463	29,463
Insurance		13,895	13,895
Other operating expense	9,751	2,779	12,530
<b>Total</b>	<b>\$ 80,473</b>	<b>\$ 1,595,386</b>	<b>\$ 1,675,859</b>

### Note 9 - Related Party Transactions:

Certain directors and board members of TTRF also serve as directors and board members of other entities within the Tides organizations.

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

Accounts payable to Tides Network	\$ 4,018
Accounts payable to Tides Foundation	101,394
Notes payable to Tides Foundation (see Note 6)	7,298,470
Notes payable to Tides, Inc. (see Note 6)	310,000
Interest paid to Tides Foundation	60,744
Accrued Interest to Tides Foundation	101,394
Administrative loan service expenses paid to Tides Foundation	1,000
Amounts charge from Tides Network for cost sharing	47,122
In-kind donation from Tides Network to cover cost sharing	47,122

# Tides Two Rivers Fund

## Notes to Financial Statements

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During 2012, TTRF received rental income from certain members of the Tides Network as follows:

Tides Network	\$	217,471
Tides Center		159,087

Tides Foundation's guarantee related to the Revenue Bonds is disclosed in Note 7.

### **Note 10 - Concentration of Credit Risk:**

TTRF places its cash and cash equivalents with credit-worthy, high-quality financial institutions which are fully insured for the year ending December 31, 2012. Funds held by trustee are not insured by the FDIC or related entity.

### **Note 11 - Management's Plan for Operations:**

The financial condition of TTRF has been monitored over the last several years by both the Boards and management of TTRF and Tides Network. TTRF management is working on short and long-term measures to ensure the fiscal integrity of the organization.

The primary components of the TTRF plans include:

- a) Expense reduction measures including a new voice-over-internet (VOiP) phone system to reduce operating expenses.
- b) Exploration of refinancing options.
- c) Increased revenues from opportunities to rent additional storage spaces and increased conference room rental.
- d) Maintaining occupancy of the Thoreau Center at 100%.
- e) Continued financial support through grants or loans from Tides Inc. and Tides Foundation to provide for any cash flow deficiencies.

# **Tides Two Rivers Fund**

## **Notes to Financial Statements**

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### **Note 12 - Tides Network:**

On November 30, 2011, the Board of Directors of Tides Network determined that in order to more effectively manage the operations of the Tides entities, it is desirable to centralize certain operations under one entity – Tides Network. Accordingly, effective January 1, 2012, all employees of Tides, Inc., Tides Foundation and certain employees of The Tides Center became employees of Tides Network. Certain assets, net of liabilities, were transferred from these entities to Tides Network. In addition to the transfer of employment to Tides Network, operating costs associated with those employees as well as other administrative costs in operating Tides, Inc., Tides Two Rivers Fund, Tides Center, and Tides Foundation were also undertaken by Tides Network. Tides Foundation, Tides Center, Tides, Inc. and Tides Two Rivers Fund were authorized to enter into an appropriate cost sharing agreements with Tides Network for terms that are fair and reasonable.