

TIDES FOUNDATION

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Tides Foundation

Independent Auditors' Report and Consolidated Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
TIDES FOUNDATION
San Francisco, California

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tides Foundation and supporting organizations as of December 31, 2012, and the changes in their consolidated net assets and 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 the Foundation's December 31, 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 13, 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 consolidated financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
June 28, 2013

Tides Foundation

Consolidated Statement of Financial Position

<i>December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 7,375,686	\$ 4,513,663
Contributions receivable	4,249,373	5,422,763
Accounts receivables and other assets	1,804,595	1,166,516
Investments	115,450,352	133,034,223
Mission related investments	4,696,514	5,769,877
Notes receivable, related party	7,298,470	7,298,470
Notes receivable, mission related	1,377,713	891,950
Total assets	\$ 142,252,703	\$ 158,097,462
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 854,318	\$ 730,086
Grants payable	4,312,979	7,320,326
Line of credit		5,798,470
Guarantee of indebtedness of others	346,818	378,611
Total liabilities	5,514,115	14,227,493
Net Assets:		
Unrestricted client net assets	126,731,147	131,699,027
Other - unrestricted net assets	9,729,358	11,601,197
	136,460,505	143,300,224
Temporarily restricted	278,083	569,745
Total net assets	136,738,588	143,869,969
Total liabilities and net assets	\$ 142,252,703	\$ 158,097,462

The accompanying notes are an integral part of this statement.

Tides Foundation

Consolidated Statement of Activities and Changes in Net Assets

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

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue:				
Contributions	\$ 78,832,739	\$ 27,159	\$ 78,859,898	\$ 75,182,997
Contributions - related party	9,607,076		9,607,076	15,610,186
Interest and dividend income	2,583,613		2,583,613	2,892,313
Net realized and unrealized gain on investments	5,305,644		5,305,644	350,457
Other program revenue	496,636		496,636	562,837
Net assets released from restrictions	318,821	(318,821)	-	-
Total support and revenue	97,144,529	(291,662)	96,852,867	94,598,790
Expenses:				
Program services:				
Grants and awards	88,698,062		88,698,062	92,366,676
Grants and awards - related party	3,241,760		3,241,760	3,582,394
Grantmaking program expense	7,008,750		7,008,750	6,408,029
Grantmaking program support services	1,864,147		1,864,147	543,164
Total program services	100,812,719		100,812,719	102,900,263
General and administration	2,703,379		2,703,379	2,862,935
Fundraising	468,150		468,150	92,933
Total expenses	103,984,248		103,984,248	105,856,131
Change in Net Assets	(6,839,719)	(291,662)	(7,131,381)	(11,257,341)
Net Assets, beginning of year	143,300,224	569,745	143,869,969	155,127,310
Net Assets, end of year	\$ 136,460,505	\$ 278,083	\$ 136,738,588	\$ 143,869,969

The accompanying notes are an integral part of this statement.

Tides Foundation

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ (7,131,381)	\$ (11,257,341)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	2,487	20,206
Net unrealized and realized gain on investments	(5,305,644)	(350,457)
Partnership interest and property distributed as grants	35,094	1,014,140
Dividends reinvestment	(2,375,323)	(2,830,526)
Change in operating assets and liabilities:		
Change in contributions receivable	1,173,390	(2,096,739)
Change in accounts receivables and other assets	(675,660)	239,083
Change in accounts payable and accrued expenses	124,232	25,100
Change in grants payable	(3,007,347)	(1,388,985)
Change in guarantee of indebtedness of others	(31,793)	(30,305)
Net cash used by operating activities	(17,191,945)	(16,655,824)
Cash Flows from Investing Activities:		
Purchase of investments	(45,959,202)	(46,614,001)
Proceeds from sale of investments	72,297,403	65,551,457
Collections of notes receivable	16,244	1,717,986
Issuance of notes receivable	(502,007)	(3,070,911)
Net cash provided by investing activities	25,852,438	17,584,531
Cash Flows from Financing Activities:		
Payment of promissory note		(3,000,000)
Proceeds from promissory note		1,500,000
Payment of line of credit	(5,798,470)	
Proceeds from line of credit		1,275,000
Net cash used by financing activities	(5,798,470)	(225,000)
Net Increase in Cash	2,862,023	703,707
Cash Equivalents, beginning of year	4,513,663	3,809,956
Cash Equivalents, end of year	\$ 7,375,686	\$ 4,513,663

Supplemental Investing Activities:

Cash paid for interest expense	\$ 15,761	\$ 111,996
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The accompanying notes are an integral part of this statement.

Tides Foundation

Notes to Consolidated Financial Statements

Note 1 - Description of the Organization:

Tides Foundation (the Foundation) is a non-profit corporation established in 1976. Its mission is to actively promote change toward broadly shared economic opportunity, robust democratic processes and the opportunity to live in a healthy and sustainable environment where human rights are preserved and protected. The consolidated financial statements include all accounts and results of activities of the Foundation and Harding Rock Fund, a supporting organization of the Foundation. All significant intercompany investments, accounts and transactions have been eliminated.

The Foundation receives funds through grants and donations from individuals, foundations, and corporations. Distribution of funds for philanthropic purposes is made primarily through the direct operation of a grantmaking program. Most grants are made in the areas of land preservation and stewardship, resources and the environment, economic and public policy, community affairs, social justice and international affairs. The Foundation also provides grantmaking support and related assistance to other mission-aligned foundations.

The Foundation, Tides Network, 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 an economic interest in all of the Tides organizations.

On January 1, 2012, Tides Network began operations as a service provider to other Tides entities. Employees of the Foundation 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 Foundation (and other aligned organizations) related to the provision of operating services.

The Foundation has supporting organizations, and makes grants to hundreds of charitable organizations each year, both on the advice of donors as well as through direct grantmaking initiatives. The Tides Center operates hundreds of projects and activities, all of which seek funding from the grantmaking community and donors throughout the world. Tides, Inc. operates the facility in San Francisco, providing supportive office space to many other charitable organizations and foundations. Tides Two Rivers Fund operates office space for nonprofit organizations in New York City.

The Foundation operates the following program services:

Grantmaking Program

Grants are awarded to eligible domestic nonprofit and qualified foreign charitable organizations through advised funds and direct grantmaking initiatives. All grants are taken under consideration by the staff of the Foundation and approved by the Board of Directors. Grantmaking activities are tracked within discrete funds administered by the Foundation.

Tides Foundation

Notes to Consolidated Financial Statements

Supporting Organizations

The Foundation also works with supporting organizations operated in connection with the Foundation to increase their ability to provide financial and programmatic support in areas consistent with the Foundation's philosophy and programs. The Foundation has positions on the Board of Directors of the supporting organizations to assist in decision-making activities and to act as advisors. With the exception of Harding Rock Fund, the supporting organizations are not considered to be part of the Foundation's reporting entity because the Foundation does not have both control and an economic interest in them. Control is construed to mean majority control of the Board of Directors. Economic interest is generally indicated by either residual interest in the supporting organization or some type of material financial support. The supporting organizations as of December 31, 2012 are listed below:

Beauchamp Charities	One PacificCoast Foundation
Ginungagap	Rouhana Family Foundation
Harding Rock Fund	Underdog Foundation
JK Irwin Foundation	Weithorn and Ehrmann Families Foundation
New Field Foundation	

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The consolidated financial statements 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 Foundation presents information regarding its net assets and activities according to three classes of net assets:

Unrestricted Net Assets

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support all activities of the Foundation. Unrestricted client net assets represent total donor advised and other client funds held by the Foundation with variance power. The Foundation board has designated approximately \$3,732,600 of unrestricted net assets as reserves for Tides Network activities. Certain other funds totaling approximately \$916,700 have been designated by the Foundation board for specific programmatic or operational purposes.

On March 27, 2013 the board of directors of Tides Network approved a \$1,500,000 grant from the unrestricted net assets designated for Tides Network activities to reimburse the Foundation for its overpayment under a contract for cost sharing with the Network for 2012, and a recoverable grant of \$1,900,000 to apply to the Foundation's 2012 operating deficit.

Tides Foundation

Notes to Consolidated Financial Statements

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to the stipulations.

Permanently Restricted Net Assets

Permanently restricted net assets represent net assets subject to donor-imposed restrictions where the donor indicated that a portion of a fund be maintained permanently by the Foundation. As of December 31, 2012, the Foundation does not have any permanently restricted net assets.

b. Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with maturities of three months or less at date of acquisition, except those that are held for investment purposes.

c. Investments

Generally, investments are stated at estimated fair value, using quoted market prices. Net realized and unrealized gains and losses are included in the accompanying consolidated statement of activities and changes in net assets. Investments received by donation are recorded at estimated fair value at date of donation. Interest and dividend income are recorded when earned, and reinvested in the investment pool.

Non-publicly traded investments are in the form of shares in limited partnerships or limited liability corporations. These represent investments in private companies and investment trust funds. Because no readily ascertainable market value exists for these investments, the values are based on the latest available valuations which may be determined by the general partner or fund manager. Due to the uncertainty of valuations, however, these amounts may differ materially from values that would be determined if the investments were publicly traded.

d. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as 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 Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Tides Foundation

Notes to Consolidated Financial Statements

- Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2 - Observable inputs other than quoted prices included within Level 1 such as quoted prices for similar securities or quoted prices in inactive markets
- Level 3 - Unobservable inputs for the asset or liability that are not directly corroborated by market data.

e. Fair Value of Financial Instruments

As of December 31, 2012, the estimated fair value of the Foundation's financial instruments not measured at fair value on a recurring basis (including accounts receivable, contributions receivable, notes receivable, notes receivable from related parties, accounts payable, grants payable, and line of credit) approximates their carrying values due to their short length to maturity.

f. Mission Related Investments and Notes Receivable

Mission related investments are investments that would not be made were it not for the relationship of the investment to the Foundation's programmatic mission. Although the underlying investments may or may not have a profit motive, that is not the primary focus of the investment by the Foundation. Mission related investments must be consistent with the Foundation's mission. These investments usually are recommended by donor advisors or fund managers from the funds with which they are associated. Sometimes they may also be a result of a gift by a donor(s).

Mission related notes receivable consist of loans to entities which support the Foundation's mission. The organizations may be commercial companies or non-profit organizations.

The Foundation records mission related investments and notes receivable at cost if purchased or market value on the date of donation. These investments are evaluated for impairment annually and written down when appropriate.

g. Contributions Receivable

Contributions receivable represent contributions unconditionally promised or for which constructive delivery has been made, but which have not been received by the Foundation prior to year-end. These contributions are expected to be received in the subsequent year.

Management determines the allowance for doubtful accounts by evaluating individual balances and assessing the likelihood of collections. No allowance for doubtful accounts is considered necessary at December 31, 2012.

Tides Foundation

Notes to Consolidated Financial Statements

h. Notes Receivable, related party

Notes receivable at December 31, 2012 consist of loans made to Tides Two Rivers, a related party, in support of Thoreau Center New York as described in Notes 7 and 11. Management determines the allowance for doubtful accounts by evaluating individual notes receivable. No allowance is considered necessary at December 31, 2012.

i. Building and Equipment

Building and equipment are stated at cost if purchased or, if donated, estimated fair value at time of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, generally three to five years for furniture, equipment and software and 39 years for buildings. Leasehold improvements are amortized over the shorter of the useful life of the improvements or the lease term.

j. Grants

Grants expense and payable represent amounts committed by the Foundation and approved by the Board of Directors to be distributed to various nonprofit organizations or their charitable activities. Grant refunds, rejections, and cancellations are recorded as a reduction of grants and awards expense at the time the grant is refunded to the Foundation or cancelled.

k. Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised and collection is deemed to be reasonably certain.

The Foundation reports gifts of cash and other assets as temporarily restricted support if such gifts are received with donor stipulations that limit the use of the donated assets, unless there are written agreements which supersede those stipulations. Most written agreements with donors (donor advised funds and other client funds) stipulate that contributions are within the exclusive control of the Foundation, and the Foundation is not bound by recommendations by the donors, thus creating variance power. When a donor restriction exists with no variance power by the Foundation, the grants are accounted for as restricted assets or temporarily restricted assets. When the restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted contributions whose restrictions are met in the same year they are received are reported as unrestricted contributions.

The Foundation does not recognize conditional contributions until the conditions are met. As of December 31, 2012, the Foundation is the recipient of conditional contributions totaling approximately \$3,461,000. These conditional contributions are contingent on donors continued discretionary approval.

Tides Foundation

Notes to Consolidated Financial Statements

l. Other Program Revenue

Other program revenue primarily represents administrative fees charged to outside organizations.

m. Functional Expense Allocations

Expenses such as depreciation, supplies, travel, and Tides Network costs are allocated among program services, general and administration and fundraising based on the program benefited and estimates made by the Foundation's management.

n. Income Taxes

The Foundation 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, the Foundation may be subject to tax on unrelated business income, if any, generated by certain investments and activities.

The Foundation follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of December 31, 2012, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the consolidated financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by federal or state authorities for the years before 2009 and 2008, respectively.

o. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tides Foundation

Notes to Consolidated Financial Statements

p. Recent Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update No. 2012-05 – Statement of Cash Flows (Topic 230) *Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for annual periods, beginning after June 15, 2013. The adoption of this guidance is not expected to have a material effect on the Foundation's financial statements.

q. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2012 through June 28, 2013, the date the consolidated financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as described in Notes 2 and 4.

Tides Foundation

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements:

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash				
Equivalents	\$ 16,918,152	\$ 16,918,152		
Equities:				
Utilities	47,179	47,179		
Financial	6,048,358	6,048,358		
Consumer products	7,353,605	7,353,605		
Consumer discretionary	4,251,902	4,251,902		
Industrials	9,347,055	9,347,055		
Capital goods	10,167,046	10,167,046		
Energy	3,061,915	3,061,915		
Transportation	1,324,340	1,324,340		
Foreign assets	3,984,771	3,984,771		
International Mutual Fund	2,240,254	2,240,254		
Fixed Income:				
U.S. Government agency, state, and municipal	42,617,285		\$ 42,617,285	
Corporate debt	6,418,801		6,168,801	
Non-Publicly Traded Investments:				
Financials	687,500			\$ 687,500
Telecommunications	1,229,091			1,229,091
Real estate	3,098			3,098
<hr/>				
Total assets measured at fair value	\$115,700,352	\$ 64,744,577	\$ 48,786,086	\$ 1,919,689

The Foundation has two investment pools available to donors for investment of gifted assets. Donor funds with a longer time horizon are typically pooled in an actively managed balanced fund of equity and fixed income securities with an emphasis on growth and preservation of capital. Donor funds with a shorter time horizon typically are invested in fixed income securities that provide liquidity for cash flow needs. Approximately 95% of total investments are allocated to grantmaking funds. Social goals and screens are applied to the management of the investments when practical.

Tides Foundation

Notes to Consolidated Financial Statements

The changes in Investments classified as Level 3 are as follows for the year ended December 31, 2012:

	<u>Financials</u>	<u>Telecom</u>	<u>Real Estate</u>	<u>Total</u>
Balance, December 31, 2011	\$ 987,500	\$ 1,460,383	\$ 32,296	\$ 2,480,179
Distributions		(11,319)	(30,691)	(42,010)
Income		27,230		27,230
Unrealized gain	(300,000)	(247,203)	1,493	(545,710)
Balance, December 31, 2012	\$ 687,500	\$ 1,229,091	\$ 3,098	\$ 1,919,689

Note 4 - Programmatic Investments:

Mission Related Investments

Mission related investments are made primarily for desirable social outcomes consistent with the Foundation's mission, with less emphasis on economic returns. Mission related investments are comprised of the following at December 31, 2012:

Land and nonprofit community real estate	\$ 553,170
Community development investments – certificates of deposit	3,401,768
Other	741,576
	<u>\$ 4,696,514</u>

Mission related investments are valued at original cost unless impaired. Overall, the Foundation reduced the value of these investments by \$299,795 in 2012.

The Foundation has mission related investment capital commitments totaling approximately \$108,700 as of December 31, 2012. Subsequent to year end, the Foundation approved a mission related investment for \$8,925,000 and paid \$5,000,330 of its commitment as well as one for \$250,000 and paid \$25,000 of the commitment .

Notes Receivable - Mission Related

Notes receivable of \$1,377,713 is comprised of eleven loans to companies and organizations ranging from \$25,235 to \$500,000 at interest rates from zero to eight percent. The notes are due at various dates ranging between 2013 and 2017.

Tides Foundation

Notes to Consolidated Financial Statements

Note 5 - Accounts Receivable and Other Assets:

Accounts receivable and other assets are comprised of the following at December 31, 2012:

Receivables – related parties	\$ 216,176
Interest receivable	345,797
Prepaid expenses	560,000
Guarantee of indebtedness	346,818
Furniture and equipment	57,208
Other	278,596
<hr/>	
Total	\$ 1,804,595

Note 6 - Grants Payable:

Multi-year grants as of December 31, 2012 are scheduled to be disbursed as follows:

Years Ending	
December 31	
2012	\$ 3,610,156
2013	642,823
2014	60,000
<hr/>	
Total	\$ 4,312,979

The Foundation does not recognize conditional grants until the conditions are met. As of December 31, 2012, the Foundation had approved conditional grants totaling approximately \$2,384,300. Payment of these grants is contingent on the grantees fulfilling specific requirements.

Note 7 - Guarantee of Indebtedness of Others:

The Foundation committed to act as a guarantor on debt issued by Tides, Inc., a related organization, totaling \$12,190,000. Over the 30-year life of the debt, if Tides, Inc. materially defaults on its bond payment or certain other obligations, the Foundation would be required to make full payment of the remaining balance of principal and interest on the debt. At December 31, 2012, the balance of the debt was \$10,840,000. The guarantee agreement includes a liquidity covenant to be maintained by the Foundation. The covenant is calculated in June and December, of each year the bonds are outstanding and as of December 31, 2012, the Foundation was in compliance with the covenant.

Tides Foundation

Notes to Consolidated Financial Statements

Tides, Inc. pays the Foundation a fee for the Foundation's provision of the guarantee. The Foundation receives an annual fee of 50 basis points on the outstanding balance of the debt. The Foundation has recorded a receivable for the discounted future cash flows from the guarantee fee and a liability for the fair value of the obligation undertaken in issuing the guarantee. The liability represents the risk in assuming the guarantee obligation. At December 31, 2012, the receivable and corresponding liability of \$346,818 is included in accounts receivable and other assets and guarantee of indebtedness of others, respectively.

The Foundation committed to act as a guarantor of the Debt Service Reserve Fund established for the bonds issued by Tides Two Rivers Fund, a related organization. The Foundation is committed to pay up to an aggregate amount of \$2,000,000 of any deficiency in the Debt Service Reserve Fund upon any failure of Tides Two Rivers Fund to pay any such deficiency. The balance in the Debt Service Reserve Fund at December 31, 2012 was \$349,087. The guarantee is in effect for a maximum of 10 years from the date of issuance. No fees will be charged to Tides Two Rivers Fund for the guarantee provided.

At December 31, 2012, there had been no payments by the Foundation on either of these guarantees.

Note 8 - Notes Payable:

The Foundation and a Canadian nonprofit organization amended an existing revolving demand loan agreement to allow the Foundation to borrow up to \$2,000,000 with no interest due in support of a single fund at the Foundation. At December 31, 2012, there was no outstanding balance.

In 2011 the Foundation had maintained an unsecured line of credit with Wells Fargo Bank up to \$7.5 million. The Foundation paid the outstanding balance on the line of credit upon the agreement expiring in February 2012.

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of December 31, 2012 are available for the following purposes:

California health care clinics	\$	15,041
Cortes island land conservation		4,056
Charitable remainder trust		252,063
U Want Game – black male achievement symposium		6,923
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Total	\$	278,083

Tides Foundation

Notes to Consolidated Financial Statements

Net assets were released from donor restrictions during the year ended December 31, 2012 by incurring expenses satisfying the restricted purposes specified by donors as follows:

Cortes Island land conservation	\$ 300,744
U Want Game – black male achievement symposium	18,077
<hr/>	
Total	\$ 318,821

Note 10 - Commitments and Contingencies:

Commitments:

The Foundation signed a lease with renewable one-year terms with Tides Network with automatic renewal for successive one-year terms through February 28, 2014.

Effective January 1, 2012, employees of the Foundation and certain employees of Tides Center became employees of Tides Network, making it unnecessary for either the Foundation or Tides Center to rent space. Accordingly, effective January 1, 2012, the leases between the Foundation and Tides Network and between the Foundation and Tides Two Rivers Fund were cancelled.

Contingencies:

At times, the Foundation may be involved in various claims arising in the ordinary course of business. In the opinion of management, after reviewing such matters with legal counsel, any liability arising from such claims is not expected to have a material adverse effect on the Foundation's consolidated financial position or change in net assets.

Tides Foundation

Notes to Consolidated Financial Statements

Note 11 - Related Party Transactions:

Related party transactions between the Tides related entities and supporting organizations of the Tides Foundation for the year ended December 31, 2012 are as follows:

Accounts receivable from Tides related entities	\$ 77,930
Accounts receivable from supporting organizations	27,196
Contribution receivable from Tides Center	239,064
Accounts, grants payable and accrued expenses to the Tides Network	33,766
Grants to Tides Center	2,102,196
Grants to Tides Network	1,139,564
Contributions from Tides Center	9,607,076
Contributions from supporting organizations	3,759,514
Notes receivable due from Tides Two Rivers Fund	7,298,470
Interest and service fee revenue from Tides Two Rivers Fund	163,138
Amounts paid to Tides Network for administrative costs	5,618,530
Bond guarantee fee due from Tides, Inc.	111,050
Contract service fees to Tides Center	181,260
Contract service fee from supporting organizations	105,350

The Tides Center maintains a subaccount fund valued at approximately \$2,801,000 within one of the Foundation's investments. The Foundation does not have custody of this investment nor does it have control over this subaccount. The subaccount balances and related activity are excluded from the consolidated financial statements.

The Foundation has and may continue to have Board and committee members who hold interests in, or are employed by, corporations or partnerships held as investments by the Foundation. The Foundation has a conflict of interest policy that covers investments and vendor relationships with the Board of Directors, committee members, and staff. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that Board of Directors, committee members and staff may continue to serve the Foundation through their professional knowledge and expertise.

Bond guarantees and notes payable with related parties are disclosed in Note 7.

The Foundation has two unsecured promissory notes with Tides Two Rivers Fund for loans that were used to finance the purchase of office condominium units located at 15 Broad Street in New York City. This property called "Thoreau Center New York" provides quality work and program space for nonprofit and cultural organizations. The Foundation has a promissory note with Tides Two Rivers Fund for \$1,500,000 at 3% interest, to be paid semi-annually, with principal due December 31, 2013, and a promissory note for \$5,798,470 at 2% interest paid semi-annually beginning June 30, 2014, with principal due December 31, 2018.

The Foundation received one grant from the Department for International Development in 2012, for \$34,368. The Foundation granted \$21,846, \$21,049, \$109,565, and \$103,685 to a corresponding Tides Center project in 2012.

Tides Foundation

Notes to Consolidated Financial Statements

Note 12 - Concentrations:

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The majority of the Foundation's investment portfolio is maintained at one major financial institution. At times, cash and cash equivalents may exceed FDIC limits. The Foundation manages credit risk by establishing minimum credit standards for financial institutions. The Foundation closely monitors these investments and to date has not experienced significant losses.

Approximately 13% of contributed revenue for the year ended December 31, 2012 was attributable to two donors.

Note 13- Tides Network:

On November 30, 2012, 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 of its operations in one entity – Tides Network. Accordingly, effective January 1, 2012, 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 Foundation and The Tides Center were also undertaken by Tides Network. Tides Foundation and The Tides Center were authorized to enter into appropriate cost sharing agreements with Tides Network for terms that are fair and reasonable.