

TIDES, INC.

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Tides, Inc.

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
TIDES, INC.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **TIDES, INC. (the "Organization")** 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. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

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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.

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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
April 30, 2013

Tides, Inc.

Statement of Financial Position

<i>December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 2,656,957	\$ 2,065,016
Funds held by trustee	867,002	867,002
Accounts receivable	340,808	993,483
Property and equipment, net	8,630,155	9,225,320
Bond issuance costs, net	513,548	538,149
Other assets	163,542	294,360
Total assets	\$ 13,172,012	\$ 13,983,330
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 838,610	\$ 1,052,560
Security deposits	182,532	213,695
Deferred rent credit	190,731	196,473
Bonds payable, net	10,695,499	10,903,577
Total liabilities	11,907,372	12,366,305
Net Assets:		
Unrestricted	1,264,640	1,292,025
Temporarily restricted	-	325,000
Total net assets	1,264,640	1,617,025
Total liabilities and net assets	\$ 13,172,012	\$ 13,983,330

The accompanying notes are an integral part of this statement.

Tides, Inc.

Statement of Activities and Changes in Net Assets

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

	2012	2011
Changes in Unrestricted Net Assets:		
Support and Revenue:		
Program service revenue		\$ 5,384,496
Rental income	\$ 3,346,068	3,136,736
Grants		596,835
In-kind donation - Tides Network	73,725	
Interest and dividends	114	9,721
Other revenue	26,445	78,765
Total support and revenue	3,446,352	9,206,553
Net Assets Released from Restriction	325,000	120,000
Expenses:		
Salaries, benefits and payroll taxes	-	4,998,594
Facilities management	1,533,962	1,297,194
Consulting and contract services	101,385	808,769
Interest	629,945	638,829
Depreciation and amortization	447,654	566,949
Facilities and office expenses	307,850	868,609
Travel, conferences and events	4,094	312,186
Professional services	15,792	187,262
Network Services-Administration and management	73,725	
Grant to Tides Network	671,617	
Other operating expenses	12,713	289,905
Total expenses	3,798,737	9,968,297
Changes in unrestricted net assets	(27,385)	(641,744)
Changes in Temporarily Restricted Net Assets:		
Grants	-	325,000
Net Assets Released from Restriction	(325,000)	(120,000)
Change in temporarily restricted net assets	(325,000)	205,000
Decrease in Net Assets	(352,385)	(436,744)
Net Assets - Beginning of Year	1,617,025	2,053,769
Net Assets - End of Year	\$ 1,264,640	\$ 1,617,025

The accompanying notes are an integral part of this statement.

Tides, Inc.

Statement of Cash Flows

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

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ (352,385)	\$ (436,744)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	447,654	566,949
Loss on disposal of assets		1,486
Non-cash fixed assets grant	186,576	
Changes in operating assets and liabilities:		
Accounts receivable	667,779	(491,692)
Funds held by trustee	-	54
Other assets	130,818	(51,566)
Accounts payable and accrued expenses	(229,054)	80,127
Security deposits	(31,163)	(3,271)
Deferred rent credit	(5,742)	(5,742)
Net cash provided (used) by operating activities	814,483	(340,399)
Cash Flows from Investing Activities:		
Purchase of equipment	(7,542)	(268,724)
Net cash used by investing activities	(7,542)	(268,724)
Cash Flows from Financing Activities:		
Payment on bond principal	(215,000)	(205,000)
Net cash used by financing activities	(215,000)	(205,000)
Net Increase (Decrease) in Cash and Cash Equivalents	591,941	(814,123)
Cash and Cash Equivalents - Beginning of Year	2,065,016	2,879,139
Cash and Cash Equivalents - End of Year	\$ 2,656,957	\$ 2,065,016
Supplemental Information:		
Non-cash transactions (see Note 9)	\$ 346,617	
Cash paid for interest	574,939	\$ 582,785

The accompanying notes are an integral part of this statement.

Tides, Inc.

Notes to Financial Statements

Note 1 - Description of the Organization:

Tides, Inc. operates the Thoreau Center for Sustainability (the "Facility") in San Francisco providing supportive office space for other charitable organizations and foundations.

The activities of Tides, Inc. (the Organization) include management and operation of the Facility in 2012 and 2011, and development of replication models for creating sustainable and affordable facilities like the Facility in other locales in 2011.

Tides Network, The Tides Center, Tides Foundation, Tides Inc. and Tides Two Rivers Fund are aligned independent 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.

On January 1, 2012, Tides Network began operations as a service provider to other Tides entities (see Note 11). 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. Tides, Inc. non-real estate operations are now incorporated in Tides Network. 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 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, Inc.

Notes to Financial Statements

c. Funds Held by Trustee

Tides Inc. is required to maintain a reserve fund for debt service on outstanding bonds (see Note 6.) The fund is recorded at fair value based on the underlying assets.

d. Accounts Receivable

Accounts receivable consist primarily of program service and rental income.

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

Accounts receivable from rental activities 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 estimated useful lives, generally three years. The Organization expenses those assets whose cost is less than \$5,000.

Leasehold improvements are amortized over the shorter of the life of the asset or the term of the master lease which is until 2050.

f. Bond Issuance Costs

Bond issuance costs are amortized monthly over the life of the bonds on a straight-line basis.

g. Other Assets

Other assets include \$160,374 of net lease commissions which are amortized over the term of the respective lease. For 2012, amortization of lease commissions was \$88,520.

h. Revenue Recognition

Program service revenue -

Services provided by the Organization include leasing and maintenance activities associated with the operation of a facility, and also include programmatic work with the tenants and the greater community, such as educational programs and art galleries, and events to develop the institutional capabilities of the tenants.

The Organization recognizes program service revenue in the month in which the related services are performed.

Tides, Inc.

Notes to Financial Statements

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

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.

i. Income Taxes

The Organization 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.

j. 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.

k. 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, security deposits, and bonds payable. For cash equivalents, accounts receivable, accounts payable, and security deposits the carrying amounts represent a reasonable estimate of the corresponding fair values.

Tides, Inc.

Notes to Financial Statements

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

l. Summarized Comparative Information

Information as of and for the year ended December 31, 2011 is presented for comparative purposes only. Certain notes to the financial statement and 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 the Organization's financial statements as of and for the year ended December 31, 2011, from which the summarized comparative information was derived.

m. 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.

n. Subsequent Events

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

Note 3 - Fair Value Instruments:

The Organization does not hold any Level 1 or Level 3 assets or liabilities.

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

	<u>Level 2</u>
Funds held by trustee:	
Mutual Fund of Government Securities (U.S.)	\$ 867,002

Tides, Inc.

Notes to Financial Statements

Note 4 - Property and Equipment:

Property and equipment consist of the following at December 31,

	2012	2011
Leasehold improvements	\$ 11,604,526	\$ 11,633,905
Computer hardware		815,217
Internal use software		203,037
Furniture, fixtures and equipment	2,323	126,759
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Subtotal	11,606,849	12,778,918
Less accumulated depreciation and amortization	2,976,694	3,553,598
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Total	\$ 8,630,155	\$ 9,225,320

Depreciation and amortization expense for the year ended December 31, 2012 was \$447,654.

Note 5 - Lease Commitments:

a. As Lessee

The Facility is a complex of twelve historic buildings within the Presidio, which was a United States Army base from 1848-1994. In 1994, the Presidio was transferred to the Golden Gate National Recreation Area and came under the administration of the National Park Service of the United States Department of the Interior (the "Park Service").

The Facility is currently under the administration of the Presidio Trust (the "Trust"), a government corporation, who serves as Master Lessor on two long term ground leases (the "Ground Leases").

Pursuant to documents dated December 23, 2003, and with the approval of the Trust, the Organization assumed the Master Lessee function on the Ground Leases and purchased the leasehold improvements related to the Facility in order to operate a center for nonprofit organizations in the Facility. The Tides Foundation was the guarantor of the Master Lease with the Presidio Trust through December 1, 2010.

Tides, Inc.

Notes to Financial Statements

The first Ground Lease ("Phase I") was entered into in 1995, and the second ("Phase II") was entered into in 1997. Both Ground Leases expire on September 10, 2050. The minimum annual rental through September 10, 2020 is as follows:

	Phase I	Phase II	Total
September 11, 2010-September 10, 2015	65,000	65,000	130,000
September 11, 2015-September 10, 2020	80,000	80,000	160,000

Beginning September 11, 2020, the minimum rent is subject to appraisal adjustments and consumer price index ("CPI") adjustments.

The Trust and Tides, Inc amended the Ground Leases, effective January 1, 2007. The amendment provides for the payment of percentage rent, increasing from 5% to 10%, through September 2020 including at a minimum the rent schedule detailed above.

For the year ended December 31, 2012, the Organization has made the required minimum rent payments to the Trust amounting to \$222,863.

b. As Lessor

The Organization has long-term operating leases for various periods to 2017. Future minimum rents receivable under noncancelable leases with remaining terms in excess of one year are:

2013	\$ 3,341,316
2014	1,873,365
2015	809,997
2016	474,964
2017	469,704
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Total	\$ 6,969,346

Note 6 - Bonds Payable:

In December 2003, the ABAG Finance Authority for Nonprofit Corporations issued "Series 2003A – Insured Mortgage Revenue bonds (Tides, Inc.) and Series 2003B – Taxable Insured Mortgage Revenue Bonds (Tides, Inc.)" with a discount of \$207,088 which is being accreted to their redemption value over the bond term. The Organization used the proceeds to purchase the leasehold improvements related to the Facility. The 2003 Bonds require interest to be paid semiannually on the 15th of each May and November respectively.

Tides, Inc.

Notes to Financial Statements

Long term debt obligations of the Organization as of December 31, 2012 consisted of the following:

Description	Interest Rate	Final Maturity Date	Original Issue Amount	Amount Outstanding
Series 2003A Exempt	2.25 - 5.0%	11/15/2033	9,510,000	8,160,000
Series 2003B Taxable	5.45 - 6.4%	11/15/2033	2,680,000	2,680,000
Total			12,190,000	10,840,000
Less unamortized discount				(144,501)
Total bonds payable				10,695,499

Long term debt matures as follows:

2013	\$ 675,000
2014	300,000
2015	315,000
2016	335,000
2017	350,000
2018-2033	8,865,000
Total	\$ 10,840,000

The 2003 Bonds contain various restrictive covenants related to reporting, financial and additional debt. The Organization has satisfied all restrictive covenants at December 31, 2012 with respect to this borrowing. The Bonds are guaranteed by Tides Foundation.

Note 7 - Net Assets:

The Organization's management estimates that \$600,057 of Tides, Inc net assets is being held at the direction of the Board of Director in a fund committed to future initiatives of Tides Network.

Tides, Inc. received a conditional grant of \$975,000 from a donor in 2011. The grant is for the sole purpose of supporting program operations of the NonprofitCenters Network. In 2011, Tides, Inc. met the conditions to record \$325,000. This grant has been reported as a temporarily restricted net asset.

Tides, Inc.

Notes to Financial Statements

The remaining conditional grant of \$650,000 will be recorded once the donor is satisfied with the milestones set in the grant agreement. Effective January 1, 2012, due to Tides re-organization, the Nonprofit Centers Network program was transferred from Tides Inc. to Tides Network. This conditional grant was granted to Tides Network and recorded as released from restriction as of December 31, 2012.

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.

	Program	Management & General	Total
Facilities management	\$ 1,533,962	\$	\$ 1,533,962
Consulting and contract services	101,385		101,385
Interest	629,945		629,945
Depreciation and amortization	447,654		447,654
Facilities and office expenses	307,850		307,850
Travel, conference and events	4,094		4,094
Professional services		15,792	15,792
Grant to Tides Network		671,617	671,617
Network Services -Administration and management		73,725	73,725
Other expenses	12,713		12,713
Total	\$ 3,037,603	\$ 761,134	\$ 3,798,737

Note 9 - Related Party Transactions:

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

All obligations of the Organization under the 2003 Bonds are unconditionally guaranteed by the Tides Foundation pursuant to a Guarantee Agreement dated December 15, 2003. The master lease for the Facility was also guaranteed by Tides Foundation until December 31, 2010 as referenced in Note 5.

Tides, Inc.

Notes to Financial Statements

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:

Accounts receivable from Tides Network	\$ 19,103
Note receivable from Tides Two Rivers Fund	310,000
Accounts payable to the Tides Network	376,480
Bond guarantee incurred under agreement with the Tides Foundation	111,050
Rent received from the Tides Foundation and Tides Network	1,037,246
Fixed assets grant to Tides Network (non-cash item)	186,576
Note receivable transferred to Tides Network (non-cash item)	160,041
Management & administrative services paid to Tides Network	285,264
Amounts charges from Tides Network for cost sharing	73,725
In-kind donation from Tides Network to cover cost sharing	73,725
Transfer balance sheet items to Tides Network	49,473
Grant made to Tides Network	325,635

The maturity date of the note receivable from Tides Two Rivers Fund is December 31, 2018. The note receivable is non interest bearing and recorded as part of the accounts receivable in the statement of financial position as of December 31, 2012.

Note 10 - 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.

Note 11 - 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.

The centralization of certain Tides entities operations into Tides Network impacted the Organization's financial statements in 2012 in that program service revenue and the related expenses, such as salaries, benefits, payroll taxes, consulting and contract services expenses will be transferred to Tides Network. Rental income and the facility related expenses will remain activities within the Organization.