

**CATALYTIC COMMUNITIES**  
**REPORT AND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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**REPORT AND FINANCIAL STATEMENTS**

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**INDEPENDENT AUDITOR'S REPORT**

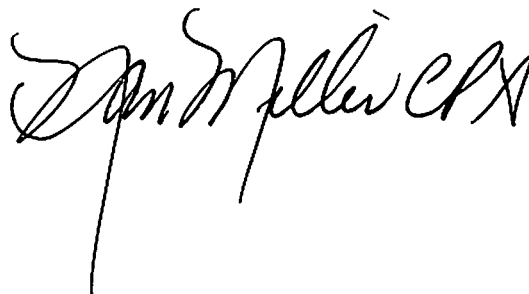
To the Board of Directors  
CATALYTIC COMMUNITIES  
Chevy Chase, Maryland

We have audited the accompanying statement of financial position of Catalytic Communities as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Catalytic Communities' management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catalytic Communities, as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

January 10, 2011  
Washington, DC

A handwritten signature in black ink, appearing to read "Nan Miller CPA", is written over a vertical line that extends from the bottom of the signature down towards the date.

CATALYTIC COMMUNITIES  
STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2010

**ASSETS**

Cash and cash equivalents	\$ 8,605
Pledges and contributions receivable	30,874
Accrued interest receivable on investments	1,367
Investments at fair market value	269,249
Computer equipment and software, net of accumulated depreciation	<u>-</u>
Total assets	<u><u>\$ 310,095</u></u>

**LIABILITIES**

Accounts payable and accrued expenses	<u>\$ -</u>
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**NET ASSETS**

Unrestricted	\$ 49,514
Temporarily restricted	-
Permanently restricted	<u>260,581</u>
Total Net Assets	<u><u>310,095</u></u>
Total liabilities and net assets	<u><u>\$ 310,095</u></u>

CATALYTIC COMMUNITIES  
STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue, support and gains:</b>				
Contributions and grants	\$ 68,563	\$ 8,688	\$ -	\$ 77,251
Interest, dividends and realized gains, net	4,978	-	3,319	8,297
Unrealized gain on investments	10,065	-	10,715	20,780
<i>Total revenue, support and gains</i>	<u>83,606</u>	<u>8,688</u>	<u>14,034</u>	<u>106,328</u>
Released from restrictions	<u>51,508</u>	<u>(8,688)</u>	<u>(42,820)</u>	<u>-</u>
<b>Expenses and losses:</b>				
<b>Program services -</b>				
Community outreach programs	<u>66,201</u>	<u>-</u>	<u>-</u>	<u>66,201</u>
<b>Administration -</b>				
General and administrative	5,625	-	-	5,625
Fundraising	4,992	-	-	4,992
	<u>10,617</u>	<u>-</u>	<u>-</u>	<u>10,617</u>
<i>Total expenses and losses</i>	<u>76,818</u>	<u>-</u>	<u>-</u>	<u>76,818</u>
<i>Change in net assets</i>	58,296	-	(28,786)	29,510
Prior period adjustment to beginning balances	(22,432)	-	-	(22,432)
Net assets, beginning	<u>13,650</u>	<u>-</u>	<u>289,367</u>	<u>303,017</u>
Net assets, ending	<u>\$ 49,514</u>	<u>\$ -</u>	<u>\$ 260,581</u>	<u>\$ 310,095</u>

CATALYTIC COMMUNITIES  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010

	<b>Community Outreach Programs</b>	<b>General/ Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and related expenses	\$ 32,310	\$ 3,194	\$ 1,596	\$ 37,100
Consultants	25,515	330	800	26,645
Professional fees	-	650	-	650
Bank Charges	36	-	436	472
Communications	2,889	561	2,160	5,610
Office expenses	-	-	-	-
Interest expense	-	145	-	145
Travel	2,847	-	-	2,847
Grants and allocations	529	-	-	529
Depreciation expense	-	745	-	745
Web development and IT services	2,075	-	-	2,075
	<u>\$ 66,201</u>	<u>\$ 5,625</u>	<u>\$ 4,992</u>	<u>\$ 76,818</u>

**Catalytic Communities**  
**Statement of Cash Flows**  
For the Year ended December 31, 2010

**OPERATING ACTIVITIES**

Change in net assets	\$ 29,510
Adjustments to reconcile the change in net assets to net cash provided by operations:	
Depreciation expense	745
Prior period adjustment to beginning balances	(22,432)
Increase in pledges and contributions receivable	(30,874)
Decrease in liabilities	(3,184)
Net cash provided by Operating Activities	<u>(26,235)</u>

**INVESTING ACTIVITIES**

Purchase of computer hardware and software	(745)
Increase in accrued interest receivable	(1,367)
Unrealized gains on investments and other adjustments	(20,780)
Purchase of investments, reinvestment of earnings	(1,922)
Transfers from endowment fund investments to operating account	42,820
	<u>18,006</u>
Net cash increase for period	(8,229)
Cash at January 1, 2010	<u>16,834</u>
Cash at December 31, 2010	<u>\$ 8,605</u>

There were no non-cash investing and financing activities for the year ended December 31, 2010.

CATALYTIC COMMUNITIES  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**Note 1: Organization and Significant Accounting Policies**

*Nature of Organization*

Catalytic Communities (CatComm or the Organization) is a not-for-profit organization founded in 2000 to inspire and empower a global network of communities generating and sharing solutions. Today the Organization's mission is to integrate low-income communities into the wider society using online and offline networking forums and communication tools. CatComm works closely with an affiliated not-for-profit organization located in Rio de Janeiro, Brazil. Since 2000, CatComm has pioneered local projects that strengthen community leadership in Rio de Janeiro, with an eye towards developing sustainable models for worldwide replication. Notably these include the "Casa," a UN-recognized networking hub for local leaders, and the "Community Solutions Database," the Web's first open database of grassroots projects recognized by the Tech Museum of Innovation in 2006. Today the Organization focuses primarily on developing and implementing trainings (social media, community journalism and documentary production) specifically focused on integrating isolated communities into their urban fabric through global visibility. In 2010 CatComm launched RioOnWatch, the only English language site providing community reporting in the lead-up to the 2016 Rio Olympics.

*Basis of Accounting*

The accompanying financial statements are presented on the accrual basis of accounting in accordance with the standards promulgated by the American Institute of Certified Public Accountants in accordance with the guidelines published in the Audits for Certain Nonprofit Organizations. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recorded when incurred.

*Basis of Presentation*

The Organization complies with the Statement of Financial Accounting Standards Nos. 116 and 117, "Accounting for Contributions Received and Contributions Made" and "Financial Statements for Not-For-Profit Organizations", respectively. Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as unrestricted net assets since no net assets or contributions are subjected to donor-imposed stipulations.

**Unrestricted net assets:** Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets:** Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. There were no temporarily restricted net assets as of December 31, 2010.

CATALYTIC COMMUNITIES  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**Note 1: Organization and Significant Accounting Policies (continued)**

*Basis of Presentation (continued):*

**Permanently restricted net assets:** Net assets subjected donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2010 permanently restricted endowment funds totaled \$260,581.

*Income taxes and uncertain tax positions*

CatComm is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code is subject to income tax. For the year ended December 31, 2010, CatComm had no unrelated business income subject to federal income tax. . In accordance with the disclosures required by FIN No. 48, "Accounting for Uncertainty in Income Taxes", CatComm has no uncertain tax positions as of and for the year ended December 31, 2010.

*Cash and cash equivalents*

For the purposes of the Statement of Cash Flows, short-term, highly liquid investments with maturities of three months or less are considered to be cash equivalents and include cash, cash reserves and money market accounts on deposit with financial institutions and investment management companies. CatComm maintains cash balances which may exceed federally insured limits. CatComm does not believe that this results in any significant credit risk. Cash for the purposes of the statement of cash flows excludes permanently restricted cash and investments.

*Investments*

In accordance with Statement of Financial Accounting Standard No. 124, "Accounting for Certain Investments Held by Non-Profit Organizations" (SFAS No. 124) investments are carried at estimated fair value based on quoted market prices. Investments received through gifts are recorded at estimated fair market value at the date of donation. Investment income or losses (including realized gains and losses on investments, interest and dividends) are reported when earned and included as operating activities in the Statement of Activity. Unrealized gains and losses have been classified as non-operating activities in the Statement of Activities. In the absence of any donor-imposed or legal restrictions on how investment income may be used, gains are reported as an increase in unrestricted net assets. A loss, realized or unrealized, is recorded as a decrease in unrestricted net assets. If restrictions do exist on the use of an investment, the gain or loss is shown as an increase or decrease in either temporarily or permanently restricted net assets, depending on the type of restriction existing. Investment

CATALYTIC COMMUNITIES  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**Note 1:      Organization and Significant Accounting Policies (continued)**

Investments (continued)

income (i.e., interest and dividends) earned during the year is reported as an increase in unrestricted net assets, unless the income's use is restricted; in that case, temporarily or permanently restricted net assets are increased depending upon the restriction.

Use of estimates

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

Office equipment

The Organization uses accelerated methods for computing depreciation expense which is not materially different from straight-line. For the year ended December 31, 2010, computer hardware and software has been fully depreciated. For the year ended December 31, 2010 depreciation expense totaled \$745.

Functional expenses:

The costs of providing various program and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Revenue Recognition

Unconditional contributions are generally available for unrestricted use in the year given unless specifically restricted by the donor. Unconditional contributions are recorded when the pledge is received and receipt is assured. As of December 31, 2010, \$30,874 of pledges was received by the Organization. No allowance for uncollectible pledges has been recorded by the Organization and management believes the entire outstanding balance will be collected in the first quarter of 2011.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

CATALYTIC COMMUNITIES  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

**Note 2: Investments**

The investment portfolio consisted of the following Level 1 investments as of December 31, 2010:

Investment	Level	Fair Market Value
Mutual funds	1	\$ 169,318
Corporate bonds	1	83,077
Government and GSE bonds	1	16,854
		<b>\$269,249</b>

Investment income, realized and unrealized gains relating to the investment portfolio for the year ended December 31, 2010 are as follows:

Investment	Investment income	Unrealized gains (losses)
Mutual Funds	\$3,839	\$14,880
Corporate Bonds	4,305	5,727
Government Bonds	1,443	173
Money Market	10	-
	<b>\$8,297</b>	<b>\$20,780</b>

**Note 3: Donated Services and Materials**

The Organization receives a substantial amount of unpaid volunteer support services from its Executive Director and other volunteers. The value of this contributed time is not reflected in the accompanying financial statements since it is not susceptible to objective measurement or valuation.

**Note 5: Net Assets Released from Temporary Restrictions**

Net assets released from temporarily restricted net assets as of December 31, 2010 were comprised of the following:

National Capital Institute	<u>\$8,688</u>
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**CATALYTIC COMMUNITIES  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**Note 6: Concentrations**

At times during the year it is possible for CatComm to maintain securities and cash balances at securities brokerage firms. Securities Investor Protection Corporation protects balances up to \$500,000 for securities and \$100,000 for cash held by brokerage firms. Management believes the risk in these situations is minimal.

**Note 7: Prior Period Adjustment**

The cumulative effect of changes in investment balances to reflect accumulated unrealized losses in the investment portfolio prior to January 1, 2010 totals \$22,432. Beginning balances were adjusted to reflect these cumulative losses in investment value that were not recorded in the beginning balances.

**Note 8: Subsequent Events**

Subsequent events have been reviewed through January 10, 2011 and no additional transactions were noted requiring adjustment to or disclosure in the financial statements as of and for the year ended December 31, 2010.

CATALYTIC COMMUNITIES  
 SUPPLEMENTAL INFORMATION  
 CALCULATION OF ACTUAL INDIRECT COST RATE  
 FOR THE YEAR ENDED DECEMBER 31, 2010

Programs (a)	Fund Raising (b)	Total Direct Cost (a+b) = c	Administrative and General (d)	Overhead Rate (d)/(c) + (d)
\$ 66,201	\$ 4,992	\$ 71,193	\$ 5,625	7.90%