



***FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT***

***YEAR ENDED JUNE 30, 2016***

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Charity Navigator  
Glen Rock, New Jersey

We have audited the accompanying financial statements of Charity Navigator, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the period from December 1, 2015 to June 30, 2016, 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 from 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 auditors' judgment, including the assessment of the 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 Charity Navigator as of June 30, 2016, and the changes in net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

*Dorfman Abrams Music, LLC*

Saddle Brook, New Jersey

November 2, 2016

CHARITY NAVIGATOR  
STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

Cash and cash equivalents (Notes 1 and 2)	\$ 993,606
Investments (Notes 1, 2, 3 and 4)	1,636,836
Contributions receivable (Note 1 and 5)	107,050
Prepaid expenses	24,052
Security deposits	9,707
Property and equipment, net (Notes 1 and 6)	<u>56,948</u>
 Total assets	 <u><u>\$ 2,828,199</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 44,154
Accrued expenses	79,997
Deferred revenue	<u>665</u>
 Total liabilities	 <u>124,816</u>
 Net assets (Note 1):	
Unrestricted	2,602,883
Temporarily restricted (Note 9)	<u>100,500</u>
 Total net assets	 <u>2,703,383</u>
 Total liabilities and net assets	 <u><u>\$ 2,828,199</u></u>

The accompanying notes are an integral part  
of these financial statements.

CHARITY NAVIGATOR

STATEMENT OF ACTIVITIES

Period December 1, 2015 to June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support (Note 1):			
Contributions and support:			
Founders and board members	\$ 33,539	\$ 100,000	\$ 133,539
Individuals	1,375,574	500	1,376,074
Foundations		13,000	13,000
Donated professional fees	74,151		74,151
Donated billboard space and advertising	7,370,759		7,370,759
	<u>8,854,023</u>	<u>113,500</u>	<u>8,967,523</u>
Total contributions and support			
	<u>8,854,023</u>	<u>113,500</u>	<u>8,967,523</u>
Revenues:			
Other income:			
Advertising	12,056		12,056
Data sale	19,043		19,043
Speaking fee	4,984		4,984
Consulting	1,250		1,250
Investment income	2,342		2,342
	<u>39,675</u>		<u>39,675</u>
Total revenues			
	<u>39,675</u>		<u>39,675</u>
Net assets released from restrictions	<u>13,000</u>	<u>(13,000)</u>	
Total support and revenues			
	<u>8,906,698</u>	<u>100,500</u>	<u>9,007,198</u>
Expenses:			
Program services:			
Charity ratings	8,346,482		8,346,482
	<u>8,346,482</u>		<u>8,346,482</u>
Total program services			
	<u>8,346,482</u>		<u>8,346,482</u>
Supporting services:			
General and administration	259,770		259,770
Development and fundraising	161,036		161,036
	<u>420,806</u>		<u>420,806</u>
Total supporting services			
	<u>420,806</u>		<u>420,806</u>
Total expenses			
	<u>8,767,288</u>		<u>8,767,288</u>
Change in net assets	139,410	100,500	239,910
Net assets, December 1, 2015	<u>2,463,473</u>		<u>2,463,473</u>
Net assets, June 30, 2016	<u>\$ 2,602,883</u>	<u>\$ 100,500</u>	<u>\$ 2,703,383</u>

The accompanying notes are an integral part  
of these financial statements.

CHARITY NAVIGATOR

STATEMENT OF CASH FLOWS

Period December 1, 2015 to June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ 239,910
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Stock donations	(9,604)
Depreciation	9,686
Realized and unrealized loss on investments	22,453
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts and other receivables	19,822
Contribution receivable	(107,050)
Prepaid expenses	19,326
Increase (decrease) in:	
Accounts payable	23,213
Accrued expenses	17,651
Deferred revenue	(5,426)
	<u>229,981</u>
Net cash provided by operating activities	<u>229,981</u>
Cash flows from investing activities:	
Purchase of securities	(42,086)
Proceeds from sale of investments	33,020
Purchase of property and equipment	(6,949)
	<u>(16,015)</u>
Net cash used by investing activities	<u>(16,015)</u>
Net increase in cash and cash equivalents	213,966
Cash and cash equivalents, December 1, 2015	<u>779,640</u>
Cash and cash equivalents, June 30, 2016	<u><u>\$ 993,606</u></u>

The accompanying notes are an integral part  
of these financial statements.

CHARITY NAVIGATOR

STATEMENT OF FUNCTIONAL EXPENSES

Period December 1, 2015 to June 30, 2016

	Program services expenses	Supporting services expenses			Total program and supporting services expenses
	Charity ratings	General and administration	Development and fundraising	Total	
Salaries and wages	\$ 674,264	\$ 82,761	\$ 69,748	\$ 152,509	\$ 826,773
Payroll taxes	54,806	7,262	5,963	13,225	68,031
Fringe benefits	90,103	19,033	5,052	24,085	114,188
<b>Total personnel costs</b>	<b>819,173</b>	<b>109,056</b>	<b>80,763</b>	<b>189,819</b>	<b>1,008,992</b>
Outreach and education	7,370,759				7,370,759
Professional fees	21,571	54,899		54,899	76,470
Bank fees		38,935		38,935	38,935
Contracted services	5,802	18,064	47,903	65,967	71,769
Equipment maintenance	30,130	2,468	6,076	8,544	38,674
Website maintenance	30,000				30,000
Insurance	4,130	4,879	339	5,218	9,348
Marketing costs	9,016		1,579	1,579	10,595
Meetings and conferences	2,150	856	225	1,081	3,231
Occupancy	36,170	6,908	3,667	10,575	46,745
Office supplies and expenses	363	5,990	1,204	7,194	7,557
Postage and shipping		600	6,949	7,549	7,549
Printing and publication		310	9,972	10,282	10,282
Staff training and development	501	3,830	80	3,910	4,411
Registration fees and taxes		696	417	1,113	1,113
Telephone and cable	9,022	2,036	871	2,907	11,929
Travel and transportation	7,695	557	991	1,548	9,243
Depreciation		9,686		9,686	9,686
<b>Total expenses</b>	<b>\$ 8,346,482</b>	<b>\$ 259,770</b>	<b>\$ 161,036</b>	<b>\$ 420,806</b>	<b>\$ 8,767,288</b>

The accompanying notes are an integral part of these financial statements.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. Summary of significant accounting policies

This summary of significant accounting policies of Charity Navigator (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification), and have been consistently applied in the preparation of the financial statements.

Nature of the Organization

The Organization was founded in 2000 and has become one of the nation's largest and most-utilized evaluator of charities. Specifically, the Organization's rating system examines two broad areas of a charity's performance; their financial health and their accountability and transparency. The ratings show givers how efficiently a charity will use their support today, how well it has sustained its programs and services over time and their level of commitment to good governance, best practices and openness with information. In the not-too-distant future, the Organization plans to also rate charities' reporting of their results.

The Organization provides charity ratings so that charitable givers and social investors can make intelligent giving decisions, and so that the not-for-profit sector can improve its performance. The Organization had over 5.8 million visits to its website during the period ended June 30, 2016, and estimates that it impacts billions of dollars of charitable giving decisions each year. The Organization does not receive any contributions from any charities it evaluates and offers its basic services to users at no cost.

During fiscal year 2016, the Organization changed its reporting period ending from November 30 to June 30. Accordingly, fiscal year 2016 includes seven months of results from December 1, 2015 to June 30, 2016.

Basis of presentation

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 follows:

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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to 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 any income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2016.

Cash and cash equivalents

Cash and cash equivalents consist primarily of demand deposit, money market, savings and merchant accounts.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. Summary of significant accounting policies (continued)

Investments

Investments are carried at fair value. The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect the Organization's statement of financial position.

Support

Contributions, including unconditional pledges, are recorded at fair value as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional pledges are recognized as income when the conditions of the pledge are met.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and equipment

Property and equipment are stated at cost. Depreciation is provided principally on the straight-line method at rates based on the following estimated useful lives:

Property and equipment	5 years
Leasehold improvements	10 - 11 years

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income except for assets traded where no cash is received. All acquisitions of property and equipment in excess of \$1,000 are capitalized. In addition, expenditures for maintenance and repairs are charged to income as incurred; replacements and betterments that extend the useful lives are capitalized.

Functional allocation of expenses

The costs of providing the Organization's programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. Summary of significant accounting policies (continued)

Contributed services

Contributed services are reported at fair value in the financial statements for voluntary donations of service when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills, and would be typically purchased if not provided by donation. The Organization benefited from donated legal services valued at \$44,151 during the period ended June 30, 2016.

In addition, during the period ended June 30, 2016, IBM provided onsite architecture and engineering expertise to facilitate the design and implementation of a new and improved charity search engine valued at \$30,000. The IBM services are recognized as donated professional fees on the statement of activities and also as marketing costs on the statement of functional expenses.

Donated billboard space

During the period ended June 30, 2016, a significant amount of digital billboard advertising space was donated to the Organization by a national company. The Organization utilized this donated billboard space to encourage donors to find a charity they can trust through the Organization's rating system. During the period, 38,184,570 individual digital billboard impressions were donated and appeared throughout the United States. Based upon the donor's national average rate of \$0.19 per impression, the Organization recognized \$7,255,068 as donated billboard space in the accompanying statement of activities and also as Outreach and Education expense on that statement and on the statement of functional expenses. The Organization utilized the advertisements to achieve and extend its mission of guiding intelligent giving, advancing a more efficient and responsive philanthropic marketplace, and strengthening confidence between donors and the charities they support.

Donated Google AdWords

During the period ended June 30, 2016, a significant amount of Google AdWords were donated to the Organization via the Google Ad Grant program. Google Ad Grants work just like Google AdWords online advertising, but displaying a message to people who are searching for Charity Navigator's services. As a qualifying nonprofit, Charity Navigator receives up to \$40,000 in In-Kind AdWords advertising every month.

During the period ended June 30, 2016, the Organization received a total of 1,633,483 ad impressions with a total value of \$115,691 and recognized the contribution as donated professional fees on the statement of activities and also as Outreach and Education expense on the statement of functional expenses.

Income taxes

The Organization is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly no provision has been made for Federal income taxes. The Organization is also exempt from State corporate income taxes.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. Summary of significant accounting policies (continued)

Uncertain tax positions

As of June 30, 2016, management believes that based on evaluation of the Organization's tax positions that any liability as a result of uncertain tax positions would not be material. Management continually evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating the Organization's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of the income tax provision. Income tax returns are filed in the U.S. federal jurisdiction and state jurisdictions. U.S. federal and state income tax returns prior to fiscal year 2012 are closed.

Allowance for doubtful contributions receivable

The Organization determines whether an allowance for uncollectible receivables should be provided. Such estimates are based on management's assessments of the aged basis of the Organization's receivables, current economic conditions and historical experience. The Organization determined that an allowance was not necessary at June 30, 2016.

2. Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, contributions receivable and investments. The Organization maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Cash equivalents and investments are maintained at brokerage institutions. Exposure to credit risk is reduced by placing such deposits and investments in high quality financial institutions and insured brokerage houses. Concentration of credit risk with respect to contributions receivable is limited due to the fact they are mainly derived from established companies and have short payment terms.

3. Investments

Investment securities are stated at fair value and are summarized as follows at June 30, 2016:

	Cost	Fair value
Mutual funds:		
Diversified Balanced Mutual Fund	\$1,726,278	\$1,636,836

The following schedule summarizes the investment return and its classification in the statement of activities at June 30, 2016:

Investments:		
Interest and dividends		\$ 23,340
Net realized and unrealized loss on investments		(22,453)
		887
Cash:		
Interest		1,455
		\$ 2,342

## CHARITY NAVIGATOR

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016

#### 4. Fair value measurement

The Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the Codification are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly, including inputs that are not considered to be active;

Level 3 - Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad criteria data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

The classification of the Organization's investment securities at fair value are as follows at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Diversified Balanced Mutual Fund	<u>\$ 1,636,836</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,636,836</u>

#### 5. Contributions receivable

Contributions receivable that are expected to be collected within one year are recorded at their net realizable value. All contributions receivable are expected to be collected in the next year and at June 30, 2016 were \$107,050.

Included in the contributions receivable is a matching grant in the amount of \$100,000 from the former Chairman of the Board that was conditional to being matched in its entirety by unrestricted gifts from general public, not including board members. Since these conditions were met during fiscal year 2016, the Organization recorded the contribution as support on the statement of activities. The matching grant is intended to be counted toward the Organization's fiscal year 2017 and for general operating support.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

6. Property and equipment

Property and equipment consists of the following at June 30, 2016:

Furniture	\$ 17,059
Equipment	70,397
Leasehold improvements	<u>22,421</u>
	109,877
Less accumulated depreciation	<u>52,929</u>
	<u>\$ 56,948</u>

Depreciation expense for the period ended June 30, 2016 was \$9,686.

7. Lease commitments

Office

The Organization entered into a six year lease expiring May 31, 2019. The monthly rent payments are approximately \$5,100 per month with a 1.96% increase each year. Additionally, the Organization is responsible for a proportionate share of the building's operating expenses. Minimum lease payments for the subsequent years are as follows:

Year ending June 30:	
2017	\$ 61,908
2018	63,146
2019	<u>58,943</u>
	<u>\$ 183,997</u>

Rent expense for the period ended June 30, 2016 was \$43,012.

Copier lease

The Organization entered into a four year lease expiring June 30, 2018. The monthly lease payments are \$164. Minimum lease payments for the subsequent years are as follows:

Year ending June 30:	
2017	\$ 1,968
2018	<u>984</u>
	<u>\$ 2,952</u>

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

8. Pension

The Organization sponsors an IRA Savings Plan which covers eligible employees. The Plan requires a matching contribution equal to the employee's contribution up to 3% of the employee's salary. The amount contributed for the period ended June 30, 2016 was \$20,495.

9. Temporarily restricted net assets/net assets released from restrictions

Temporarily restricted net assets are available for the following purposes at June 30, 2016:

CEO compensation study	\$ 500
Time restricted	<u>100,000</u>
	<u>\$ 100,500</u>

Temporarily restricted net assets were released from donor restrictions for the following purposes at June 30, 2016:

Rate charities	\$ 10,000
Development of CN 3.0 methodology	<u>3,000</u>
	<u>\$ 13,000</u>

10. Employment agreement

On August 1, 2015, the Organization entered into a two year employment agreement with its President and CEO, thereafter renewable on a yearly basis.

11. Subsequent events

Subsequent events have been evaluated through November 2, 2016, which is the date the financial statements were available to be issued.