



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEAR ENDED JUNE 30, 2017***

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6 - 12

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, 2017, and the related statements of activities, cash flows and functional expenses for the year ended June 30, 2017, 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, 2017, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

November 21, 2017

CHARITY NAVIGATOR
STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

Cash and cash equivalents (Notes 1 and 2)	\$ 1,436,425
Investments (Notes 1, 2, 3 and 4)	1,849,557
Contributions receivable (Notes 1 and 5)	3,195
Prepaid expenses	57,239
Security deposits	9,707
Property and equipment, net (Notes 1 and 6)	<u>47,737</u>
 Total assets	 <u><u>\$ 3,403,860</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 61,051
Accrued expenses	205,070
Deferred revenue	<u>1,333</u>
 Total liabilities	 <u>267,454</u>
 Net assets (Note 1):	
Unrestricted	3,103,739
Temporarily restricted (Note 9)	<u>32,667</u>
 Total net assets	 <u>3,136,406</u>
 Total liabilities and net assets	 <u><u>\$ 3,403,860</u></u>

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

CHARITY NAVIGATOR
STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Unrestricted	Temporarily restricted	Total
Support (Note 1):			
Contributions and support:			
Founders and board members	\$ 81,412	\$	\$ 81,412
Individuals	2,969,825		2,969,825
Foundations	125,000	128,000	253,000
Donated professional fees	244,630		244,630
Donated advertising	458,866		458,866
Gifts in kind - goods	3,667		3,667
Total contributions and support	3,883,400	128,000	4,011,400
Other revenues:			
Other income:			
Data sale	48,608		48,608
Speaking fee	6,139		6,139
Investment income	211,142		211,142
Total other revenues	265,889		265,889
Net assets released from restrictions	195,833	(195,833)	
Total support and revenues	4,345,122	(67,833)	4,277,289
Expenses:			
Program services:			
Charity ratings	2,754,424		2,754,424
Total program services	2,754,424		2,754,424
Supporting services:			
General and administration	445,565		445,565
Development and fundraising	644,277		644,277
Total supporting services	1,089,842		1,089,842
Total expenses	3,844,266		3,844,266
Change in net assets	500,856	(67,833)	433,023
Net assets, beginning of year	2,602,883	100,500	2,703,383
Net assets, end of year	\$ 3,103,739	\$ 32,667	\$ 3,136,406

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

CHARITY NAVIGATOR
STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ 433,023
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Stock donations	(702,889)
Depreciation	18,880
Loss on disposal of asset	1,173
Realized and unrealized gain on investments	(176,962)
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Contribution receivable	103,855
Prepaid expenses	(33,187)
Increase (decrease) in:	
Accounts payable	16,897
Accrued expenses	125,073
Deferred revenue	668
	<u>668</u>
Net cash used by operating activities	<u>(213,469)</u>
Cash flows from investing activities:	
Purchase of securities	(38,653)
Proceeds from sale of investments	705,783
Purchase of property and equipment	<u>(10,842)</u>
Net cash provided by investing activities	<u>656,288</u>
Net increase in cash and cash equivalents	442,819
Cash and cash equivalents, beginning of year	<u>993,606</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,436,425</u></u>

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

CHARITY NAVIGATOR

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Program services expenses	Supporting services expenses			Total program and supporting services expenses
	Charity ratings	General and administration	Development and fundraising	Total	
Salaries and wages	\$ 1,321,533	\$ 245,843	\$ 264,892	\$ 510,735	\$ 1,832,268
Payroll taxes	111,874	21,062	22,025	43,087	154,961
Employee benefits and pension	209,416	27,700	36,945	64,645	274,061
Total personnel costs	1,642,823	294,605	323,862	618,467	2,261,290
Outreach and education	458,866				458,866
Professional fees	172,039	34,056	70,491	104,547	276,586
Bank fees		80	78,317	78,397	78,397
Contracted services	273,324	45,509	67,884	113,393	386,717
Equipment maintenance	45,264	8,520	18,961	27,481	72,745
Insurance	15,151	3,962	1,148	5,110	20,261
Marketing costs	29,224	1,670	1,010	2,680	31,904
Meetings and conferences	8,474	2,220	623	2,843	11,317
Occupancy	59,957	7,481	8,310	15,791	75,748
Office supplies and expenses	7,969	11,888	1,472	13,360	21,329
Postage and shipping	71	1,387	19,186	20,573	20,644
Printing and publication	986	536	29,350	29,886	30,872
Staff training and development	4,671	5,071	2,010	7,081	11,752
Registration fees and taxes		655	7,019	7,674	7,674
Telephone and cable	16,580	2,018	2,588	4,606	21,186
Travel and transportation	19,025	5,854	12,046	17,900	36,925
Loss on disposal of asset		1,173		1,173	1,173
Depreciation		18,880		18,880	18,880
Total expenses	\$ 2,754,424	\$ 445,565	\$ 644,277	\$ 1,089,842	\$ 3,844,266

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

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 the nation's largest and most-utilized evaluator of charities. Specifically, the Organization's rating system examines two facets of a charity's performance: their financial health and their governance practices (accountability and transparency). These ratings provide donors with a picture of how well a charity has sustained its programs and services over time and their level of commitment to good governance, best practices and openness with information. The Organization believes these behaviors are indicators of how a charity will use donors' contributions. In 2017 the Organization adopted an ambitious five-year strategic plan which includes plans to expand the number of ratings it provides and create a methodology that will account for a charity's impact.

The Organization provides charity ratings so that donors and social investors can make more informed and impactful giving decisions. Its ratings are also intended for individual charities and the entire nonprofit sector, providing them with benchmarks and information on best practices to improve their performance. The Organization had over 10 million visits to its website during the year ended June 30, 2017, and estimates that it impacts billions of dollars of charitable giving decisions each year. The Organization does not receive any contributions from any of the charities it evaluates or the government and offers its basic services to users at no cost.

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, 2017.

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, 2017

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:

Furniture 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, 2017

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. During the year ended June 30, 2017, the Organization benefited from donated legal services from Pro Bono Partnerships valued at \$126,792, donated website design from Camber Collective of \$84,000 and donated consulting services from Intentional Futures valued at \$33,838 (see Note 10).

These services are recognized as donated professional fees on the statement of activities and included within professional fees on the statement of functional expenses.

Donated advertising

During the year ended June 30, 2017, 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 \$41,000 in In-Kind AdWords advertising every month.

During the year ended June 30, 2017, the Organization received a total of 428,266 ad clicks with a total value of \$453,893. In addition, the Organization also received \$4,973 of other donated advertising and recognized the contributions on the statement of activities and also as Outreach and education expense on the statement of functional expenses totaling \$458,866.

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.

Uncertain tax positions

As of June 30, 2017, 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 2013 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, 2017.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017:

	Cost	Fair value
Mutual funds:		
Diversified Balanced Mutual Fund	\$1,764,931	\$1,849,557

The following schedule summarizes the investment return and its classification in the statement of activities at June 30, 2017:

Investments:		
Interest and dividends		\$ 32,986
Net realized and unrealized gain on investments		176,962
		209,948
Cash:		
Interest		1,194
		\$ 211,142

CHARITY NAVIGATOR

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Diversified Balanced Mutual Fund	<u>\$ 1,849,557</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,849,557</u>

5. Contributions receivable

All contributions receivable are expected to be collected within one year and are recorded at their net realizable value.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

6. Property and equipment

Property and equipment consists of the following at June 30, 2017:

Furniture	\$ 24,963
Equipment	71,806
Leasehold improvements	<u>22,421</u>
	119,190
Less accumulated depreciation	<u>71,453</u>
	<u>\$ 47,737</u>

Depreciation expense for the year ended June 30, 2017 was \$18,880.

7. Lease commitments

Office lease

The Organization entered into a six year lease expiring May 31, 2019. The monthly rent payments are approximately \$5,150 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 rent payments for the subsequent years are as follows:

Year ending June 30:	
2018	\$ 63,146
2019	<u>58,943</u>
	<u>\$ 122,089</u>

Rent expense for the year ended June 30, 2017 was \$61,908.

Copier lease

The Organization entered into a four year lease expiring June 19, 2018. The monthly lease payments are \$164. Minimum lease payments for the subsequent years are as follows:

Year ending June 30:	
2018	<u>\$ 1,968</u>

Lease expense for the year ended June 30, 2017 was \$1,968.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 year ended June 30, 2017 was \$45,318.

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

Temporarily restricted net assets are available for the following purposes at June 30, 2017:

Change management consultant	\$ <u>32,667</u>
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Temporarily restricted net assets were released from donor restrictions for the following purposes at June 30, 2017:

Change management consultant	\$ 42,333
CEO compensation study	500
Time restricted	100,000
Website design	30,000
Strategic planning	10,000
Rate new charities	<u>13,000</u>
	<u>\$ 195,833</u>

10. Related party transaction

The Organization received professional services from Intentional Futures, a consulting firm in which a member of the Organization's Board of Directors is the managing partner. During the year ended June 30, 2017, the Organization paid \$41,917 for these professional services and, in addition, received in-kind donated services valued at \$33,838.

11. 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.

12. Significant source of support

The Organization received approximately 13% of its total support and other revenues from one contributor during the year ended June 30, 2017.

13. Subsequent events

Subsequent events have been evaluated through November 21, 2017, which is the date the financial statements were available to be issued.