



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2018 AND 2017***

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 13

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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, 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, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

November 5, 2018

CHARITY NAVIGATOR
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2018	2017
Cash and cash equivalents (Notes 1 and 2)	\$ 1,603,858	\$ 1,436,425
Investments (Notes 1, 2, 3 and 4)	1,976,983	1,849,557
Contributions receivable (Notes 1 and 5)	151,547	3,195
Prepaid expenses	42,390	57,239
Security deposits	9,707	9,707
Property and equipment, net (Notes 1 and 6)	40,465	47,737
 Total assets	 \$ 3,824,950	 \$ 3,403,860

LIABILITIES AND NET ASSETS

Accounts payable	\$ 100,330	\$ 61,051
Accrued expenses	199,643	205,070
Deferred revenue		1,333
 Total liabilities	 299,973	 267,454
 Net assets (Note 1):		
Unrestricted	3,114,543	3,103,739
Temporarily restricted (Note 9)	410,434	32,667
 Total net assets	 3,524,977	 3,136,406
 Total liabilities and net assets	 \$ 3,824,950	 \$ 3,403,860

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

CHARITY NAVIGATOR

STATEMENTS OF ACTIVITIES

	Year ended June 30, 2018		Year ended June 30, 2017	
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted
Support (Note 1):				
Contributions and support:				
Founders and board members	\$ 72,976	\$	\$ 81,412	\$
Individuals	3,183,143	3,183,143	2,969,825	2,969,825
Foundations	67,600	416,547	125,000	128,000
Donated professional fees and services	265,673		244,630	244,630
Donated advertising	410,451		458,866	458,866
Gifts in-kind - goods			3,667	3,667
Total contributions and support	3,999,843	416,547	3,883,400	128,000
Other revenues:				
Other income:				
Data sale	40,585		48,608	48,608
Speaking fee	1,500		6,139	6,139
Investment income	127,949		211,142	211,142
Total other revenues	170,034		265,889	265,889
Net assets released from restrictions	38,780	(38,780)	195,833	(195,833)
Total support and other revenues	4,208,657	377,767	4,345,122	(67,833)
Expenses:				
Program services:				
Charity ratings	3,206,589		2,754,424	
Total program services	3,206,589		2,754,424	
Supporting services:				
General and administration	397,383		523,882	523,882
Development and fundraising	593,881		565,960	565,960
Total supporting services	991,264		1,089,842	1,089,842
Total expenses	4,197,853		3,844,266	3,844,266
Change in net assets	10,804	377,767	500,856	(67,833)
Net assets, beginning of year	3,103,739	32,667	2,602,883	100,500
Net assets, end of year	\$ 3,114,543	\$ 410,434	\$ 3,103,739	\$ 32,667
				\$ 3,136,406

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

CHARITY NAVIGATOR
STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 388,571	\$ 433,023
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Stock donations	(655,011)	(702,889)
Depreciation	17,816	18,880
Loss on disposal of asset		1,173
Realized and unrealized gain on investments	(73,872)	(176,962)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Contribution receivable	(148,352)	103,855
Prepaid expenses	14,849	(33,187)
Increase (decrease) in:		
Accounts payable	39,279	16,897
Accrued expenses	(5,427)	125,073
Deferred revenue	(1,333)	668
Net cash used by operating activities	(423,480)	(213,469)
Cash flows from investing activities:		
Purchase of securities	(132,553)	(38,653)
Proceeds from sale of investments	734,010	705,783
Purchase of property and equipment	(10,544)	(10,842)
Net cash provided by investing activities	590,913	656,288
Net increase in cash and cash equivalents	167,433	442,819
Cash and cash equivalents, beginning of year	1,436,425	993,606
Cash and cash equivalents, end of year	\$ 1,603,858	\$ 1,436,425

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

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 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 11 million visits to its website during the year ended June 30, 2018, 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, 2018 and 2017.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

1. Summary of significant accounting policies (continued)

Cash and cash equivalents

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

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:

Software	3 - 5 years
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, 2018 and 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, 2018, the Organization benefited from donated legal services from Pro Bono Partnerships valued at \$175,033, donated consulting services from a technology company of \$640, donated cloud computing services from Amazon valued at \$65,000, and a donated survey of the Charity Navigator active user base to learn more about donation behavior from Nielson valued at \$25,000. 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 and services on the statement of activities and included within professional fees and contracted services on the statement of functional expenses.

Donated advertising

During the years ended June 30, 2018 and 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, by 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 years ended June 30, 2018 and 2017, the Organization received a total of 370,734 and 428,266 ad clicks with a total value of \$405,478 and \$453,893, respectively. In addition, in each of the years ended June 30, 2018 and 2017, the Organization received \$4,973 of other donated advertising. The Organization recognized the contributions on the statement of activities and also as Outreach and education expense on the statement of functional expenses, totaling \$410,451 and \$458,866 for the years ended June 30, 2018 and 2017, respectively.

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, 2018, 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 2014 are closed.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of significant accounting policies (continued)

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, 2018 and 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:

	2018		2017	
	Cost	Fair value	Cost	Fair value
Mutual funds:				
Diversified Balanced Mutual Fund	\$ 1,896,435	\$ 1,976,983	\$ 1,764,931	\$ 1,849,557

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

	2018	2017
Investments:		
Interest and dividends	\$ 53,442	\$ 32,986
Net realized and unrealized gain on investments	73,872	176,962
	127,314	209,948
Cash:		
Interest	635	1,194
	\$ 127,949	\$ 211,142

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Diversified Balanced Mutual Fund	<u>\$ 1,976,983</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,976,983</u>

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, 2018 and 2017

6. Property and equipment

Property and equipment consists of the following at June 30:

	2018	2017
Furniture	\$ 24,963	\$ 24,963
Software	6,050	
Equipment	76,300	71,806
Leasehold improvements	22,421	22,421
	129,734	119,190
Less accumulated depreciation	89,269	71,453
	\$ 40,465	\$ 47,737

Depreciation expense for the year ended June 30, 2018 and 2017 was \$17,816 and \$18,880, respectively.

7. Lease commitments

Office lease

The Organization entered into a six year lease expiring May 31, 2019. The monthly rent payments are approximately \$5,358. 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:	
2019	\$ 58,943
	\$ 58,943

Rent expense for the years ended June 30, 2018 and 2017 was \$63,146 and \$61,908, respectively.

Copier lease

The Organization entered into a four year lease expiring August 2022. The monthly lease payments are \$196. Minimum lease payments for the subsequent years are as follows:

Year ending June 30:	
2019	\$ 1,958
2020	2,349
2021	2,349
2022	390
	\$ 7,046

Lease expense for the year ended June 30, 2018 and 2017 was \$1,968 and \$1,968, respectively.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 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 years ended June 30, 2018 and 2017 was \$42,182 and \$45,318, respectively.

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

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

	2018	2017
Change management consultant	\$	\$ 32,667
Testing impact evaluation methodologies	400,547	
Rate new charities	9,887	
	\$ 410,434	\$ 32,667

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

	2018	2017
Change management consultant	\$ 32,667	\$ 42,333
CEO compensation study		500
Time restricted		100,000
Website design		30,000
Strategic planning		10,000
Rate new charities	6,113	13,000
	\$ 38,780	\$ 195,833

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, 2018, the Organization did not receive professional services from Intentional Futures. 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.

CHARITY NAVIGATOR
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 22% of its total support and other revenues from two contributors during the year ended June 30, 2018. 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 5, 2018, which is the date the financial statements were available to be issued.