



***FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORT  
YEARS ENDED NOVEMBER 30, 2012 AND 2011***

## CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 11
Supplementary Information:	
Schedules of Functional Expenses	12

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Charity Navigator as of November 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Charity Navigator as of November 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Dorfman Abrams Music, LLC*

Saddle Brook, New Jersey

February 27, 2013



CHARITY NAVIGATOR  
STATEMENTS OF FINANCIAL POSITION

ASSETS

	November 30,	
	2012	2011
Cash and cash equivalents (Notes 1 and 2)	\$ 933,174	\$ 1,294,479
Investments (Note 3)	1,384,387	847,076
Accounts receivable (Note 1)	69,764	51,389
Prepaid expenses	7,148	4,307
Security deposits	4,028	4,028
Furniture and equipment, net (Notes 1 and 4)	16,576	4,964
Total assets	\$ 2,415,077	\$ 2,206,243

LIABILITIES AND NET ASSETS

Accounts payable	\$ 63,501	\$ 50,099
Total liabilities	63,501	50,099
Net assets (Note 1):		
Unrestricted	2,251,576	2,117,248
Temporarily restricted (Note 7)	100,000	38,896
Total net assets	2,351,576	2,156,144
Total liabilities and net assets	\$ 2,415,077	\$ 2,206,243

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

CHARITY NAVIGATOR  
STATEMENTS OF ACTIVITIES

	Year ended November 30, 2012			Year ended November 30, 2011		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Support (Note 1):						
Contributions:						
Founders and board	\$ 199,486	\$	\$ 199,486	\$ 224,009	\$	\$ 224,009
Individual	577,606		577,606	530,957		530,957
Foundation	59,726	291,309	351,035	103,039	192,018	295,057
Total support	<u>836,818</u>	<u>291,309</u>	<u>1,128,127</u>	<u>858,005</u>	<u>192,018</u>	<u>1,050,023</u>
Revenue:						
Program service fees:						
Advertising	124,459		124,459	99,021		99,021
Data sale	23,747		23,747	23,820		23,820
Consulting	11,800		11,800	1,000		1,000
Speaking fee	9,500		9,500			
Other				2,868		2,868
Investment income	87,756		87,756	10,601		10,601
Total revenue	<u>257,262</u>		<u>257,262</u>	<u>137,310</u>		<u>137,310</u>
Net assets released from restrictions	<u>230,205</u>	<u>(230,205)</u>		<u>1,671,587</u>	<u>(1,671,587)</u>	
Total support and revenues	<u>1,324,285</u>	<u>61,104</u>	<u>1,385,389</u>	<u>2,666,902</u>	<u>(1,479,569)</u>	<u>1,187,333</u>
Expenses:						
Program services	897,604		897,604	824,216		824,216
Total program services	<u>897,604</u>		<u>897,604</u>	<u>824,216</u>		<u>824,216</u>
Supporting services:						
General and administration	142,288		142,288	108,320		108,320
Development and fundraising	150,065		150,065	157,995		157,995
Total supporting services	<u>292,353</u>		<u>292,353</u>	<u>266,315</u>		<u>266,315</u>
Total expenses	<u>1,189,957</u>		<u>1,189,957</u>	<u>1,090,531</u>		<u>1,090,531</u>
Change in net assets	134,328	61,104	195,432	1,576,371	(1,479,569)	96,802
Net assets, beginning of year	<u>2,117,248</u>	<u>38,896</u>	<u>2,156,144</u>	<u>540,877</u>	<u>1,518,465</u>	<u>2,059,342</u>
Net assets, end of year	<u>\$ 2,251,576</u>	<u>\$ 100,000</u>	<u>\$ 2,351,576</u>	<u>\$ 2,117,248</u>	<u>\$ 38,896</u>	<u>\$ 2,156,144</u>

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

CHARITY NAVIGATOR  
STATEMENTS OF CASH FLOWS

	Year ended November 30,	
	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 195,432	\$ 96,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,965	3,131
Unrealized gain on securities	(53,009)	(10,441)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(18,375)	(13,128)
Pledges receivable		1,513,065
Prepaid expenses	(2,841)	569
Increase in:		
Accounts payable	13,402	35,941
Net cash provided by operating activities	136,574	1,625,939
Cash flows from investing activities:		
Purchase of securities	(484,302)	(836,635)
Purchase of property and equipment	(13,577)	
Net cash used by investing activities	(497,879)	(836,635)
Net increase (decrease) in cash and cash equivalents	(361,305)	789,304
Cash and cash equivalents, beginning	1,294,479	505,175
Cash and cash equivalents, ending	\$ 933,174	\$ 1,294,479

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

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

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 2001 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 took its first step towards that goal in January 2013 when it publicly released its new methodology for measuring Results Reporting.

The Organization provides charity ratings so that charitable givers and social investors can make intelligent giving decisions, and so that the nonprofit sector can improve its performance. The Organization had over 6 million visits to its website during the year ended November 30, 2012, 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.

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 November 30, 2012 or 2011.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

1. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist primarily of demand deposit, money market and savings 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 balance sheet.

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.

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.

Furniture 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 - 7 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. 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 schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentrations

The Organization received approximately 15% and 19% of its support from a single donor for the years ended November 30, 2012 and 2011, respectively.



CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

1. Summary of significant accounting policies (continued)

Income taxes

Founded as a private operating foundation, the Organization made an application to the Internal Revenue Service to be classified as a public charity instead of a private operating foundation and was informed by the Internal Revenue Service that the Organization will be treated as a public charity for an advance ruling period of 60 months beginning December 1, 2007 and ending November 30, 2012. Upon submission of Schedule A to the IRS in February 2013 establishing that the Organization meets the 'support test,' the Organization shall complete its transition to public charity status and shall operate as such moving forward.

Uncertain tax positions

As of November 30, 2012, management believes that based on evaluation of the Organization's tax positions that any additional 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 2009 are closed.

Allowance for doubtful accounts

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. As of November 30, 2012 and 2011, the Organization determined that an allowance was not necessary.

2. Risk and uncertainties

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents and investments in fixed income securities. The Organization maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Cash equivalents are maintained at brokerage institutions. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions and insured brokerage houses.

CHARITY NAVIGATOR

NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

3. 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 School 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.

Investment securities are carried at fair value based on quoted prices in active markets (all level 1 measurements) and consist of the following at November 30, 2012 and 2011:

	2012		2011	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Mutual funds	<u>\$ 1,319,535</u>	<u>\$ 1,384,387</u>	<u>\$ 836,635</u>	<u>\$ 847,076</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended November 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments:		
Interest and dividends	\$ 34,709	\$ 118
Net realized and unrealized gain on investments	<u>53,009</u>	<u>10,441</u>
	87,718	10,559
Cash:		
Interest	<u>38</u>	<u>42</u>
	<u>\$ 87,756</u>	<u>\$ 10,601</u>

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

4. Furniture and equipment

At November 30, furniture and equipment consists of the following:

	2012	2011
Furniture	\$ 129,509	\$ 129,509
Equipment	60,838	47,261
	190,347	176,770
Less accumulated depreciation	173,771	171,806
	\$ 16,576	\$ 4,964

Depreciation expense for the years ended November 30, 2012 and 2011 was \$1,965 and \$3,131, respectively.

5. Lease commitment

Office

The Organization entered into a five year lease expiring June 30, 2015. The monthly rent payments are approximately \$2,000 per month with a 2% increase each year. Additionally, the Organization is responsible for a proportionate share of building operating expenses. Minimum lease payments for the subsequent years are as follows:

Year ending November 30:	
2013	\$ 25,353
2014	25,860
2015	15,260
	\$ 66,473

Rent expense for the years ended November 30, 2012 and 2011 was \$26,221 and \$27,312, respectively. The Organization is currently in negotiations to lease a larger space on the first floor of the building where they are currently occupying office space on the second floor. As of February 27, 2013, the Organization and the lessor have not finalized the terms of the lease.

Copier lease

The Organization entered into a three year lease expiring June 30, 2014. The monthly lease payments are \$221. Minimum lease payments for the subsequent years are as follows:

Year ending November 30:	
2013	\$ 2,653
2014	1,769
	\$ 4,422

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

6. 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 November 30, 2012 and 2011 was \$21,802 and \$19,613, respectively.

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

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Business plan consulting	\$	\$ 18,896
API development		20,000
Development of CN 3.0 methodology	<u>100,000</u>	
	<u>\$ 100,000</u>	<u>\$ 38,896</u>

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

	<u>2012</u>	<u>2011</u>
Restricted by time	\$	\$ 1,513,065
Create pilot for student rating platform		5,400
Rate new charities	26,790	12,500
Create a business plan	23,896	11,105
Development of a three-dimensional rating system	155,000	100,000
Perform market tests	2,519	7,557
Produce NYU/CN forum		21,960
API development	<u>22,000</u>	
	<u>\$ 230,205</u>	<u>\$ 1,671,587</u>

8. Employment agreement

The Organization has an employment agreement with its President and CEO. Employment under this agreement originally was a two-year term from January 1, 2010 through December 31, 2011, and was extended through December 31, 2013. The agreement is automatically extended for additional one year terms unless either party notifies the other in writing 90 days prior to December 31, 2012 or any subsequent anniversary thereof.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2012 and 2011

9. Unrelated business income taxes

The Organization's newsletter advertising produces minimal amounts of unrelated business income. The Organization incurred \$504 and \$178 of federal tax liability from unrelated business income for the years ended November 30, 2012 and 2011, respectively.

10. Subsequent events

Subsequent events have been evaluated through February 27, 2013, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

CHARITY NAVIGATOR

SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended November 30, 2012 and 2011

	Program services expenses		Supporting services expenses				Total		Total program and supporting services expenses	
	2012	2011	General and administration		Development and fundraising		2012	2011	2012	2011
			2012	2011	2012	2011				
Salaries and wages	\$ 542,893	\$ 521,552	\$ 57,029	\$ 57,714	\$ 86,525	\$ 105,222	\$ 143,554	\$ 162,936	\$ 686,447	\$ 684,488
Payroll taxes	46,914	41,032	4,054	4,859	6,950	8,099	11,004	12,958	57,918	53,990
Fringe benefits	91,324	74,194	8,906	8,786	11,587	14,643	20,493	23,429	111,817	97,623
Professional fees	9,453		24,720	17,456			24,720	17,456	34,173	17,456
Bank fees			1,998	3,504			1,998	3,504	1,998	3,504
Contracted services	134,833	116,584	26,257		2,000		28,257		163,090	116,584
Depreciation			1,965	3,131			1,965	3,131	1,965	3,131
Equipment maintenance			3,029	3,652			3,029	3,652	3,029	3,652
Insurance	11,700	8,456	1,011	1,001	1,733	1,669	2,744	2,670	14,444	11,126
Marketing costs		60	771				771		771	60
Meetings and conferences		1,845	499	396		1,961	499	2,357	499	4,202
Miscellaneous expense		453		70		257		327		780
Occupancy	23,290	23,488	2,013	2,458	3,450	1,366	5,463	3,824	28,753	27,312
Office supplies and expenses	4,470	4,738	5,847	2,225	11,665	1,507	17,512	3,732	21,982	8,470
Postage and shipping	18	55	319	102	11,045	5,695	11,364	5,797	11,382	5,852
Printing and publication		685	484	760	9,355	7,348	9,839	8,108	9,839	8,793
Staff training and development	80	230			149		149		229	230
Registration fees			322		3,542	3,767	3,864	3,767	3,864	3,767
Taxes			397	509			397	509	397	509
Telephone and cable	8,707	7,571	686	896	1,175	1,494	1,861	2,390	10,568	9,961
Travel and transportation	8,619	6,383	1,151	232	593	3,449	1,744	3,681	10,363	10,064
Website related costs	15,303	16,890	830	569	296	1,518	1,126	2,087	16,429	18,977
	<u>\$ 897,604</u>	<u>\$ 824,216</u>	<u>\$ 142,288</u>	<u>\$ 108,320</u>	<u>\$ 150,065</u>	<u>\$ 157,995</u>	<u>\$ 292,353</u>	<u>\$ 266,315</u>	<u>\$ 1,189,957</u>	<u>\$ 1,090,531</u>