



***FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORT  
YEARS ENDED NOVEMBER 30, 2011 AND 2010***

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## 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, 2011 and 2010, 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, 2011 and 2010, 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

March 27, 2012



Member of JHI International

CHARITY NAVIGATOR  
STATEMENTS OF FINANCIAL POSITION

ASSETS

	November 30,	
	2011	2010
Cash and cash equivalents (Notes 1 and 2)	\$ 1,280,612	\$ 505,175
Investments	847,076	
Accounts receivable (Note 1)	65,256	38,261
Pledges receivable (Notes 1 and 4)		1,513,065
Prepaid expenses	4,307	4,876
Security deposits	4,028	4,028
Furniture and equipment, net (Notes 1 and 5)	4,964	8,095
	<u>\$ 2,206,243</u>	<u>\$ 2,073,500</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 50,099	\$ 14,158
	<u>50,099</u>	<u>14,158</u>
Net assets (Note 1):		
Unrestricted	2,117,248	540,877
Temporarily restricted (Note 8)	38,896	1,518,465
	<u>2,156,144</u>	<u>2,059,342</u>
Total liabilities and net assets	<u>\$ 2,206,243</u>	<u>\$ 2,073,500</u>

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

CHARITY NAVIGATOR

STATEMENTS OF ACTIVITIES

	Year ended November 30, 2011		Year ended November 30, 2010	
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted
<b>Support (Note 1):</b>				
Contributions:				
Founders and board	\$ 224,009	\$ 224,009	\$ 607,150	\$ 1,513,065
Individual	530,957	530,957	483,057	483,057
Foundation	103,039	295,057	3,000	117,500
Total support	858,005	1,050,023	1,093,207	1,630,565
Revenue:				
Program service fees:				
Advertising	99,021	99,021	110,627	110,627
Data sale	23,820	23,820	15,538	15,538
Consulting	1,000	1,000	1,405	1,405
Other	2,868	2,868	4,713	4,713
Investment income	10,601	10,601		
Total revenue	137,310	137,310	132,283	132,283
Net assets released from restrictions	1,671,587	(1,671,587)	112,100	(112,100)
Total support and revenues	2,666,902	1,187,333	1,337,590	1,518,465
Expenses:				
Program services	824,216	824,216	835,047	835,047
Total program services	824,216	824,216	835,047	835,047
Supporting services:				
General and administration	108,320	108,320	103,776	103,776
Development and fundraising	157,995	157,995	52,726	52,726
Total supporting services	266,315	266,315	156,502	156,502
Total expenses	1,090,531	1,090,531	991,549	991,549
Change in net assets	1,576,371	(1,479,569)	346,041	1,518,465
Net assets, beginning of year	540,877	2,059,342	194,836	194,836
Net assets, end of year	\$ 2,117,248	\$ 2,156,144	\$ 540,877	\$ 1,518,465

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

CHARITY NAVIGATOR  
STATEMENTS OF CASH FLOWS

	Year ended November 30,	
	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 96,802	\$ 1,864,506
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,131	3,897
Loss on abandonment of leasehold improvements		5,287
Unrealized gain on securities	(10,441)	
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(26,995)	(29,903)
Pledges receivable	1,513,065	(1,513,065)
Prepaid expenses	569	8,199
Security deposits		6,612
Increase in:		
Accounts payable	35,941	6,531
Net cash provided by operating activities	1,612,072	352,064
Cash flows from investing activities:		
Purchase of securities	(836,635)	
Purchase of property and equipment		(6,000)
Net cash used by investing activities	(836,635)	(6,000)
Net increase in cash and cash equivalents	775,437	346,064
Cash and cash equivalents, beginning	505,175	159,111
Cash and cash equivalents, ending	\$ 1,280,612	\$ 505,175

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

## CHARITY NAVIGATOR

### NOTES TO FINANCIAL STATEMENTS

November 30, 2011 and 2010

#### 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. Since its inception, the Organization's team of professional analysts has examined tens of thousands of non-profit financial documents. As a result, they know as much about the true fiscal operations of charities as anyone. The Organization has used this knowledge to develop an unbiased, objective, numbers-based rating system to assess the financial health and accountability/transparency of over 5,000 of America's best-known charities. Charity Navigator's rating system examines two broad areas of a charity's financial health - how responsibly it functions day to day, as well as how well positioned it is to sustain its programs over time. Its accountability/transparency standards examine whether or not the charity follows good governance and other best practices, as well as how open the charity is with information to its donors and other key stakeholders. Each charity is then awarded an overall rating, ranging from zero to four stars. To help donors avoid becoming victims of mailing-list appeals, each charity's commitment to keeping donors' personal information confidential is assessed. The ratings are available on the Organization's website, which is easily navigable by charity name, location or type of activity and also features opinion pieces by Charity Navigator experts, donation tips, and top 10 and bottom 10 lists, which rank efficient and inefficient organizations in a number of categories. The Organization does not receive any contributions from any charities it evaluates and offers its basic services to users at no cost. The Organization had over 3 million distinct visitors to its website during the year ended November 30, 2011, and estimates that it impacts billions of dollars of charitable giving decisions each year.

##### 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, 2011 or 2010.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2011 and 2010

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.



## CHARITY NAVIGATOR

### NOTES TO FINANCIAL STATEMENTS

November 30, 2011 and 2010

1. Summary of significant accounting policies (continued)

Concentrations

The Organization received approximately 19% and 70% of its support from a single donor for the years ended November 30, 2011 and 2010, respectively.

Income taxes

The Organization is a private operating foundation exempt from federal income taxes pursuant to Section 501(c)(3) of the United States Internal Revenue Code and to the extent applicable subject to an excise tax on net investment income. The Organization has 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.

Uncertain tax positions

As of November 30, 2011, 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 2008 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, 2011 and 2010, 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, 2011 and 2010

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, 2011 and 2010:

	2011		2010	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Mutual funds	<u>\$ 836,635</u>	<u>\$ 847,076</u>	<u>\$</u>	<u>\$</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended November 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Investments:		
Interest and dividends	\$ 118	\$
Net realized and unrealized gain on investments	<u>10,441</u>	<u></u>
	10,559	
Cash:		
Interest	<u>42</u>	<u></u>
	<u>\$ 10,601</u>	<u>\$</u>

CHARITY NAVIGATOR  
 NOTES TO FINANCIAL STATEMENTS  
 November 30, 2011 and 2010

4. Pledges receivable

Pledges receivable at November 30 consist of the following:

	2011	2010
Due in one year to support the ongoing operations of the Organization	<u>\$</u>	<u>\$1,513,065</u>

The pledge was collected in December 2010 and the amount was released to unrestricted net assets.

5. Furniture and equipment

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

	2011	2010
Furniture	\$ 129,509	\$ 129,509
Equipment	47,261	47,261
	176,770	176,770
Less accumulated depreciation	171,806	168,675
	\$ 4,964	\$ 8,095

Depreciation expense for the years ended November 30, 2011 and 2010 was \$3,131 and \$3,897, respectively.

6. 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:	
2012	\$ 24,856
2013	25,353
2014	25,860
2015	15,260
	\$ 91,329

Rent expense for the years ended November 30, 2011 and 2010 was \$27,312 and \$45,841, respectively.

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS

November 30, 2011 and 2010

6. Lease commitment (continued)

Copier lease

The Organization entered into a three year lease expiring June 30, 2013. The monthly lease payments are \$221. Minimum lease payments for the subsequent years are as follows:

Year ending November 30:		
2012	\$	2,653
2013		2,653
2014		<u>1,769</u>
	<u>\$</u>	<u>7,075</u>

7. 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, 2011 and 2010 was \$19,613 and \$16,208, respectively.

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

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Business plan consulting	\$ 18,896	\$
API development	20,000	
Restricted by time		1,513,065
Student rating project		<u>5,400</u>
	<u>\$ 38,896</u>	<u>\$ 1,518,465</u>

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

	2011	2010
Restricted by time	\$ 1,513,065	\$
Create pilot for student rating platform	5,400	69,600
Develop a strategic plan		40,000
Rate new charities	12,500	2,500
Create a business plan	11,105	
Development of a three-dimensional rating system	100,000	
Perform market tests	7,557	
Produce NYU/CN forum	<u>21,960</u>	
	<u>\$ 1,671,587</u>	<u>\$ 112,100</u>

CHARITY NAVIGATOR  
NOTES TO FINANCIAL STATEMENTS  
November 30, 2011 and 2010

9. 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, which got extended through December 31, 2012. The agreement automatically gets extended for one year unless either party notifies the other in writing 90 days prior to December 31, 2012 or any subsequent anniversary thereof.

10. Unrelated business income taxes

The Organization's newsletter advertising produces minimal amounts of unrelated business income. The Organization incurred \$178 and \$271 of federal tax liability from unrelated business income for the years ended November 30, 2011 and 2010, respectively.

11. Subsequent events

Subsequent events have been evaluated through March 27, 2012, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

CHARITY NAVIGATOR

SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended November 30, 2011 and 2010

	Program services expenses		General and administration		Supporting services expenses Development and fundraising		Total		Total program and supporting services expenses	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Salaries and wages	\$ 521,552	\$ 532,622	\$ 57,714	\$ 55,332	\$ 105,222	\$ 31,825	\$ 162,936	\$ 87,157	\$ 684,488	\$ 619,779
Payroll taxes	41,032	36,528	4,859	3,823	8,099	2,124	12,958	5,947	53,990	42,475
Fringe benefits	74,194	71,382	8,786	7,470	14,643	4,150	23,429	11,620	97,623	83,002
Professional fees		8,313	17,456	11,892			17,456	11,892	17,456	20,205
Bank fees			3,504	5,177			3,504	5,177	3,504	5,177
Contracted services	116,584	103,948		1,500				1,500	116,584	105,448
Depreciation			3,131	3,897			3,131	3,897	3,131	3,897
Equipment maintenance			3,652	4,116			3,652	4,116	3,652	4,116
Insurance	8,456	3,053	1,001	740	1,669	411	2,670	1,151	11,126	4,204
Marketing costs	60	95						60	60	95
Meetings and conferences	1,845	524	396	458	1,961		2,357	459	4,202	983
Miscellaneous expense	453	1,505	70	118	257	86	327	204	780	1,709
Occupancy	23,488	39,423	2,458	4,126	1,366	2,292	3,824	6,418	27,312	45,841
Office supplies and expenses	4,738	10,861	2,225	2,041	1,507	1,162	3,732	3,203	8,470	14,064
Postage and shipping	55	1,335	102	891	5,695	2,227	5,797	3,118	5,852	4,453
Printing and publication	685	911	760	608	7,348	1,520	8,108	2,128	8,793	3,039
Staff training and development	230	92							230	92
Registration fees					3,767	4,108	3,767	4,108	3,767	4,108
Taxes			509	433			509	433	509	433
Telephone and cable	7,571	5,839	896	611	1,494	339	2,390	950	8,961	6,789
Travel and transportation	6,383	8,897	232	214	3,449	1,608	3,661	1,822	10,064	10,719
Websites related costs	16,890	9,719	569	328	1,518	874	2,087	1,202	18,977	10,921
	<u>\$ 824,216</u>	<u>\$ 835,047</u>	<u>\$ 108,320</u>	<u>\$ 103,776</u>	<u>\$ 157,995</u>	<u>\$ 52,726</u>	<u>\$ 266,315</u>	<u>\$ 156,502</u>	<u>\$ 1,090,531</u>	<u>\$ 991,548</u>