



# **Environmental Working Group**

## **Financial Statements**

*For the Years Ended December 31, 2015 and 2014*



**and  
Report Thereon**





*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Environmental Working Group

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Environmental Working Group, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows 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.

### ***Auditor's Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 the Environmental Working Group as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Raffa, P.C.*

**Raffa, P.C.**

Washington, DC  
September 8, 2016

**ENVIRONMENTAL WORKING GROUP**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2015 and 2014**

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,125,645	\$ 2,312,588
Due from related entities	244,776	150,286
Prepaid expenses	262,769	112,984
Grants and contributions receivable	1,822,220	1,118,815
Investments	2,021,220	1,653,973
Property and equipment, net	391,626	337,060
<b>TOTAL ASSETS</b>	<b>\$ 6,868,256</b>	<b>\$ 5,685,706</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 693,858	\$ 442,146
Security deposit	7,607	7,607
Deferred rent and leasehold allowances	17,424	43,073
<b>TOTAL LIABILITIES</b>	<b>718,889</b>	<b>492,826</b>
<b>Net Assets</b>		
Unrestricted	3,106,009	2,613,470
Temporarily restricted	3,043,358	2,579,410
<b>TOTAL NET ASSETS</b>	<b>6,149,367</b>	<b>5,192,880</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,868,256</b>	<b>\$ 5,685,706</b>

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

**ENVIRONMENTAL WORKING GROUP**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended December 31, 2015 and 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>						
Grants and contributions	\$ 6,964,410	\$ 4,398,093	\$ 11,362,503	\$ 6,346,631	\$ 3,560,190	\$ 9,906,821
Special events	583,863	-	583,863	405,133	-	405,133
Contribution received in the acquisition of HCHW	-	-	-	-	160,473	160,473
Administrative and consulting fees	890,112	-	890,112	138,020	-	138,020
In-kind contributions	768,937	-	768,937	117,310	-	117,310
Other income	43,726	-	43,726	27,922	-	27,922
Investment income	7,354	-	7,354	4,607	-	4,607
Net assets released from restrictions:						
Satisfaction of program restrictions	3,534,145	(3,534,145)	-	2,459,809	(2,459,809)	-
Satisfaction of time restrictions	400,000	(400,000)	-	400,000	(400,000)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>13,192,547</b>	<b>463,948</b>	<b>13,656,495</b>	<b>9,899,432</b>	<b>860,854</b>	<b>10,760,286</b>
<b>EXPENSES</b>						
Program Services:						
Water and agriculture	3,342,558	-	3,342,558	3,467,012	-	3,467,012
Toxics and human health	3,832,165	-	3,832,165	2,010,641	-	2,010,641
Healthy child healthy world	2,020,489	-	2,020,489	190,134	-	190,134
Energy	-	-	-	162,546	-	162,546
Natural resources	283,547	-	283,547	112,747	-	112,747
<b>Total Program Services</b>	<b>9,478,759</b>	<b>-</b>	<b>9,478,759</b>	<b>5,943,080</b>	<b>-</b>	<b>5,943,080</b>
Supporting Services:						
Fundraising - other	1,573,834	-	1,573,834	1,453,500	-	1,453,500
Administrative services	1,241,732	-	1,241,732	960,296	-	960,296
Fundraising - cost of direct benefit to donor	405,683	-	405,683	356,856	-	356,856
<b>TOTAL EXPENSES</b>	<b>12,700,008</b>	<b>-</b>	<b>12,700,008</b>	<b>8,713,732</b>	<b>-</b>	<b>8,713,732</b>
<b>CHANGE IN NET ASSETS</b>	<b>492,539</b>	<b>463,948</b>	<b>956,487</b>	<b>1,185,700</b>	<b>860,854</b>	<b>2,046,554</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>2,613,470</b>	<b>2,579,410</b>	<b>5,192,880</b>	<b>1,427,770</b>	<b>1,718,556</b>	<b>3,146,326</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 3,106,009</b>	<b>\$ 3,043,358</b>	<b>\$ 6,149,367</b>	<b>\$ 2,613,470</b>	<b>\$ 2,579,410</b>	<b>\$ 5,192,880</b>

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

**ENVIRONMENTAL WORKING GROUP**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2015 and 2014**  
**Increase (Decrease) in Cash and Cash Equivalents**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 956,487	\$ 2,046,554
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	141,943	82,163
Property and equipment received from HCHW	-	(44,263)
Net realized and unrealized losses	1,744	3,494
Changes in assets and liabilities:		
Due from related entities	(94,490)	(5,888)
Prepaid expenses and deposits	(149,785)	36,251
Grants and contributions receivable	(703,405)	165,909
Accounts payable and accrued expenses	251,712	75,062
Security deposit	-	7,607
Deferred rent and leasehold allowances	(25,649)	(14,351)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>378,557</b>	<b>2,352,538</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(196,509)	(250,667)
Proceeds from sales of investments	1,644,345	986,531
Purchases of investments	(2,013,336)	(1,996,597)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(565,500)</b>	<b>(1,260,733)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(186,943)</b>	<b>1,091,805</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,312,588</b>	<b>1,220,783</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,125,645</b>	<b>\$ 2,312,588</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Operating and investing activities:		
EWG acquisition of HCHW:		
Fair value of assets transferred	\$ -	\$ 192,300
Liabilities assumed	-	(31,827)
Contribution received in acquisition of HCHW	\$ -	\$ 160,473
<b>NONCASH TRANSACTIONS</b>		
Noncash investing activities:		
Property and equipment transferred from acquisition of HCHW	\$ -	\$ 44,263

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

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

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#### 1. Organization and Summary of Significant Accounting Policies

##### **Organization**

The Environmental Working Group (EWG) is the nation's most effective environmental health research and advocacy organization whose mission is to conduct original, game-changing research that inspires people, businesses and governments to take action to protect human health and the environment. EWG's areas of emphasis include agriculture, air and water pollution, children's health, the public's right to know, and environmental issues. These activities are funded primarily through grants and contributions.

##### **Basis of Accounting**

EWG's financial statements have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

##### **Cash and Cash Equivalents**

EWG considers all highly liquid investments with maturities of three months or less to be cash equivalents, except for certificates of deposit that have maturities of three months or less, which are held for investment purposes.

##### **Investments**

Investments are composed of mutual funds, equities, bank deposit sweep funds, government bonds and certificates of deposits held for investment purposes as intended by EWG's management. These investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

##### **Fair Value of Financial Instruments**

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States of America (GAAP) and requires disclosures about fair value measurements for assets and liabilities that are measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

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#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **Fair Value of Financial Instruments (continued)**

unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of December 31, 2015 and 2014, only EWG's investments, as described in Note 3 of these financial statements, were measured at fair value on a recurring basis.

##### **Property and Equipment and Related Depreciation and Amortization**

Computer equipment, computer software, and furniture and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives of two to eight years, with no salvage value. Software and website development costs incurred for planning and operating the websites and applications are expensed, whereas costs incurred in developing the applications and infrastructure are capitalized and amortized on a straight-line basis over an estimated useful life of three years. Leasehold improvements are stated at cost and are amortized over the lesser of the life of the asset or the life of the lease. EWG capitalizes all expenditures for property and equipment that are more than \$1,000. Expenditures for major repairs and improvements are capitalized. Expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of the assets, the cost and the accumulated depreciation or amortization are eliminated from the accounts, and the resulting gain or loss is included in the accompanying statements of activities.

##### **Classification of Net Assets**

EWG's net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of EWG's operations and amounts designated by the Board of Directors for special purposes.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

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1. Organization and Summary of Significant Accounting Policies (continued)

#### **Revenue Recognition**

EWG recognizes all unconditional contributed support in the period in which the commitment is made. Grants and contributions are considered unrestricted and available for general operations, unless specifically restricted by the donor. EWG reports grants and contributions of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets for a particular purpose or for a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

#### **In-Kind Contributions**

In-kind contributions are recognized as revenue and expense in the accompanying statements of activities at their estimated fair value at the date of donation.

#### **Contributions of Long-Lived Assets**

EWG's policy is to report contributions of long-lived assets without donor restrictions on the use of the long-lived assets as unrestricted revenue. Contributions of cash or other assets restricted to acquisition of long-lived assets are recorded as temporarily restricted contributions. Once the long-lived assets are acquired and if there are no donor restrictions on the long-lived asset's use, the donor restrictions are considered met and the temporarily restricted net assets are released and reclassified to unrestricted net assets.

#### **Functional Allocation of Expenses**

The costs of the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### **Estimates**

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



## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

#### 2. Grants and Contributions Receivable

As of December 31, 2015 and 2014, EWG had recognized grants and contributions receivable of \$1,822,220 and \$1,118,815, respectively, which were owed from various foundations and individual donors. All amounts are deemed fully collectible. Grants and contributions receivable consisted of amounts due as follows as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ 1,222,220	\$ 1,118,815
Due in one to five years	<u>600,000</u>	<u>-</u>
Total Grants and Contributions Receivable	<u>\$ 1,822,220</u>	<u>\$ 1,118,815</u>

#### 3. Investments

EWG's investments, at fair value, consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fixed income	\$ 1,504,037	\$ 816,834
Bank deposit sweep funds	211,739	544,395
Mutual funds – fixed income	303,372	292,744
Equities	<u>2,072</u>	<u>-</u>
Total Investments	<u>\$ 2,021,220</u>	<u>\$ 1,653,973</u>

Investment income is composed of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 9,098	\$ 8,101
Net realized and unrealized losses	<u>(1,744)</u>	<u>(3,494)</u>
Investment Income, Net	<u>\$ 7,354</u>	<u>\$ 4,607</u>

Included in interest and dividends income is the interest earned on cash and cash equivalents of \$1,182 and \$4,595 for the years ended December 31, 2015 and 2014, respectively.

**ENVIRONMENTAL WORKING GROUP**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2015 and 2014**

3. Investments (continued)

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2015:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed income:				
Certificates of deposit	\$ 1,504,037	\$ -	\$ 1,504,037	\$ -
Bank deposit sweep funds	211,739	211,739	-	-
Mutual funds – fixed income:				
Ultrashort bonds	293,345	293,345	-	-
Large blend	10,027	10,027	-	-
Equities:				
Large value	<u>2,072</u>	<u>2,072</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 2,021,220</u>	<u>\$ 517,183</u>	<u>\$ 1,504,037</u>	<u>\$ -</u>

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2014:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed income:				
Certificates of deposit	\$ 636,994	\$ -	\$ 636,994	\$ -
Government bonds	179,840	-	179,840	-
Bank deposit sweep funds	544,395	544,395	-	-
Mutual fund – fixed income:				
Ultrashort bonds	<u>292,744</u>	<u>292,744</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,653,973</u>	<u>\$ 837,139</u>	<u>\$ 816,834</u>	<u>\$ -</u>

Continued

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

#### 3. Investments (continued)

EWG used the following methods and significant assumptions to estimate fair value for assets recorded at fair value as of December 31, 2015 and 2014:

*Fixed income (certificates of deposit and government bonds)* – Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the creditworthiness of the issuer.

*Bank deposit sweep funds* – Cash held within interest bearing deposit accounts.

*Mutual funds – fixed income* – Valued derived from the net asset value of shares held at year-end and based on quoted market prices in active markets.

*Equities* – Valued at the closing price reported in the active market in which the individual stocks are traded.

#### 4. Property and Equipment

EWG held the following fixed assets as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Computer equipment	\$ 436,101	\$ 379,642
Computer software	373,376	267,140
Leasehold improvements	258,377	258,377
Furniture and equipment	158,345	157,046
Website development costs	<u>143,220</u>	<u>110,705</u>
Total Property and Equipment	1,369,419	1,172,910
Less: Accumulated Depreciation and Amortization	<u>(977,793)</u>	<u>(835,850)</u>
Property and Equipment, Net	<u>\$ 391,626</u>	<u>\$ 337,060</u>

For the years ended December 31, 2015 and 2014, depreciation and amortization expense was \$141,943 and \$82,163, respectively.

#### 5. Commitments and Risks

##### **Office Space**

On January 30, 2009, EWG entered into a noncancelable operating lease for office space, in Washington, D.C., which commenced on August 1, 2009, and is scheduled to end on July 31, 2016. Under the terms of the office space lease, the base rent is \$21,842 per month and provides for 3% annual increases. On July 7, 2011, EWG entered into another office space lease agreement with the same landlord to lease additional office space. The additional office

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## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

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#### 5. Commitments and Risks (continued)

##### **Office Space (continued)**

space lease commenced on September 1, 2011, and is scheduled to expire simultaneously with the old lease on July 31, 2016. The base rent under this new office space lease is \$5,072 per month and provides for 3% annual increases. On March 12, 2015, the lease term of the existing lease agreement was amended to exercise EWG's option to extend the lease for an additional five years year beginning on August 1, 2016 and expiring on July 31, 2021. Under GAAP, lease incentives and scheduled rent increases over a lease term are recognized on a straight-line basis over the term of the lease. The difference between the GAAP rent expense and the required lease payments is reflected as deferred rent in the accompanying statements of financial position. The old office space lease also provided EWG with improvement allowances totaling \$85,000 for construction, alteration and improvements which have all been used.

EWG also leases office space in California and Iowa under noncancelable operating leases. On March 28, 2011, EWG renewed its office space lease in Iowa for a term of three years, which commenced on September 1, 2011. The California and Iowa office space leases expired in February 2014 and August 2014, respectively. The terms of the office space lease in California call for a base rent of \$3,686 per month and provides for fixed increases over the term of the office space lease. The terms of the office space lease in Iowa calls for a base rent of \$1,917 per month and provides for fixed increases over the term of the office space lease. On February 3, 2014, EWG amended its existing lease agreement for the office space located in California. The lease term of the lease was extended for twelve (12) months commencing on March 1, 2014 and terminating on February 28, 2015 with base rent of \$4,400 per month. The lease operates on a month-to-month basis since its expiration on February 28, 2015. Additionally, EWG renewed its lease for the office space in Iowa extending it through August 2017. The new base rent is \$2,050 per month.

As part of the acquisition discussed in Note 10, EWG acquired an additional lease in California. The lease commenced on October 12, 2011 and expired on December 31, 2015. The terms of the office space lease call for a base rent of \$4,204 per month and provides for fixed increases over the term of the office space lease. The lease operates on a month-to-month basis since its expiration on December 31, 2015.

The total rent expense for all of the leases discussed above was \$584,597 and \$461,955 for the years ended December 31, 2015 and 2014, respectively.

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

#### 5. Commitments and Risks (continued)

##### **Office Space (continued)**

As of December 31, 2015, the future minimum lease payments required under the noncancelable operating leases are as follows:

<u>For the Year Ended December 31,</u>	
2016	\$ 381,434
2017	342,781
2018	336,173
2019	346,258
2020	356,646
Thereafter	<u>211,639</u>
Total	<u>\$ 1,974,931</u>

##### **Concentration of Credit Risk**

EWG maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2015 and 2014, EWG had demand deposits and certificates of deposit which exceeded the maximum limit insured by the FDIC by \$2,209,253 and \$2,092,872, respectively. EWG monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

EWG also invests in various investment securities that are exposed to various risks, including market, interest rate and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

#### 6. Net Assets

Net assets consisted of the following as of December 31, 2015 and 2014:

##### **Unrestricted Net Assets**

	<u>2015</u>	<u>2014</u>
Undesignated – operating	\$ 1,008,900	\$ 1,460,257
Board designated – reserve fund	<u>2,020,442</u>	<u>1,153,213</u>
Total Unrestricted Net Assets	<u>\$ 3,029,342</u>	<u>\$ 2,613,470</u>

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## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

#### 6. Net Assets (continued)

##### **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following programs or time periods as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Program restrictions:		
Toxics and human health	\$ 1,621,800	\$ 582,500
Water and agriculture	687,808	1,115,124
Conservation database	150,000	41,720
Natural resources	116,250	177,796
Mobile applications	52,500	146,765
Healthy child healthy world	<u>65,000</u>	<u>115,505</u>
Total Program Restrictions	2,693,358	2,179,410
Time restrictions	<u>350,000</u>	<u>400,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,043,358</u>	<u>\$ 2,579,410</u>

#### 7. Line of Credit

EWG has a \$100,000 unsecured revolving line of credit that automatically renews each year. Amounts drawn on the line of credit accrue interest at the prime rate published in *The Wall Street Journal* plus 3.5%, and are payable on demand over a period of 48 months. The prime rate was 3.5% and 3.25% as of December 31, 2015 and 2014, respectively. There were no borrowings made during the years ended December 31, 2015 and 2014 and as a result, there was no interest paid during the years ended December 31, 2015 and 2014. As of December 31, 2015 and 2014, EWG had no outstanding balance under this line of credit.

#### 8. Retirement Plan

EWG maintains a defined-contribution retirement plan under Section 403(b) of the Internal Revenue Code (the IRC). Employees are eligible to participate in the plan and may elect to make contributions pursuant to a salary reduction beginning the month following employment. Under the terms of the plan, EWG may make a discretionary matching contribution to the plan, and employees are immediately vested in employer contributions. For the years ended December 31, 2015 and 2014, EWG paid \$235,957 and \$179,838, respectively, in employer contributions.

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

#### 9. Related Party Transactions

EWG is affiliated through common management with the EWG Action Fund (EWGAF). EWG is affiliated with Food Policy Action (FPA) and Organic Voices (OV) through board membership by the President of EWG. EWGAF, FPA and OV are nonprofit, tax-exempt organizations under IRC Section 501(c)(4). EWGAF was established to promote civic responsibility and effective advocacy for the protection of the environment, FPA was established to advocate for policies on food and farming, and OV was formed to educate and empower consumers about the benefits of organic food.

In order to minimize duplicative expenses and carry out their purposes in the most economical fashion, EWG provides certain management, accounting and administrative services to EWGAF, FPA, and OV for a monthly fee based upon direct costs incurred and allocable staff and related costs. The table below summarizes by entity the amounts billed by, paid to and owed to EWG as of December 31, 2015 and 2014:

	Amount Billed		Amount Paid		Balance Owed	
	2015	2014	2015	2014	2015	2014
EWGAF	\$ 868,561	\$ 46,065	\$ 845,353	\$ 28,917	\$ 41,423	\$ 18,215
FPA	11,980	26,346	10,762	162,589	2,708	1,490
OV	<u>3,665</u>	<u>5,580</u>	<u>8,601</u>	<u>5,597</u>	<u>200,645*</u>	<u>130,581*</u>
	<u>\$ 884,206</u>	<u>\$ 77,991</u>	<u>\$ 864,716</u>	<u>\$ 197,103</u>	<u>\$ 244,776</u>	<u>\$ 150,286</u>

\* During the year ended December 31, 2015 and 2014, Organic Voices (OV) provided grants of \$600,000 and \$500,000, respectively to EWG to fund its food policy work which is reported in grants and contributions revenue in the accompanying statements of activities of which \$400,000 and \$375,000, respectively were paid during the year. As of December 31, 2015 and 2014, \$200,000 and \$125,000, respectively of these grants were outstanding and are included in due from related entities in the accompanying statements of financial position.

#### 10. Business Combination – Acquisition of Healthy Child Healthy World (HCHW)

Healthy Child Healthy World (HCHW) is a California nonprofit, nonpartisan organization whose tax-exempt purpose and mission is to empower parents to take action and protect children from harmful environment toxins and chemicals. On October 29, 2014, EWG and HCHW, entered into an asset transfer and licensing agreement, whereby the respective Board of Directors of EWG and HCHW considered it advantageous and in the best interest of the individual organizations to improve efficiency and effectiveness of their programs by combining their respective assets and operations. Both organizations share common purposes and goals, in particular the critical need to protect children's health, and have increasingly worked together to achieve these goals. As required by the agreement, EWG intends to continue the activities and programs of HCHW as a key program area of EWG for

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

#### 10. Business Combination - Acquisition of Healthy Child Healthy World (HCHW) (continued)

approximately three (3) years from the effective date of the agreement and HCHW has granted and assigned in full to EWG rights, title, and interest in and all of its assets, except certain intellectual properties. The exclusive rights to the intellectual properties were instead licensed to EWG for a period of the earlier of the dissolution of HCHW or three (3) years from November 30, 2014, the effective date of asset transfer and license agreement. If EWG fails to substantially invest (i.e., provides less than \$150,000 in annual support) or undertake activities to maintain the HCHW programs as key programs of EWG, HCHW may request that all rights may revert back to HCHW; however, upon expiration of the license agreement, all rights, title and interest in the intellectual property will be transferred to EWG automatically.

Accordingly, the fair market value of the intellectual property will not be recognized and reported in the accompanying statement of financial position until such events have occurred. The licensed intellectual property includes all of HCHW trademarks, service marks, trade names, logos, and domain names.

The following table summarizes the values of the assets acquired and liabilities assumed on the acquisition date of November 30, 2014:

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$ 37,430
Accounts receivable	93,748
Prepaid expense	16,858
Property, plant and equipment, net (i)	44,264
Accounts payable and accrued expenses	<u>(31,827)</u>
Total Identifiable Net Assets	<u>\$ 160,473</u>

- (i) Includes intellectual property costs of \$40,331 incurred and capitalized by HCHW. The excess of the fair market value over the book value upon full transfer of rights and interest will be recognized as contribution revenue by EWG in the year the transfer takes place.

EWG followed FASB ASC 958-805, *Nonprofit Entities: Business Combinations*, to account for its acquisition of HCHW. According to the standard, an inherent contribution received will be measured as the excess of assets acquired over liabilities assumed. Accordingly, for the year ended December 31, 2014, EWG recognized and reported an inherent contribution in the amount of \$160,473 in the accompanying statement of activities. There were no inherent contributions for the year ended December 31, 2015.

EWG incurred acquisition-related costs consisting of fees for legal services totaling \$11,083 for the year ended December 31, 2014, which are reported as administrative costs in the accompanying statements of activities. There were no acquisition-related costs for the year ended December 31, 2015.

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## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

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#### 11. Income Taxes

EWG is exempt from federal and state income taxes on income other than net unrelated business income under Section 501(c)(3) of the IRC. As of December 31, 2015 and 2014, no tax provision was made, as EWG had no net unrelated business income.

EWG follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. EWG performed an evaluation of uncertain tax positions for the years ended December 31, 2015 and 2014, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2015, the statute of limitations for tax years ended December 31, 2012 through December 31, 2014, remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which EWG files tax returns. It is EWG's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2015 and 2014, EWG had no accrual for interest and/or penalties.

#### 12. Subsequent Events

In preparing these financial statements, EWG has evaluated events and transactions for potential recognition or disclosure through September 8, 2016, the date the financial statements were available to be issued. There were no subsequent events identified through September 8, 2016, that require recognition or disclosure in these financial statements.