



## **Financial Statements**

*For the Years Ended December 31, 2010 and 2009*



**and  
Report Thereon**





## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Environmental Working Group

CONSULTING  
ACCOUNTING  
TECHNOLOGY

*Certified Public  
Accountants*

We have audited the accompanying statements of financial position of the Environmental Working Group (EWG) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of EWG'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EWG's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 EWG as of December 31, 2010 and 2009, 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.

**RAFFA, P.C.**

Washington, DC  
April 29, 2011

**ENVIRONMENTAL WORKING GROUP**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,041,621	\$ 1,027,272
Short-term investments	16,952	37,265
Grants and contributions receivable	846,846	1,110,653
Due from affiliate	23,787	21,212
Accounts receivable	18,761	6,002
Prepaid expenses	73,717	30,483
Total Current Assets	2,021,684	2,232,887
Long-term investments	1,715,471	1,460,364
Property and equipment, net	116,396	126,978
TOTAL ASSETS	\$ 3,853,551	\$ 3,820,229
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 239,823	\$ 200,752
Current portion of deferred rent and leasehold allowance	1,428	1,428
Total Current Liabilities	241,251	202,180
Deferred rent and leasehold allowance	37,841	18,313
TOTAL LIABILITIES	279,092	220,493
Net Assets		
Unrestricted		
Undesignated	163,120	246,766
Designated	1,715,471	1,460,364
Total Unrestricted	1,878,591	1,707,130
Temporarily restricted	1,695,868	1,892,606
TOTAL NET ASSETS	3,574,459	3,599,736
TOTAL LIABILITIES AND NET ASSETS	\$ 3,853,551	\$ 3,820,229

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

**ENVIRONMENTAL WORKING GROUP**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended December 31, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>						
Grants and contributions	\$ 2,800,975	\$ 2,675,200	\$ 5,476,175	\$ 2,188,409	\$ 1,155,035	\$ 3,343,444
In-kind contributions	145,415	-	145,415	2,158	-	2,158
Administrative and consulting fees	155,948	-	155,948	126,013	-	126,013
Investment income	6,596	-	6,596	26,321	-	26,321
Product sales	-	-	-	10,361	-	10,361
Other income	3,522	-	3,522	2,037	-	2,037
Net assets released from restrictions:						
Satisfaction of program restrictions	2,871,938	(2,871,938)	-	2,408,421	(2,408,421)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>5,984,394</b>	<b>(196,738)</b>	<b>5,787,656</b>	<b>4,763,720</b>	<b>(1,253,386)</b>	<b>3,510,334</b>
<b>EXPENSES</b>						
Program Services:						
Toxics and human health	2,540,703	-	2,540,703	2,555,548	-	2,555,548
Water and agriculture	1,956,017	-	1,956,017	1,401,416	-	1,401,416
Natural resources	249,685	-	249,685	239,790	-	239,790
Transportation	10,012	-	10,012	3,329	-	3,329
<b>Total Program Services</b>	<b>4,756,417</b>	<b>-</b>	<b>4,756,417</b>	<b>4,200,083</b>	<b>-</b>	<b>4,200,083</b>
Supporting Services:						
Administrative services	538,772	-	538,772	555,342	-	555,342
Fundraising	517,744	-	517,744	326,547	-	326,547
<b>TOTAL EXPENSES</b>	<b>5,812,933</b>	<b>-</b>	<b>5,812,933</b>	<b>5,081,972</b>	<b>-</b>	<b>5,081,972</b>
<b>CHANGE IN NET ASSETS</b>	<b>171,461</b>	<b>(196,738)</b>	<b>(25,277)</b>	<b>(318,252)</b>	<b>(1,253,386)</b>	<b>(1,571,638)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,707,130</b>	<b>1,892,606</b>	<b>3,599,736</b>	<b>2,025,382</b>	<b>3,145,992</b>	<b>5,171,374</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,878,591</b>	<b>\$ 1,695,868</b>	<b>\$ 3,574,459</b>	<b>\$ 1,707,130</b>	<b>\$ 1,892,606</b>	<b>\$ 3,599,736</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, 2010 and 2009  
Increase (Decrease) in Cash and Cash Equivalents

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (25,277)	\$ (1,571,638)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated investments	-	(23,124)
Depreciation and amortization	40,852	30,292
Net realized and unrealized gains	(96)	(312)
Changes in assets and liabilities:		
Grants and contributions receivable	263,807	697,438
Due from affiliate	(2,575)	18,399
Accounts receivable	(12,759)	(3,415)
Inventory	-	18,756
Prepaid expenses	(43,234)	15,802
Accounts payable and accrued expenses	39,071	(28,102)
Deferred rent and leasehold allowance	19,528	6,779
	<u>279,317</u>	<u>(839,125)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
	<u>279,317</u>	<u>(839,125)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(30,270)	(71,151)
Proceeds from sales of investments	2,484,564	2,612,000
Purchases of investments	(2,719,262)	(2,624,161)
	<u>(264,968)</u>	<u>(83,312)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
	<u>(264,968)</u>	<u>(83,312)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	14,349	(922,437)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,027,272</u>	<u>1,949,709</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,041,621</u>	<u>\$ 1,027,272</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Donated investments	<u>\$ -</u>	<u>\$ 23,124</u>

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

## **ENVIRONMENTAL WORKING GROUP**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2010 and 2009**

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

##### **Organization**

The Environmental Working Group (EWG) is a nonprofit environmental research organization whose mission is to improve public policy at the local, state and federal levels through scientific analysis of a wide range of environmental data and its impact on the local community. 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**

The financial statements of EWG 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 purchased maturities of three months or less to be cash equivalents.

##### **Investments**

Investments are composed of money market funds held for investment purposes, certificates of deposit, government bonds, and equities held for short- and long-term investment purposes, as intended by management of EWG. 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 and requires disclosures about fair value measurements for assets and liabilities 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 unobservable, whereby assumptions about market

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## **ENVIRONMENTAL WORKING GROUP**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2010 and 2009**

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

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

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, 2010 and 2009, 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**

Computers and furniture and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives of two to five years, with no salvage value. 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 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 assets, the cost and accumulated depreciation or amortization is eliminated from the accounts and the resulting gain or loss is included in the accompanying statements of activities.

**Classification of Net Assets**

The net assets of EWG 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. The Board of Directors has designated \$1,715,471 and \$1,460,364 of unrestricted net assets as an operational reserve in the years ended December 31, 2010 and 2009, respectively.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

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## **ENVIRONMENTAL WORKING GROUP**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2010 and 2009**

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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.

#### **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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Reclassifications**

Certain amounts in the 2009 financial statements and notes have been reclassified to conform to the 2010 presentation.

2. Grants and Contributions Receivable

As of December 31, 2010 and 2009, EWG has recognized grants and contributions receivable of \$846,846 and \$1,110,653, respectively, which are owed from various foundations and individual donors. All amounts are due within one year and are deemed fully collectible.

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**ENVIRONMENTAL WORKING GROUP**

**NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2010 and 2009**

3. Investments

EWG's investments, at fair value, consisted of the following:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	\$ 947,326	\$ 1,334,118
Money market funds	512,017	163,032
Government bonds	266,637	-
Domestic equities (donated)	<u>6,443</u>	<u>479</u>
Total investments	1,732,423	1,497,629
Less: Short-term investments	<u>(16,952)</u>	<u>(37,265)</u>
Total Long-Term Investments	<u>\$ 1,715,471</u>	<u>\$ 1,460,364</u>

Investment income is composed of the following for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 6,500	\$ 26,009
Realized gains	500	-
Unrealized gains (losses)	<u>(404)</u>	<u>312</u>
Investment Income, Net	<u>\$ 6,596</u>	<u>\$ 26,321</u>

Included in interest and dividends income is the interest earned on cash and cash equivalents of \$1,038 and \$7,982 for the years ended December 31, 2010 and 2009, respectively.

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**ENVIRONMENTAL WORKING GROUP**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2010 and 2009

3. Investments (continued)

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2010 and 2009:

December 31, 2010	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Certificates of deposit	\$ 947,326	\$ -	\$ 947,326
Money market funds	512,017	512,017	-
Government bonds	266,637	266,637	-
Domestic equities (donated)	6,443	6,443	-
Total	\$ 1,732,423	\$ 785,097	\$ 947,326
<hr style="width: 30%; margin-left: 0;"/>			
December 31, 2009	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Certificates of deposit	\$ 1,334,118	\$ -	\$ 1,334,118
Money market funds	163,032	163,032	-
Domestic equities (donated)	479	479	-
Total	\$ 1,497,629	\$ 163,511	\$ 1,334,118

EWG used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

*Certificates of deposit* – Are 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.

*Money market funds* – The net asset value of funds held at year-end is provided by the administrator of the fund. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the numbers of shares outstanding. The net asset value of the money market funds is a quoted price in an active market.

*Government bonds* – Are valued using quoted prices in active markets.

*Equities* – Are valued at quoted market prices for identical assets in active markets.

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## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

#### 4. Property and Equipment and Accumulated Depreciation and Amortization

EWG held the following fixed assets as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 123,489	\$ 122,052
Computer equipment	332,822	303,989
Leasehold improvements	<u>253,782</u>	<u>253,782</u>
Total	710,093	679,823
Less: Accumulated depreciation and amortization	<u>(593,697)</u>	<u>(552,845)</u>
Fixed Assets, Net	<u>\$ 116,396</u>	<u>\$ 126,978</u>

For the years ended December 31, 2010 and 2009, depreciation and amortization expense was \$40,852 and \$30,292, respectively.

#### 5. Commitments and Risks

##### Office Space

EWG leased office space under a noncancelable operating lease, which expired June 30, 2009. On January 30, 2009, EWG entered into an agreement to extend its office space lease for an additional seven years and added additional office space. The lease commenced August 1, 2009, and ends July 31, 2016. Under the new terms of the lease, the base rent is \$21,842 per month and provides for 3% annual increases. Under generally accepted accounting principles (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 leases also provided EWG with improvement allowances totaling \$85,000 for construction, alteration and improvements. As of December 31, 2009, EWG has used all of these allowances.

EWG also leases office space in California and Iowa under noncancelable operating leases. The leases expire in February 2014 and August 2011, respectively. The terms of the lease in California call for a base rent of \$3,686 per month and provides for fixed increases over the term of the lease. The lease in Iowa calls for fixed rental payments of \$1,770 over the entire term of the lease.

Total rent expense for all of the leases discussed above was \$386,706 and \$317,585 for the years ended December 31, 2010 and 2009, respectively.

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## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

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5. Commitments and Risks (continued)

**Office Space (continued)**

As of December 31, 2010, the future minimum lease payments required under the noncancelable operating leases are as follows:

<u>For the Year Ended</u> <u>December 31,</u>	
2011	\$ 334,422
2012	329,870
2013	339,768
2014	307,231
2015	307,646
Thereafter	<u>182,564</u>
Total	<u>\$ 1,801,501</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, 2010 and 2009, EWG had \$1,054,071 and \$2,371,583, respectively, composed of demand deposits and money market accounts, which exceeded the maximum limit insured by the FDIC by approximately \$554,000 and \$682,000, 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 such changes could materially affect the amounts reported in the financial statements.

## ENVIRONMENTAL WORKING GROUP

### NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

#### 6. Temporarily Restricted Net Assets

As of December 31, 2010 and 2009, temporarily restricted net assets are available for the following programs or purposes:

	<u>2010</u>	<u>2009</u>
Water and agriculture	\$ 1,583,570	\$ 1,532,575
Toxics and human health	95,000	333,009
Natural resources	<u>17,298</u>	<u>27,022</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,695,868</u>	<u>\$ 1,892,606</u>

#### 7. Line of Credit

EWG has a \$100,000 unsecured revolving line of credit, which was automatically renewed for another year on November 20, 2010. Amounts drawn on the line of credit accrue interest at the prime rate as published in *The Wall Street Journal* plus 3.5% and are payable on demand over a period of 48 months. The prime rate was 3.25% as of December 31, 2010 and 2009. As of December 31, 2010 and 2009, 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. 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, 2010 and 2009, EWG paid \$147,295 and \$140,223, respectively, in such contributions.

#### 9. Related Party Transactions

EWG is affiliated through common management with the EWG Action Fund (the Fund). The Fund is a nonprofit, tax-exempt organization under Internal Revenue Code Section 501(c)(4). The Fund was established to promote civic responsibility and effective advocacy for the protection of the environment.

EWG provides certain management, accounting and administrative services to the Fund for a monthly fee based upon direct costs incurred and allocable staff and related costs. Under this contract, EWG earned \$139,563 and \$117,561, for the years ended December 31, 2010 and 2009, respectively, and received \$136,988 and \$135,960 for such services in 2010 and 2009,

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## **ENVIRONMENTAL WORKING GROUP**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2010 and 2009**

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9. Related Party Transactions (continued)

respectively. As of December 31, 2010 and 2009, the outstanding balances for these services are \$23,787 and \$21,212, respectively, and are included in the accompanying statements of financial position as due from affiliate.

In 2009, EWG collected \$18,094 in contributions for the Fund that have not been transferred to the Fund. This amount is included in accounts payable and accrued expenses in the accompanying statements of financial position. There was no outstanding unremitted amount to the Fund as of December 31, 2010.

10. Income Taxes

EWG is exempt from federal and state income taxes other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code. As of December 31, 2010 and 2009, 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 ASC Topic *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, 2010 and 2009, 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, 2010, the statute of limitations for tax years 2007 through 2009 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.

11. Subsequent Events

EWG's management has evaluated subsequent events through April 29, 2011, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements.