



Environmental Working Group

Financial Statements

For the Years Ended December 31, 2020 and 2019



**and
Report Thereon**



ENVIRONMENTAL WORKING GROUP

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For the Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' 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, 2020 and 2019, related statements of activities, functional expenses 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.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Environmental Working Group as of December 31, 2020 and 2019, 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.

Marcum LLP

Washington, DC
August 9, 2021

ENVIRONMENTAL WORKING GROUP
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 4,513,635	\$ 3,057,085
Due from related entities	7,244	25,970
Prepaid expenses and deposits	355,136	437,414
Accounts receivable	507,771	132,340
Grants and contributions receivable	2,004,443	2,844,031
Investments	4,659,830	4,410,475
Property and equipment, net	328,826	131,054
TOTAL ASSETS	\$ 12,376,885	\$ 11,038,369
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 625,686	\$ 892,824
Note payable – PPP	1,156,800	-
Deferred rent and leasehold allowances	72,982	122,025
Deferred revenue	54,000	20,000
TOTAL LIABILITIES	1,909,468	1,034,849
Net Assets		
Without donor restrictions	7,752,614	6,120,490
With donor restrictions	2,714,803	3,883,030
TOTAL NET ASSETS	10,467,417	10,003,520
TOTAL LIABILITIES AND NET ASSETS	\$ 12,376,885	\$ 11,038,369

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

ENVIRONMENTAL WORKING GROUP
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Grants and contributions	\$ 6,712,772	\$ 3,250,000	\$ 9,962,772	\$ 6,387,409	\$ 3,140,000	\$ 9,527,409
Program income – EWG Verified and Reviewed	1,960,430	-	1,960,430	1,129,793	-	1,129,793
In-kind contributions	493,468	-	493,468	546,420	-	546,420
Special events	260,330	-	260,330	547,805	-	547,805
Consulting and administrative fees	159,393	-	159,393	131,671	-	131,671
Investment income, net	49,884	-	49,884	89,633	-	89,633
Other income	900	-	900	19,193	-	19,193
Net assets released from restrictions:						
Satisfaction of program restrictions	2,630,727	(2,630,727)	-	2,530,449	(2,530,449)	-
Satisfaction of time restrictions	1,787,500	(1,787,500)	-	1,112,500	(1,112,500)	-
TOTAL REVENUE AND SUPPORT	14,055,404	(1,168,227)	12,887,177	12,494,873	(502,949)	11,991,924
EXPENSES						
Program Services:						
Toxics and human health	4,986,812	-	4,986,812	5,688,950	-	5,688,950
Food and agriculture	2,896,832	-	2,896,832	2,824,451	-	2,824,451
Licensing	2,004,820	-	2,004,820	1,547,928	-	1,547,928
Energy and natural resources	505,063	-	505,063	557,234	-	557,234
Total Program Services	10,393,527	-	10,393,527	10,618,563	-	10,618,563
Supporting Services:						
Management and general	810,382	-	810,382	770,157	-	770,157
Fundraising:						
Fundraising – other	1,126,638	-	1,126,638	1,267,838	-	1,267,838
Fundraising – cost of direct benefit to donor	92,733	-	92,733	370,715	-	370,715
Total Fundraising	1,219,371	-	1,219,371	1,638,553	-	1,638,553
Total Supporting Services	2,029,753	-	2,029,753	2,408,710	-	2,408,710
TOTAL EXPENSES	12,423,280	-	12,423,280	13,027,273	-	13,027,273
CHANGE IN NET ASSETS	1,632,124	(1,168,227)	463,897	(532,400)	(502,949)	(1,035,349)
NET ASSETS, BEGINNING OF YEAR	6,120,490	3,883,030	10,003,520	6,652,890	4,385,979	11,038,869
NET ASSETS, END OF YEAR	\$ 7,752,614	\$ 2,714,803	\$ 10,467,417	\$ 6,120,490	\$ 3,883,030	\$ 10,003,520

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

ENVIRONMENTAL WORKING GROUP
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Program Services				Supporting Services			Total	
	Toxics and Human Health	Food and Agriculture	Licensing	Energy and Natural Resources	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries, taxes, and benefits	\$ 3,621,196	\$ 2,050,990	\$ 885,114	\$ 404,946	\$ 6,962,246	\$ 423,038	\$ 493,182	\$ 916,220	\$ 7,878,466
Professional fees	153,996	36,695	666,926	5,567	863,184	59,458	18,667	78,125	941,309
Occupancy	342,752	203,420	80,085	35,523	661,780	217,560	42,689	260,249	922,029
Marketing and advertising	158,083	49,445	50,381	6,878	264,787	7,999	393,257	401,256	666,043
Donated advertising	222,914	206,976	57,437	23,223	510,550	25,495	37,487	62,982	573,532
Research and data	217,531	117,740	11,343	13,248	359,862	7,371	8,991	16,362	376,224
Information technology	135,933	168,639	28,842	8,577	341,991	13,480	11,259	24,739	366,730
Events and travel	66,896	13,591	122,783	1,614	204,884	20,398	96,153	116,551	321,435
Bank and credit card fees	29	17	7,730	3	7,779	12,058	106,871	118,929	126,708
Other	41,274	38,528	89,591	3,704	173,097	21,068	4,485	25,553	198,650
Supplies	26,208	10,791	4,588	1,780	43,367	2,457	6,330	8,787	52,154
TOTAL EXPENSES	\$ 4,986,812	\$ 2,896,832	\$ 2,004,820	\$ 505,063	\$ 10,393,527	\$ 810,382	\$ 1,219,371	\$ 2,029,753	\$ 12,423,280

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

ENVIRONMENTAL WORKING GROUP
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services				Supporting Services			Total	
	Toxics and Human Health	Food and Agriculture	Licensing	Energy and Natural Resources	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries, taxes, and benefits	\$ 3,929,419	\$ 1,900,814	\$ 561,560	\$ 427,759	\$ 6,819,552	\$ 504,339	\$ 533,885	\$ 1,038,224	\$ 7,857,776
Professional fees	133,996	28,768	602,495	4,109	769,368	37,924	17,835	55,759	825,127
Occupancy	493,933	237,610	66,530	50,385	848,458	59,379	62,567	121,946	970,404
Marketing and advertising	256,804	76,216	78,026	13,995	425,041	17,141	353,043	370,184	795,225
Donated advertising	229,472	97,815	31,528	22,341	381,156	26,868	138,392	165,260	546,416
Research and data	97,263	186,888	5,685	4,597	294,433	8,262	12,412	20,674	315,107
Information technology	149,117	192,466	19,316	14,611	375,510	18,668	18,815	37,483	412,993
Events and travel	323,225	69,618	167,202	12,161	572,206	62,384	393,305	455,689	1,027,895
Bank and credit card fees	-	-	-	-	-	5,440	96,382	101,822	101,822
Other	32,303	15,513	4,576	3,421	55,813	18,893	4,294	23,187	79,000
Supplies	43,418	18,743	11,010	3,855	77,026	10,859	7,623	18,482	95,508
TOTAL EXPENSES	\$ 5,688,950	\$ 2,824,451	\$ 1,547,928	\$ 557,234	\$ 10,618,563	\$ 770,157	\$ 1,638,553	\$ 2,408,710	\$ 13,027,273

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

ENVIRONMENTAL WORKING GROUP
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 463,897	\$ (1,035,349)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	60,995	84,910
Net realized and unrealized losses (gains)	10,152	(14,042)
Changes in assets and liabilities:		
Due from related entities	18,726	(1,188)
Prepaid expenses and deposits	82,278	(204,057)
Accounts receivable	(375,431)	(2,364)
Grants and contributions receivable	839,588	997,800
Accounts payable and accrued expenses	(267,138)	380,045
Deferred revenue	34,000	20,000
Deferred rent and leasehold allowances	(49,043)	(26,392)
	<u>818,024</u>	<u>199,363</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(258,767)	(44,599)
Proceeds from sales of investments	11,781,719	7,847,983
Purchases of investments	(8,794,089)	(8,858,831)
	<u>2,728,863</u>	<u>(1,055,447)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable – PPP	1,156,800	-
	<u>1,156,800</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,703,687	(856,084)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,324,423</u>	<u>4,180,507</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,028,110</u>	<u>\$ 3,324,423</u>
CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 4,513,635	\$ 3,057,085
Cash and cash equivalents held within investments	3,514,475	267,338
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 8,028,110</u>	<u>\$ 3,324,423</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, 2020 and 2019

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.

Investments

Investments are composed of mutual funds; equities; bank deposit sweep funds; municipal, government and corporate bonds; and certificates of deposit 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

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted 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 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.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

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

Fair Value of Financial Instruments (continued)

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, 2020 and 2019, 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

Property 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 and have an economic life in excess of one year. 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:

- Net assets without donor restrictions 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.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time.

Revenue Recognition

EWG recognizes all unconditional contributed support in the accounting period in which the commitment to give is made. Conditional promises to give, that is those with a measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend have been met. Unconditional grants and contributions are considered without donor restrictions and available for general operations, unless specifically restricted by the donor. EWG reports unconditional grants and contributions of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

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

Revenue Recognition (continued)

of the donated assets to a particular purpose or to a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at net present value when the discount is significant to the financial statements. Amortization of the discount is included in grants and contributions in the accompanying statements of activities.

Revenue from consulting and administrative fees is primarily related to fees for evaluation and certification (qualification of a licensed product) of personal care products under the EWG Verified Program, sublicensing fees under the EWG Verified Program, fees for assessment of formulations of personal care products under EWG Reviewed Program, licensing fees for access to EWG's water database, rental of EWG's mailing list and accounting services to related parties. Evaluation and certification fees revenue under the EWG Verified program is recognized at a point in time EWG notifies the licensee in writing of the product approval following completion of evaluation. Sublicense fee revenue under the EWG Verified Program is for a term of three years and is recognized at a point in time the license agreement is executed which is when the performance obligation has been satisfied. Fees for assessment of personal care product formulations under the EWG Reviewed Program is recognized at a point in time the written report scores and analysis are provided to the customer. The revenue from the mailing list rental license to EWG water database is recognized at the point in time the mailing list and the access to the data base is provided. Revenue for accounting services is recognized over time on a monthly basis as the services are provided and consumed by the related party organization. Revenue recognized for which payments have not been received is reflected as accounts receivable or due from related entities in the accompanying statements of financial position. Any contract payments received in advance of satisfying the performance obligations are included in deferred revenue in the accompanying statements of financial position.

Special events revenue consists of sponsorships and ticket sales to attend a special event. Ticket sales are recognized at the point in time the event takes place.

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 providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Expenses directly attributed to a specific program or supporting service are reported as expenses of that category, while shared costs that benefit multiple functional areas have been allocated among

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

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

Functional Allocation of Expenses (continued)

the various programs and supporting services based on estimates determined by management to be equitable. Salaries and benefits are allocated based on time and effort reports while overhead costs included in occupancy, online engagement fees, in-kind expense, information technology and other expenses are allocated based on the direct labor allocated to the programs or supporting services.

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.

2. Grants and Contributions Receivable

As of December 31, 2020 and 2019, EWG had recognized grants and contributions receivable of \$2,004,443 and \$2,844,031, respectively, which were owed by various foundations and individual donors. All amounts were deemed fully collectible. Grants and contributions receivable consisted of amounts due as follows as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 1,429,443	\$ 2,844,031
Due in one to five years	<u>575,000</u>	<u>-</u>
Total Grants and Contributions Receivable	<u>\$ 2,004,443</u>	<u>\$ 2,844,031</u>

The present value factor of grants and contributions receivable due in one to five years was not considered significant to EWG's financial statements and, accordingly, not recognized in these financial statements.

3. Investments

EWG's investments, at fair value, consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Bank deposit sweep funds	\$ 3,514,475	\$ 267,338
Fixed income	826,858	3,818,358
Mutual funds – fixed income	318,497	316,133
Equities	<u>-</u>	<u>8,646</u>
Total Investments	<u>\$ 4,659,830</u>	<u>\$ 4,410,475</u>

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

3. Investments (continued)

Investment income was composed of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Interest and dividends, net	\$ 60,036	\$ 75,591
Net realized and unrealized (losses) gains	(10,152)	14,042
Investment Income, Net	\$ 49,884	\$ 89,633

Included in interest and dividends income is the interest earned on cash and cash equivalents of \$1,103 and \$5,166 for the years ended December 31, 2020 and 2019, respectively.

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
Fixed income:				
Certificates of deposit	\$ 701,949	\$ -	\$ 701,949	\$ -
Municipal bonds	75,808	-	75,808	-
Government bonds	49,101	-	49,101	-
Mutual funds – fixed income:				
Ultrashort bonds	318,497	318,497	-	-
Total Investments Measured at Fair Value	1,145,355	\$ 318,497	\$ 826,858	\$ -
Bank deposit sweep funds ^(a)	3,514,475			
Total Investments	\$ 4,659,830			

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

3. Investments (continued)

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2019:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
Fixed income:				
Certificates of deposit	\$ 2,708,719	\$ -	\$ 2,708,719	\$ -
Government bonds	1,109,639	-	1,109,639	-
Mutual funds – fixed income:				
Ultrashort bonds	316,133	316,133	-	-
Equities:				
Large value	8,646	8,646	-	-
Total Investments Measured at Fair Value	4,143,137	\$ 324,779	\$ 3,818,358	\$ -
Bank deposit sweep funds ^(a)	267,338			
Total Investments	\$ 4,410,475			

^(a) Not valued using the fair value measurement hierarchy.

EWG used the following methods and significant assumptions to estimate fair value for assets recorded at fair value as of December 31, 2020 and 2019:

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

Mutual funds – fixed income – Value 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.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

4. Property and Equipment

EWG held the following property and equipment as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Computer equipment	\$ 566,441	\$ 545,354
Computer software	333,046	333,046
Leasehold improvements	284,979	284,979
Website development costs	436,814	199,134
Furniture and equipment	<u>229,984</u>	<u>229,984</u>
Total Property and Equipment	1,851,264	1,592,497
Less: Accumulated Depreciation and Amortization	<u>(1,522,438)</u>	<u>(1,461,443)</u>
Property and Equipment, Net	<u>\$ 328,826</u>	<u>\$ 131,054</u>

For the years ended December 31, 2020 and 2019, depreciation and amortization expense was \$60,995 and \$84,910, and is included in occupancy in the accompanying statements of functional expenses.

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 was scheduled to end on July 31, 2016. Under the terms of the office space lease, the base rent was \$21,842 per month and provided 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 space lease commenced on September 1, 2011, and expired simultaneously with the original lease on July 31, 2016. The base rent under this new office space lease was \$5,072 per month and provided 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 leases for an additional five years year beginning on August 1, 2016, and expiring on July 31, 2021. The base rent under the amended lease is \$39,753. 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, Iowa and Minnesota. In July 2016, EWG entered into a new noncancelable six-year operating lease with an expiration date of September 30, 2022, for office space located in California. The lease commenced on October 6, 2016, requiring a base rent of \$16,085 per month and a security deposit of \$32,178. The lease provisions also provide for 3% annual increases, as well as a three-month rent abatement upon commencement of the lease term and allows for a reduction of the required deposit amount by approximately one-half after the third lease year, which would be \$16,085.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

5. Commitments and Risks (continued)

Office Space (continued)

Additionally, EWG renewed its lease for the office space in Iowa, extending the lease through August 2017. The new base rent is \$2,050 per month. Starting September 1, 2017, EWG continued the Iowa lease on a month-to-month basis at \$2,150 per month. In May 2018, EWG entered into a noncancelable lease for office space in the Minneapolis, Minnesota, which commenced July 16, 2018, and is scheduled to expire on October 31, 2023. Under the terms of the agreement, EWG was required to provide a security deposit of \$4,564, which is equivalent to the sum of the monthly base rent and EWG's share of monthly operating costs and provides for 3% annual increases in rent. The lease also provided a three month abatement of rent and an improvement allowance up to \$64,890. As of December 31, 2018, all of the improvement allowance had been used.

In February 2017, EWG entered into a three-year noncancelable operating sublease with an organization for one suite in the office space located in Washington, D.C. The sublease was scheduled to expire in January 2020 and included a parking space as well as yearly rental increases. The lease agreement was mutually terminated in April 2019.

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 and leasehold allowances in the accompanying statements of financial position.

The total rent expense for all of the leases discussed above was \$782,673 and \$829,106 for the years ended December 31, 2020 and 2019, respectively, and is included in occupancy in the accompanying statements of functional expenses.

As of December 31, 2020, the future minimum lease payments required under the noncancelable operating leases were as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2021	\$ 590,379
2022	227,216
2023	<u>50,254</u>
Total	<u>\$ 867,849</u>

On March 11, 2021, EWG entered into a noncancelable operating lease for office space, in Washington, D.C., which is scheduled to commence on the earlier of date EWG takes beneficial use and occupancy of the office space or January 1, 2022 and is scheduled to expire after 144 months or 12 years from the commencement date. Under the terms of the office space lease, the base rent is \$71,545 per month and provides for annual increases of 2.5%. The lease provides EWG with rent abatement for the first 24 months following the commencement date totaling \$1,738,535, an improvement allowances totaling \$2,069,685 for

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

5. Commitments and Risks (continued)

Office Space (continued)

construction, furniture, fixtures and equipment, moving expenses and a demolition allowance of \$29,050. The lease provisions require a deposit of \$75,166 (cash or letter of credit in lieu of cash) and EWG's share of property taxes and other operating expenses.

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, 2020 and 2019, EWG had demand deposit securities which exceeded the maximum limit insured by the FDIC by approximately \$7,129,000 and \$2,929,000, 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 that such changes could materially affect the amounts reported in the financial statements.

Global Pandemic

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. EWG has been able to continue operations in a remote environment; however, at this point, the extent to which COVID-19 will impact EWG's financial condition or results of operations is uncertain and being evaluated by management and the Board.

Construction Contract

On June 18, 2021, EWG entered into an agreement for construction services totaling \$1,178,682, related to the renovation of EWG's new leased office space in Washington D.C.

6. Note Payable

On April 2, 2020, EWG entered into a Small Business Administration (SBA) loan with its financial institution under the Paycheck Protection Program (PPP) for the amount of \$1,156,800. The note will mature on May 2, 2022, with a fixed interest rate of 1% per annum. Consecutive monthly payments of principal and interest will commence on one month after the earlier of the following dates: (1) the date the financial institution receives the applicable forgiveness amount from the SBA; or (2) the date that is 10 months after the end of the forgiveness covered period, through the maturity date. The loan amount may be eligible for

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

6. Note Payable (continued)

forgiveness pursuant to the PPP, which established minimum amounts of the loan to be used to cover payroll costs and the remainder used for mortgage interest, rent and utility costs over a specified period of time after the loan is made assuming the number of employees and compensation levels are maintained. On April 8, 2021, EWG received notification of the SBA's approval of its application for forgiveness of the full note payable balance of \$1,156,800. The loan forgiveness will be recognized during the year ending December 31, 2021.

7. Net Assets

Net Assets Without Donor Restrictions

As of December 31, 2020 and 2019, EWG's net assets without donor restrictions were as follows:

	<u>2020</u>	<u>2019</u>
Undesignated – operating	\$ 4,406,703	\$ 3,014,138
Board-designated – reserve fund	<u>3,345,911</u>	<u>3,106,352</u>
Total Net Assets Without Donor Restrictions	<u>\$ 7,752,614</u>	<u>\$ 6,120,490</u>

EWG has set a target of the Board-designated reserve fund to be equivalent to three months of operating expenses. Approval of the Board of Directors is required before EWG can access the reserve.

As of December 31, 2020 and 2019, net assets with donor restrictions were restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Toxics and human health	\$ 2,395,771	\$ 1,264,584
Water and agriculture	240,000	739,280
Licensing	<u>79,032</u>	<u>441,666</u>
Total Subject to Expenditure for Specified Purpose	<u>2,714,803</u>	<u>2,445,530</u>
Subject to the passage of time:		
General operations for the next year	<u>-</u>	<u>1,437,500</u>
Total Subject to Expenditure for Passage of Time	<u>-</u>	<u>1,437,500</u>
Total Net Assets With Donor Restrictions	<u>\$ 2,714,803</u>	<u>\$ 3,883,030</u>

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

8. 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 3.25% and 4.75% as of December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, no money was borrowed or repaid, and, as a result, there was no interest paid during the years ended December 31, 2020 and 2019.

9. Availability and Liquidity

As part of liquidity management, EWG has a policy to structure its financial assets to be available as its general expenses, liabilities and other obligations come due. In addition, EWG invests cash in excess of monthly requirements in a combination of sweep and short-term investments. EWG also maintains a board-designated reserve fund to allow for any variations in the timing of grant payments and EWG's required obligations. To manage liquidity, EWG also maintains a line of credit of \$100,000 with a bank that is drawn upon as needed during the year to manage cash flow. See Note 8 for further description of this line of credit.

The following table reflects EWG's financial assets as of December 31, 2020 and 2019, reduced by amounts not available for general expenditures within one year.

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 4,513,635	\$ 3,057,085
Receivables	2,512,214	2,976,371
Investments	4,659,830	4,410,475
Due from related entities	<u>7,244</u>	<u>25,970</u>
Financial Assets at Year-End	11,692,923	10,469,901
Less Donor-imposed restrictions:		
Grants and contribution receivable collectible beyond one year	(575,000)	-
Less Internal designations:		
Board-designated reserve fund	<u>(3,345,911)</u>	<u>(3,106,352)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 7,772,012</u>	<u>\$ 7,363,549</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, EWG considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. As a result, for the year ended December 31, 2020 and 2019, restricted contributions of \$2,139,803 and \$3,883,030, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

10. 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. EWG did not make a discretionary employer matching contribution during the year ended December 31, 2020. For the year ended December 31, 2019, EWG made a discretionary employer matching contribution of \$280,235.

11. 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 the President of EWG serving on the board of directors of FPA and OV and EWGAF. EWGAF, FPA and OV are nonprofit, tax-exempt organizations under the 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 regarding the benefits of organic food.

In order for the organizations 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, 2020 and 2019:

	Amount Billed		Amount Paid		Balance Owed	
	2020	2019	2020	2019	2020	2019
EWGAF	\$ 72,126	\$ 82,552	\$ 70,975	\$ 81,823	\$ 6,704	\$ 5,553
FPA	48,097	630	67,974*	-	-	19,877
OV	<u>3,240</u>	<u>3,490</u>	<u>3,240</u>	<u>3,661</u>	<u>540</u>	<u>540</u>
	<u>\$ 123,463</u>	<u>\$ 86,672</u>	<u>\$ 142,189</u>	<u>\$ 85,484</u>	<u>\$ 7,244</u>	<u>\$ 25,970</u>

*Includes a write-off and loss totaling \$64,856 of balance owed to EWG since FPA closed its operations due to unfortunate financial circumstances as a result of the global pandemic. \$44,979 of the balance written off relates to services provided by EWG during the current year and is reflected as reduction on consulting and administrative fees in the accompanying statements of activities. The remaining \$19,877 balance is reported as other expense in the accompanying statements of functional expenses.

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2020 and 2019

12. 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, 2020 and 2019, no tax provision was made, as EWG had no significant 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 uncertainty in income taxes for the years ended December 31, 2020 and 2019, 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, 2020, the statute of limitations remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which EWG files tax returns; however, there are no examinations pending or in progress. It is EWG's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of December 31, 2020 and 2019, EWG had no accrual for interest and/or penalties.

13. Reclassification

Certain 2019 amounts have been reclassified to conform to the 2020 financial statement presentation.

14. Legal matters

EWG became a defendant in a case filed in the United States District Court Southern District of New York during the year ended December 31, 2019. The case arose from a claim from a third party in which EWG provided a sublicense for use of intellectual property owned by EWG and EWG elected not to renew the sublicense once it expired in March 2020. The ultimate outcome of this litigation cannot presently be determined. However, EWG plans to vigorously defend these allegations.

15. Subsequent Events

In preparing these financial statements, EWG has evaluated events and transactions for potential recognition or disclosure through August 9, 2021, the date the financial statements were available to be issued. Except for the events described in Notes 5 regarding the new office space lease and leasehold improvement allowance and Note 6 regarding the PPP loan forgiveness, there were no subsequent events identified that require recognition or disclosure in the financial statements.