ENVIRONMENTAL WORKING GROUP

Financial Statements

For the Years Ended December 31, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, 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
May 15, 2013

ENVIRONMENTAL WORKING GROUP

STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 312,804	$ 447,016
Short-term investments	266,867	13,979
Grants and contributions receivable, short-term	1,697,638	996,278
Due from affiliate	37,035	8,680
Prepaid expenses	70,217	108,240
Total Current Assets	2,384,561	1,574,193
Grants and contributions receivable, long-term	150,000	150,000
Long-term investments	722,698	1,670,676
Property and equipment, net	166,993	130,572
TOTAL ASSETS	$ 3,424,252	$ 3,525,441
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 362,095	$ 227,007
Deferred revenue	5,000	-
Current portion of deferred rent and leasehold allowance	2,075	1,428
Total Current Liabilities	369,170	228,435
Deferred rent and leasehold allowances	58,853	51,966
TOTAL LIABILITIES	428,023	280,401
Net Assets		
Unrestricted	374,383	908,689
Temporarily restricted	2,621,846	2,336,351
TOTAL NET ASSETS	2,996,229	3,245,040
TOTAL LIABILITIES AND NET ASSETS	$ 3,424,252	$ 3,525,441

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

ENVIRONMENTAL WORKING GROUP

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grants and contributions	$ 3,927,080	$ 2,653,296	$ 6,580,376	$ 3,184,686	$ 2,487,558	$ 5,672,244
Administrative and consulting fees	131,405	-	131,405	125,208	-	125,208
In-kind contributions	122,869	-	122,869	124,991	-	124,991
Special events	107,550	-	107,550	168,531	-	168,531
Other income	5,226	-	5,226	2,499	-	2,499
Investment income	3,744	-	3,744	5,866	-	5,866
Net assets released from restrictions:						
Satisfaction of program restrictions	1,977,801	(1,977,801)	-	1,802,075	(1,802,075)	-
Satisfaction of time restriction	390,000	(390,000)	-	45,000	(45,000)	-
TOTAL REVENUE AND SUPPORT	6,665,675	285,495	6,951,170	5,458,856	640,483	6,099,339
EXPENSES						
Program Services:						
Water and agriculture	2,899,392	-	2,899,392	2,488,007	-	2,488,007
Toxics and human health	2,047,678	-	2,047,678	2,175,038	-	2,175,038
Natural resources	743,812	-	743,812	508,644	-	508,644
Transportation	52,479	-	52,479	66,476	-	66,476
Total Program Services	5,743,361	-	5,743,361	5,238,165	-	5,238,165
Supporting Services:						
Fundraising - other	903,083	-	903,083	678,848	-	678,848
Administrative services	473,354	-	473,354	437,084	-	437,084
Fundraising - cost of direct benefit to donor	80,183	-	80,183	74,661	-	74,661
TOTAL EXPENSES	7,199,981	-	7,199,981	6,428,758	-	6,428,758
CHANGE IN NET ASSETS	(534,306)	285,495	(248,811)	(969,902)	640,483	(329,419)
NET ASSETS, BEGINNING OF YEAR	908,689	2,336,351	3,245,040	1,878,591	1,695,868	3,574,459
NET ASSETS, END OF YEAR	$ 374,383	$ 2,621,846	$ 2,996,229	$ 908,689	$ 2,336,351	$ 3,245,040

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

ENVIRONMENTAL WORKING GROUP

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011
Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (248,811)	$ (329,419)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated investments	(28,191)	(10,228)
Depreciation and amortization	43,621	46,490
Net realized and unrealized (gains) losses	32	(329)
Changes in assets and liabilities:		
Grants and contributions receivable	(701,360)	(280,671)
Due from affiliate	(28,355)	15,107
Prepaid expenses	38,023	(34,523)
Accounts payable and accrued expenses	135,088	(12,816)
Deferred revenue	5,000	-
Deferred rent and leasehold allowance	7,534	14,125
NET CASH USED IN OPERATING ACTIVITIES	(777,419)	(592,264)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(80,042)	(60,666)
Proceeds from sales of investments	3,027,501	3,838,858
Purchases of investments	(2,304,252)	(3,780,533)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	643,207	(2,341)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	388,879	-
Payments on line of credit	(388,879)	-
NET CASH USED IN FINANCING ACTIVITIES	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(134,212)	(594,605)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	447,016	1,041,621
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 312,804	$ 447,016
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Donated investments	$ 28,191	$ 10,228
Interest paid	$ 2,010	$ -

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

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. 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 purchased 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 bank deposit sweep funds and certificates of deposits held for short- and long-term 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 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

Continued

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

Fair Value of Financial Instruments (continued)

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, 2012 and 2011, 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. 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 is 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. As of December 31, 2012 and 2011, the Board of Directors has designated $266,867 and $1,670,676, respectively, of unrestricted net assets as an operational reserve.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

Continued

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.

2. Grants and Contributions Receivable

As of December 31, 2012 and 2011, EWG has recognized grants and contributions receivable of $1,847,638 and $1,146,278 respectively, which are owed from various foundations and individual donors. All amounts are deemed fully collectible. Grants and contributions receivable consists of amounts due as follows as of December 31, 2012:

	2012	2011
Due in less than one year	$ 1,697,638	$ 996,278
Due in one to five years	150,000	150,000
Total Grants and Contributions Receivable	$ 1,847,638	$ 1,146,278

3. Investments

EWG's investments, at fair value, consisted of the following as of December 31, 2012 and 2011:

	2012	2011
Bank deposit sweep funds	$ 789,353	$ 1,059,695
Certificates of deposit	200,212	624,960
Total Investments	989,565	1,684,655
Less: Short-Term Investments	(266,867)	(13,979)
Total Long-Term Investments	$ 722,698	$ 1,670,676

Investment income is composed of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Interest and dividends	$ 3,776	$ 5,537
Unrealized gains (losses)	(32)	329
Investment Income, Net	$ 3,744	$ 5,866

Included in interest and dividends income is the interest earned on cash and cash equivalents of $1,901 and $893 for the years ended December 31, 2012 and 2011, respectively.

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2012:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Bank deposit sweep funds	$ 789,353	$ 789,353	$ -
Certificates of deposit	200,212	-	200,212
Total	$ 989,565	$ 789,353	$ 200,212

Continued

3. Investments (continued)

The following table summarizes EWG's investments measured at fair value on a recurring basis as of December 31, 2011:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Bank deposit sweep funds	$ 1,059,695	$ 1,059,695	$ -
Certificate of deposit	624,960	-	624,960
Total	$ 1,684,655	$ 1,059,695	$ 624,960

EWG used the following methods and significant assumptions to estimate fair value for assets recorded at fair value as of December 31, 2012 and 2011:

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.

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

4. Property and Equipment

EWG held the following fixed assets as of December 31, 2012 and 2011:

	2012	2011
Furniture and equipment	$ 155,567	$ 126,653
Computer equipment	301,482	293,979
Computer software	135,375	91,750
Leasehold improvements	258,377	258,377
Total Property and Equipment	850,801	770,759
Less: Accumulated Depreciation and Amortization	(683,808)	(640,187)
Property and Equipment, Net	$ 166,993	$ 130,572

For the years ended December 31, 2012 and 2011, depreciation and amortization expense was $43,621 and $46,490, respectively.

Continued

5. Commitments and Risks

Office Space

On January 30, 2009, EWG entered into a noncancelable operating lease for office space 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 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. Under generally accepted accounting principles, 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 expire 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.

The total rent expense for all of the leases discussed above was $421,589 and $406,596 for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012, the future minimum lease payments required under the noncancelable operating leases are as follows:

For the Year Ended December 31,	
2013	$ 363,704
2014	323,503
2015	307,646
2016	182,562
Total	$ 1,177,415

Continued

5. Commitments and Risks (continued)

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, 2012 and 2011, EWG had $1,399,498 and $1,032,361, respectively, composed of demand deposits, which exceeded the maximum limit insured by the FDIC by $160,422 and $526,476, 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.

6. Temporarily Restricted Net Assets

As of December 31, 2012 and 2011, temporarily restricted net assets are available for the following programs or purposes:

	2012	2011
Program restrictions:		
Water and agriculture	$ 1,513,513	$ 1,541,351
Mobile applications	350,000	-
Natural resources	213,333	235,000
Conservation Database	45,000	-
Toxics and human health	-	20,000
Total Program Restrictions	2,121,846	1,796,351
Time restriction	500,000	540,000
Total Temporarily Restricted Net Assets	$ 2,621,846	$ 2,336,351

7. Line of Credit

EWG has a $100,000 unsecured revolving line of credit, which was automatically renewed for another year on November 20, 2012. 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% as of December 31, 2012 and 2011. As of December 31, 2012 and 2011, EWG had no outstanding balance under this line of credit. Interest paid on the line of credit during the year ended December 31, 2012 was $2,010.

Continued

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, 2012 and 2011, EWG paid $163,749 and $148,185, respectively, in such contributions.

9. Related Party Transactions

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

EWG provides certain management, accounting and administrative services to EWGAF for a monthly fee based upon direct costs incurred and allocable staff and related costs. Under this contract, EWG earned $111,797 and $85,828, for the years ended December 31, 2012 and 2011, respectively. EWG received $83,442 and $100,935 for such services in 2012 and 2011, respectively. As of December 31, 2012 and 2011, the outstanding balances for these services were $37,035 and $8,680, respectively, which are included in the accompanying statements of financial position as due from affiliate.

10. Reclassifications

Certain 2011 amounts have been reclassified to conform with the 2012 financial statement presentation.

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 Internal Revenue Code. As of December 31, 2012 and 2011, 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, 2012 and 2011, and determined

Continued

11. Income Taxes (continued)

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, 2012, the statute of limitations for tax years 2009 through 2011 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, 2012 and 2011, EWG had no accrual for interest and/or penalties.

12. Subsequent Events

EWG's management has evaluated subsequent events through May 15, 2013, 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.