



Environmental Working Group

Financial Statements

For the Years Ended December 31, 2022 and 2021



**and
Report Thereon**



ENVIRONMENTAL WORKING GROUP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Environmental Working Group

Opinion

We have audited the financial statements of the Environmental Working Group (EWG), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of EWG as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of EWG and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about EWG's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 EWG's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about EWG's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Marcum LLP

Washington, DC
June 28, 2023

ENVIRONMENTAL WORKING GROUP
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 4,067,282	\$ 4,071,549
Prepaid expenses and deposits	460,737	535,991
Accounts receivable	354,509	584,908
Grants and contributions receivable	3,389,809	3,002,734
Investments	5,739,796	5,693,279
Operating right-of-use asset	8,069,296	-
Property and equipment, net	<u>793,162</u>	<u>796,697</u>
TOTAL ASSETS	<u><u>\$ 22,874,591</u></u>	<u><u>\$ 14,685,158</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,028,007	\$ 666,347
Operating lease liability	9,199,674	-
Deferred rent and leasehold allowances	<u>-</u>	<u>153,668</u>
TOTAL LIABILITIES	<u>10,227,681</u>	<u>820,015</u>
Net Assets		
Without donor restrictions	10,759,086	10,579,089
With donor restrictions	<u>1,887,824</u>	<u>3,286,054</u>
TOTAL NET ASSETS	<u>12,646,910</u>	<u>13,865,143</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 22,874,591</u></u>	<u><u>\$ 14,685,158</u></u>

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

ENVIRONMENTAL WORKING GROUP
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Grants and contributions	\$ 8,348,671	\$ 2,739,787	\$ 11,088,458	\$ 9,001,870	\$ 3,567,425	\$ 12,569,295
Program income – EWG Verified and Reviewed	1,688,756	-	1,688,756	1,561,914	-	1,561,914
Special events	512,093	-	512,093	601,165	-	601,165
In-kind contributions	497,928	-	497,928	531,482	-	531,482
Consulting and administrative fees	97,588	-	97,588	180,429	-	180,429
Other income	11,744	-	11,744	4,055	-	4,055
Investment income (loss), net	11,317	-	11,317	(9,485)	-	(9,485)
Net assets released from restrictions:						
Satisfaction of program restrictions	4,138,017	(4,138,017)	-	2,996,174	(2,996,174)	-
TOTAL REVENUE AND SUPPORT	15,306,114	(1,398,230)	13,907,884	14,867,604	571,251	15,438,855
EXPENSES						
Program Services:						
Toxics and human health	5,726,052	-	5,726,052	5,578,983	-	5,578,983
Licensing	2,578,138	-	2,578,138	1,855,815	-	1,855,815
Food and agriculture	2,308,864	-	2,308,864	2,646,761	-	2,646,761
Energy and natural resources	1,246,831	-	1,246,831	814,785	-	814,785
News	434,040	-	434,040	-	-	-
Total Program Services	12,293,925	-	12,293,925	10,896,344	-	10,896,344
Supporting Services:						
Management and general	943,934	-	943,934	732,546	-	732,546
Fundraising:						
Fundraising – other	1,688,971	-	1,688,971	1,412,843	-	1,412,843
Fundraising – cost of direct benefit to donor	199,287	-	199,287	156,196	-	156,196
Total Fundraising	1,888,258	-	1,888,258	1,569,039	-	1,569,039
Total Supporting Services	2,832,192	-	2,832,192	2,301,585	-	2,301,585
TOTAL EXPENSES	15,126,117	-	15,126,117	13,197,929	-	13,197,929
Change in Net Assets from Operations	179,997	(1,398,230)	(1,218,233)	1,669,675	571,251	2,240,926
NONOPERATING ACTIVITIES						
Forgiveness of note payable – PPP Loan	-	-	-	1,156,800	-	1,156,800
CHANGE IN NET ASSETS	179,997	(1,398,230)	(1,218,233)	2,826,475	571,251	3,397,726
NET ASSETS, BEGINNING OF YEAR	10,579,089	3,286,054	13,865,143	7,752,614	2,714,803	10,467,417
NET ASSETS, END OF YEAR	\$ 10,759,086	\$ 1,887,824	\$ 12,646,910	\$ 10,579,089	\$ 3,286,054	\$ 13,865,143

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

ENVIRONMENTAL WORKING GROUP
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	Program Services					Supporting Services				
	Toxics and Human Health	Licensing	Food and Agriculture	Energy and Natural Resources	News	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries, taxes, and benefits	\$ 4,124,101	\$ 1,390,843	\$ 1,585,602	\$ 786,213	\$ 300,135	\$ 8,186,894	\$ 504,513	\$ 790,920	\$ 1,295,433	\$ 9,482,327
Occupancy	561,878	182,207	217,218	109,822	38,113	1,109,238	236,670	99,029	335,699	1,444,937
Professional fees	190,936	621,407	95,044	209,688	45,120	1,162,195	65,020	60,020	125,040	1,287,235
Marketing and advertising	206,496	85,416	85,974	27,292	10,258	415,436	16,546	419,796	436,342	851,778
Events and travel	89,751	75,822	44,622	15,965	5,463	231,623	20,119	255,120	275,239	506,862
Donated advertising and goods	207,365	74,197	79,569	40,421	15,760	417,312	23,888	56,728	80,616	497,928
Research and data	155,621	24,951	87,262	13,730	5,054	286,618	21,980	19,582	41,562	328,180
Information technology	116,322	43,504	89,346	22,163	8,471	279,806	13,983	22,411	36,394	316,200
Other	46,179	54,712	17,840	18,610	3,368	140,709	28,265	18,827	47,092	187,801
Bank and credit card fees	56	16,610	-	-	-	16,666	8,218	133,255	141,473	158,139
Supplies	27,347	8,469	6,387	2,927	2,298	47,428	4,732	12,570	17,302	64,730
TOTAL EXPENSES	\$ 5,726,052	\$ 2,578,138	\$ 2,308,864	\$ 1,246,831	\$ 434,040	\$ 12,293,925	\$ 943,934	\$ 1,888,258	\$ 2,832,192	\$ 15,126,117

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

ENVIRONMENTAL WORKING GROUP
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	Program Services					Supporting Services			
	Toxics and Human Health	Licensing	Food and Agriculture	Energy and Natural Resources	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries, taxes, and benefits	\$ 4,147,587	\$ 983,619	\$ 1,763,931	\$ 560,141	\$ 7,455,278	\$ 467,985	\$ 572,350	\$ 1,040,335	\$ 8,495,613
Occupancy	403,594	90,334	194,664	53,843	742,435	43,170	53,336	96,506	838,941
Professional fees	236,000	576,923	315,114	86,844	1,214,881	93,623	37,281	130,904	1,345,785
Marketing and advertising	125,406	54,093	43,922	20,559	243,980	12,511	553,386	565,897	809,877
Events and travel	114,850	28,131	36,012	24,214	203,207	7,980	161,299	169,279	372,486
Donated advertising and other	259,307	59,630	109,077	33,176	461,190	28,119	42,173	70,292	531,482
Research and data	107,879	13,678	84,827	10,059	216,443	17,144	9,834	26,978	243,421
Information technology	122,648	24,677	73,950	18,779	240,054	15,839	11,690	27,529	267,583
Other	33,814	7,763	14,503	4,537	60,617	32,338	4,530	36,868	97,485
Bank and credit card fees	-	9,674	-	-	9,674	9,089	116,506	125,595	135,269
Supplies	27,898	7,293	10,761	2,633	48,585	4,748	6,654	11,402	59,987
TOTAL EXPENSES	\$ 5,578,983	\$ 1,855,815	\$ 2,646,761	\$ 814,785	\$ 10,896,344	\$ 732,546	\$ 1,569,039	\$ 2,301,585	\$ 13,197,929

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

ENVIRONMENTAL WORKING GROUP
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,218,233)	\$ 3,397,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	222,660	140,428
Amortization of operating right-of-use asset	688,702	-
Net realized and unrealized losses	117,990	86,186
Forgiveness of note payable – PPP Loan	-	(1,156,800)
Changes in assets and liabilities:		
Due from related entities	-	7,244
Prepaid expenses and deposits	75,254	(180,855)
Operating right-of-use asset	(8,757,998)	-
Accounts receivable	230,399	(77,137)
Grants and contributions receivable	(387,075)	(998,291)
Accounts payable and accrued expenses	361,660	40,661
Deferred revenue	-	(54,000)
Operating lease liability	9,199,674	-
Deferred rent and leasehold allowances	<u>(153,668)</u>	<u>(47,280)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>379,365</u>	<u>1,157,882</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(219,125)	(480,333)
Proceeds from sales of investments	10,021,651	6,684,242
Purchases of investments	<u>(10,416,610)</u>	<u>(11,076,397)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(614,084)</u>	<u>(4,872,488)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(234,719)</u>	<u>(3,714,606)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,313,504</u>	<u>8,028,110</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,078,785</u></u>	<u><u>\$ 4,313,504</u></u>
CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 4,067,282	\$ 4,071,549
Cash and cash equivalents held within investments	<u>11,503</u>	<u>241,955</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 4,078,785</u></u>	<u><u>\$ 4,313,504</u></u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired with leasehold incentive	<u>\$ 186,497</u>	<u>\$ 127,966</u>
Forgiveness of note payable – PPP Loan	<u><u>\$ -</u></u>	<u><u>\$ 1,156,800</u></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, 2022 and 2021

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

As required under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 230, *Statement of Cash Flows*, EWG considers highly liquid investments purchased with maturities of three months or less to be cash equivalents.

Investments

Investments are composed of mutual funds; exchange traded funds; bank deposit sweep funds; municipal, U.S. government and corporate bonds; and certificates of deposit held for investment purposes as intended by EWG's management and for initial periods greater than three months. 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

FASB 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, 2022 and 2021

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, 2022 and 2021, only EWG's investments, as described in Note 5 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. 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 of the donated assets to a particular purpose or to a specific period of time.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

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

Revenue Recognition (continued)

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.

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. There were no conditional promises to give as of December 31, 2022 or 2021.

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 and accounting services to a related party. 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. 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, contributions and ticket sales to attend a special event. Sponsorships and ticket sales are recognized at the point in time the event takes place.

In-kind contributions consist of donated advertising and goods and materials. In-kind contributions are recorded based on their fair value at the date of donation and included as donated advertising and other expense in the accompanying statements of functional expenses when utilized. Donated advertising and goods and materials were not sold by EWG

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

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

Revenue Recognition (continued)

in either the year ended December 31, 2022 or 2021. Donated advertising and goods and materials were utilized by EWG in program and supporting services during both the years ended December 31, 2022 and 2021. There were no donor-imposed restrictions associated with the in-kind contributions.

Paycheck Protection Program (PPP) loan forgiveness was recognized as revenue in the period the loan was forgiven by the Small Business Association (SBA).

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 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, 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.

Measurement of Operations

Operating revenue and support and expenses generally reflect those revenues and expenses that management can influence. Nonoperating activities include PPP loan forgiveness.

New Accounting Pronouncements to be Adopted

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 *Financial Instruments – Credit Losses* – (Topic 326). This ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance applies to loans, accounts receivable, trade receivables and other financial assets measured at amortized costs, loan commitments, debt securities and beneficial interests in securitized financial assets, but the effect on EWG is projected to be limited to accounts receivable. The guidance is effective for EWG's fiscal year beginning January 1, 2023. EWG is in the process of evaluating the impact this ASU will have on its financial statements.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

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

Recently Adopted Accounting Pronouncements

In September 2020, FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07 requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. EWG adopted ASU 2020-07 retrospectively on January 1, 2021. The adoption of the standard did not result in a material change to the financial statements.

Effective January 1, 2022, EWG adopted FASB ASC 842, *Leases* (ASC 842). EWG determines if an arrangement contains a lease at inception based on whether EWG has the right to control the asset during the contract period and other facts and circumstances. EWG elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. EWG elected the short-term lease recognition exemption for all leases that qualify. Consequently, for those leases that qualify for the short-term recognition exemption, EWG will not recognize operating right-of-use assets or operating lease liabilities on the statement of financial position. EWG's only operating lease at the time of adoption that required recognition on the statement of financial position was the Washington, DC office space lease as described in Note 7. EWG used the risk-free rate, as permitted by ASC 842 for non-public entities, of 1.52% when discounting future non-cancellable lease payments.

The adoption of ASC 842 resulted in the recognition of an operating right-to-use asset of \$8,757,998 and operating lease liability of \$9,072,460 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with EWG's historical accounting treatment. The adoption of ASC 842 did not have a material impact on EWG's result of operations and cash flows. See Note 7.

2. Grants and Contributions Receivable

As of December 31, 2022 and 2021, EWG had recognized grants and contributions receivable of \$3,389,809 and \$3,002,734, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Due in less than one year	\$ 3,114,809	\$ 2,177,734
Due in one to five years	<u>275,000</u>	<u>825,000</u>
Total Grants and Contributions Receivable	<u>\$ 3,389,809</u>	<u>\$ 3,002,734</u>

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

2. Grants and Contributions Receivable (continued)

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, is not recognized in these financial statements.

3. Receivables from Contracts with Customers

EWG's receivables from contracts with customers are included in accounts receivable in the accompanying statements of financial position and consisted of the following as of December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
EWG Verified Program	\$ 348,134	\$ 431,432	\$ 429,521
EWG Reviewed Program	6,375	27,875	78,250
Lease incentive (reimbursable costs)	<u>-</u>	<u>125,601</u>	<u>-</u>
Receivables	<u>\$ 354,509</u>	<u>\$ 584,908</u>	<u>\$ 507,771</u>

All receivables from contracts with customers are scheduled to be collected within one year. There is no allowance for doubtful accounts associated with receivables from contracts with customers for the years ended December 31, 2022 and 2021.

4. In-kind Contributions

In-kind contributions consisted of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Advertising	\$ 476,953	\$ 516,635
Goods and materials	<u>20,975</u>	<u>14,847</u>
Total In-kind Contributions	<u>\$ 497,928</u>	<u>\$ 531,482</u>

Donated advertising primarily consists of on-line advertising in support of EWG's mission, programs, and events. The reported fair value of donated advertising is based on prices that EWG would have had to otherwise pay if EWG had purchased the advertising. The total fair value of donated advertising is included in in-kind contribution revenue and program and supporting services expenses in the accompanying statements of activities.

Donated materials and goods primarily consists of materials and goods received in support of EWG's annual fundraising event. The reported fair value of the donated goods and materials is based on prices that EWG would have had to otherwise pay if EWG had purchased the goods and materials. The total fair value of donated goods and materials is included in in-kind contribution revenue and fundraising expense in the accompanying statements of activities.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

5. Investments

EWG's investments, at fair value, consisted of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Bank deposit sweep funds	\$ 11,503	\$ 241,955
Fixed income	5,162,916	4,852,440
Mutual funds – fixed income	318,268	319,984
Exchange traded funds – inflation protected bonds	<u>247,109</u>	<u>278,900</u>
Total Investments	<u>\$ 5,739,796</u>	<u>\$ 5,693,279</u>

The following table summarizes EWG's investments measured at fair value on a recurring basis, aggregated by the fair value hierarchy level, where applicable, with which those measurements were made, as of December 31, 2022:

	<u>Fair Value</u>	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:				
U.S. government bonds	\$ 2,321,250	\$ -	\$ 2,321,250	\$ -
Certificates of deposit	1,789,720	-	1,789,720	-
Municipal bonds	1,051,946	-	1,051,946	-
Mutual funds – fixed income:				
Ultrashort bonds	318,268	318,268	-	-
Exchange traded funds:				
Inflation-protected bonds	<u>247,109</u>	<u>247,109</u>	<u>-</u>	<u>-</u>
Total Investments Measured at Fair Value	5,728,293	<u>\$ 565,377</u>	<u>\$ 5,162,916</u>	<u>\$ -</u>
Bank deposit sweep funds ^(a)	<u>11,503</u>			
Total Investments	<u>\$ 5,739,796</u>			

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

5. Investments (continued)

The following table summarizes EWG's investments measured at fair value on a recurring basis, aggregated by the fair value hierarchy level, where applicable, with which those measurements were made, as of December 31, 2021:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments measured at fair value:				
Fixed income:				
Certificates of deposit	\$ 3,983,963	\$ -	\$ 3,983,963	\$ -
Municipal bonds	767,652	-	767,652	-
Corporate bonds	100,825	-	100,825	-
Mutual funds – fixed income:				
Ultrashort bonds	319,984	319,984	-	-
Exchange traded funds:				
Inflation-protected bonds	<u>278,900</u>	<u>278,900</u>	<u>-</u>	<u>-</u>
Total Investments Measured at Fair Value	5,451,324	<u>\$ 598,884</u>	<u>\$ 4,852,440</u>	<u>\$ -</u>
Bank deposit sweep funds ^(a)	<u>241,955</u>			
Total Investments	<u>\$ 5,693,279</u>			

(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, 2022 and 2021:

Fixed income (certificates of deposit and municipal, corporate and U.S. 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.

Exchange traded funds – Valued at the closing price reported in the active market in which the exchange traded funds are traded.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

6. Property and Equipment

EWG held the following property and equipment as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Website and database development costs	\$ 614,963	\$ 614,963
Furniture and equipment	323,625	195,886
Computer equipment	321,928	281,809
Leasehold improvements	<u>79,854</u>	<u>28,587</u>
Total Property and Equipment	1,340,370	1,121,245
Less: Accumulated Depreciation and Amortization	<u>(547,208)</u>	<u>(324,548)</u>
Property and Equipment, Net	<u>\$ 793,162</u>	<u>\$ 796,697</u>

For the years ended December 31, 2022 and 2021, depreciation and amortization expense was \$222,660 and \$140,428, and is included in occupancy in the accompanying statements of functional expenses.

7. 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. On July 7, 2011, EWG entered into another office space lease agreement with the same landlord to lease additional office space which expired simultaneously with the original lease on July 31, 2016. On March 12, 2015, the lease terms of the existing lease agreements were amended to exercise EWG's option to extend the leases for an additional five years beginning on August 1, 2016, and expiring on July 31, 2021. The base rent under the amended lease was \$39,753. This lease expired during the year ended December 31, 2021 and was not renewed.

On March 11, 2021, EWG entered into a noncancelable operating lease for office space, in Washington, D.C., which commenced on January 1, 2022 and is scheduled to expire on December 31, 2033. 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 and an improvement allowance totaling \$2,069,685, of which \$314,463 was used for direct lessee incentives such as furniture, fixtures, and equipment and the remaining balance was used for construction related costs which are considered lessor assets. The lease provisions required a deposit of \$75,166. EWG is also required to pay a share of property taxes and other operating expenses.

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

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

7. Commitments and Risks (continued)

Office Space (continued)

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. This lease expired during the year ended December 31, 2022 and was not renewed.

In May 2018, EWG entered into a noncancelable lease for office space in 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, which was used in full in 2018.

Additionally, EWG leases storage and other space under various short-term leases, including office space in Iowa on a month-to-month basis at \$2,150 per month.

As described in Note 1, effective January 1, 2022, EWG adopted *Leases*, ASC 842, which requires lessees to recognize operating leases on the statement of financial position. EWG has recorded an operating right-of-use asset, net of prepaid lease payments and direct lease incentives, and a lease obligation equal to the present value of the future lease payments due under the terms of the lease, discounted at the risk-free rate as of the date of implementation as permitted by ASC 842, which was 1.52%, for its main Washington, DC office space operating lease. As of December 31, 2022, EWG's operating right-of-use asset, net of accumulated amortization of \$688,702, was \$8,069,296, and EWG's operating lease liability was \$9,199,674. The operating right-of-use asset is being amortized on a straight-line basis over the lease term.

EWG did not record an operating right-of-use asset and operating lease liability as of December 31, 2022 for its Minneapolis, Minnesota operating lease as the balances were not considered material to the accompanying financial statements and there was no material difference in the related operating lease costs for the year then ended. As described in Note 1, EWG elected the short-term lease exemption for leases that qualify.

Operating lease costs for all leases totaled \$1,168,561 and \$644,332 for the years ended December 31, 2022 and 2021, respectively, and is included in occupancy in the accompanying statements of functional expenses. Cash paid for all operating leases for the year end December 31, 2022 totaled \$352,645. There were no noncash investing and financing transactions relating to leasing other than the entry described in Note 1 related to the adoption of ASC 842 and the direct lessee incentives for the Washington, DC office lease as described above.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

7. Commitments and Risks (continued)

Office Space (continued)

As of December 31, 2021, the future minimum lease payments were as follows:

For the Year Ending December 31,	
2022	\$ 227,216
2023	50,254
2024	902,004
2025	924,552
2026	947,664
Thereafter	<u>7,331,232</u>
Total	<u>\$ 10,382,922</u>

As of December 31, 2022, the future minimum lease payments under the Washington, DC operating lease were as follows:

For the Year Ending December 31,	
2023	\$ -
2024	902,004
2025	924,552
2026	947,664
2027	971,352
Thereafter	<u>6,359,880</u>
Total	<u>10,105,452</u>
Less: Present value discount	<u>(905,778)</u>
Lease Liability	<u>\$ 9,199,674</u>

The future minimum lease payments for the Minneapolis, Minnesota lease, which are not included in the above schedule as of December 31, 2022, are \$50,254 and are due in 2023.

Concentration of Credit Risk

EWG maintains its cash and cash equivalents, as well as certificates of deposits included within investments, 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, 2022 and 2021, EWG had cash and cash equivalents and certificates of deposits which exceeded the maximum limit insured by the FDIC by approximately \$3,810,000 and \$3,646,000, respectively. EWG monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents or certificates of deposits.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

7. Commitments and Risks (continued)

Investment Risk

EWG also invests in various investment securities that are exposed to various risks, including market, interest rate and credit risks. Market risks include global events which could impact the value of investment securities, such as pandemic or international conflict. 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.

8. PPP Loan Forgiveness

On April 2, 2020, EWG entered into a SBA loan with its financial institution under the PPP for the amount of \$1,156,800. The note was scheduled to mature on May 2, 2022, with a fixed interest rate of 1% per annum. Consecutive monthly payments of principal and interest were to commence on one month after the earlier of the following dates: (1) the date the financial institution received the applicable forgiveness amount from the SBA; or (2) the date that was 10 months after the end of the forgiveness covered period, through the maturity date. On April 8, 2021, EWG received notification of the SBA's approval of its application for forgiveness of the full balance of \$1,156,800. As a result, EWG recognized the forgiveness of the note payable as nonoperating revenue in the accompanying statement of activities for the year ended December 31, 2021.

9. Net Assets

Net Assets Without Donor Restrictions

As of December 31, 2022 and 2021, EWG's net assets without donor restrictions were as follows:

	<u>2022</u>	<u>2021</u>
Undesignated – operating	\$ 7,213,199	\$ 7,087,553
Board-designated – reserve fund	<u>3,545,887</u>	<u>3,491,536</u>
Total Net Assets Without Donor Restrictions	<u>\$ 10,759,086</u>	<u>\$ 10,579,089</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.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

9. Net Assets (continued)

Net Assets Without Donor Restrictions (continued)

As of December 31, 2022 and 2021, net assets with donor restrictions were restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Toxics and human health	\$ 1,394,166	\$ 2,153,446
Water and agriculture	326,994	788,683
Licensing	<u>166,664</u>	<u>343,925</u>
Total Net Assets With Donor Restrictions	<u>\$ 1,887,824</u>	<u>\$ 3,286,054</u>

10. 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%. The prime rate was 7.5% and 3.5% as of December 31, 2022 and 2021, respectively. In the event the line of credit is not renewed, the outstanding balance at cancellation will be payable over a period of 48 months. During the years ended December 31, 2022 and 2021, no money was borrowed or repaid, and, as a result, there was no interest paid during either years ended December 31, 2022 and 2021.

11. 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 may be drawn upon as needed to manage cash flow. See Note 10 for further description of this line of credit.

The following table reflects EWG's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general expenditures within one year.

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 4,067,282	\$ 4,071,549
Receivables	3,744,318	3,587,642
Investments	<u>5,739,796</u>	<u>5,693,279</u>
Financial Assets at Year-End	13,551,396	13,352,470

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

11. Availability and Liquidity (continued)

	<u>2022</u>	<u>2021</u>
<i>(continued)</i>		
Less Donor-Imposed Restrictions:		
Grants and contribution receivable collectible beyond one year	\$ (275,000)	\$ (825,000)
Less Internal Designations:		
Board-designated reserve fund	<u>(3,545,887)</u>	<u>(3,491,536)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 9,730,509</u>	<u>\$ 9,035,934</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, 2022 and 2021, restricted contributions of \$1,612,824 and \$2,461,054, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

12. Retirement Plan

EWG maintains a defined-contribution retirement plan under Section 403(b) of the Internal Revenue Code (the IRC). Employees are eligible to participate in the plan and may elect to make contributions pursuant to a salary reduction beginning the month following employment. Under the terms of the plan, EWG may make a discretionary matching contribution to the plan, and employees are immediately vested in employer contributions. For the years ended December 31, 2022 and 2021, EWG made discretionary employer matching contributions of \$311,793 and \$306,509, respectively.

13. Related-Party Transactions

EWG is affiliated through common management with the EWG Action Fund (EWGAF). EWGAF is a 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.

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. During the years ended December 31, 2022 and 2021, EWG invoiced EWGAF \$21,154 and \$36,599, respectively, for such services. All amounts were paid in full during the year invoiced and no amounts were outstanding as of December 31, 2022 and 2021.

ENVIRONMENTAL WORKING GROUP

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2022 and 2021

14. 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, EWG had no accrual for interest and/or penalties.

15. 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 case was dismissed in August 2022 with prejudice and without an award of cost or fees to either party.

16. Subsequent Events

In preparing these financial statements, EWG has evaluated events and transactions for potential recognition or disclosure through June 28, 2023, the date the financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in the financial statements.