

WHOLESOME WAVE, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

WHOLESOME WAVE, INC.

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Independent Auditors' Report

To the Board of Directors
Wholesome Wave, Inc.
Bridgeport, Connecticut

We have audited the accompanying financial statements of Wholesome Wave, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, 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 auditors consider 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 Wholesome Wave, Inc., as of December 31, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2019, Wholesome Wave, Inc., adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 7, 2020

WHOLESONE WAVE, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 692,523	\$ 913,662
Accounts receivable	93,555	120,066
Contributions receivable	34,136	536,376
Investments - deferred compensation	124,147	93,083
Other assets	5,425	5,425
Property and equipment, net	<u>47,800</u>	<u>7,173</u>
Total Assets	<u>\$ 997,586</u>	<u>\$ 1,675,785</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 670,188	\$ 243,714
Deferred revenue	-	262,549
Deferred compensation	124,147	93,083
Note payable	500,000	500,000
Total liabilities	<u>1,294,335</u>	<u>1,099,346</u>
Net Assets		
Without donor restrictions	(1,345,902)	(1,480,718)
With donor restrictions	1,049,153	2,057,157
Total net assets	<u>(296,749)</u>	<u>576,439</u>
Total Liabilities and Net Assets	<u>\$ 997,586</u>	<u>\$ 1,675,785</u>

The accompanying notes are an integral part of the financial statements

WHOLESOME WAVE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Private grants and contributions	\$ 2,720,376	\$ 857,897	\$ 3,578,273	\$ 1,535,350	\$ 2,716,096	\$ 4,251,446
Program income, net	1,202,942	-	1,202,942	552,452	-	552,452
Government grants and contracts	222,792	-	222,792	232,098	-	232,098
Donated services	12,459	-	12,459	221,882	-	221,882
Other income	534	-	534	10,595	-	10,595
Net assets released from restrictions	1,865,901	(1,865,901)	-	1,409,484	(1,409,484)	-
Total public support and revenue	<u>6,025,004</u>	<u>(1,008,004)</u>	<u>5,017,000</u>	<u>3,961,861</u>	<u>1,306,612</u>	<u>5,268,473</u>
Expenses						
Program services	4,177,796	-	4,177,796	3,900,874	-	3,900,874
Management and general	1,037,703	-	1,037,703	838,384	-	838,384
Development and fundraising	674,689	-	674,689	565,597	-	565,597
Total expenses	<u>5,890,188</u>	<u>-</u>	<u>5,890,188</u>	<u>5,304,855</u>	<u>-</u>	<u>5,304,855</u>
Increase (Decrease) in Net Assets	134,816	(1,008,004)	(873,188)	(1,342,994)	1,306,612	(36,382)
Net Assets - Beginning of Year	<u>(1,480,718)</u>	<u>2,057,157</u>	<u>576,439</u>	<u>(137,724)</u>	<u>750,545</u>	<u>612,821</u>
Net Assets - End of Year	<u><u>\$ (1,345,902)</u></u>	<u><u>\$ 1,049,153</u></u>	<u><u>\$ (296,749)</u></u>	<u><u>\$ (1,480,718)</u></u>	<u><u>\$ 2,057,157</u></u>	<u><u>\$ 576,439</u></u>

The accompanying notes are an integral part of the financial statements

WHOLESOME WAVE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Program Services	Management and General	Development and Fundraising	Total	Program Services	Management and General	Development and Fundraising	Total
Personnel costs	\$ 1,209,507	\$ 703,310	\$ 596,123	\$ 2,508,940	\$ 1,366,145	\$ 453,280	\$ 303,451	\$ 2,122,876
Incentive costs	1,795,902	-	-	1,795,902	1,428,260	-	-	1,428,260
Contracted services	790,314	28,448	-	818,762	463,459	186,743	174,127	824,329
Office expense	177,673	51,460	46,855	275,988	177,169	14,498	32,858	224,525
Professional fees	5,415	166,114	2,278	173,807	58,526	60,102	31,702	150,330
Travel and meetings	129,143	6,270	5,296	140,709	94,508	51,972	15,105	161,585
Occupancy	57,383	26,485	24,137	108,005	81,659	10,924	8,321	100,904
Insurance	-	51,243	-	51,243	-	51,675	-	51,675
Donated services	12,459	-	-	12,459	221,882	-	-	221,882
Depreciation expense	-	4,373	-	4,373	-	8,146	-	8,146
Miscellaneous expenses	-	-	-	-	9,266	1,044	33	10,343
Total Expenses	\$ 4,177,796	\$ 1,037,703	\$ 674,689	\$ 5,890,188	\$ 3,900,874	\$ 838,384	\$ 565,597	\$ 5,304,855

The accompanying notes are an integral part of the financial statements

WHOLESONE WAVE, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (873,188)	\$ (36,382)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	4,373	8,146
Bad debt expense	38,103	-
(Increase) decrease in operating assets:		
Accounts receivable	(11,592)	(12,467)
Grants receivable	-	97,238
Contributions receivable	502,240	(253,819)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	426,474	(63,138)
Deferred revenue	(262,549)	(2)
Deferred compensation	31,064	8,261
Net cash used in operating activities	<u>(145,075)</u>	<u>(252,163)</u>
Cash Flows from Investing Activities		
Purchase of investments	(31,064)	(8,261)
Purchase of property and equipment	(45,000)	(2,298)
Net cash used in investing activities	<u>(76,064)</u>	<u>(10,559)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	-	500,000
Net cash provided by financing activities	<u>-</u>	<u>500,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(221,139)	237,278
Cash and Cash Equivalents - Beginning of Year	<u>913,662</u>	<u>676,384</u>
Cash and Cash Equivalents - End of Year	<u>\$ 692,523</u>	<u>\$ 913,662</u>

The accompanying notes are an integral part of the financial statements

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Wholesome Wave, Inc. (Wholesome Wave) is a not-for-profit organization located in Bridgeport, Connecticut. Its mission is to inspire underserved consumers to make healthier food choices by increasing affordable access to fresh, local and regional food. Wholesome Wave is supported by contributions from private foundations and donors and program income.

Change in Accounting Principle

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the determination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified prospective method, in which case the effect of applying the standard would be recognized for any agreements not completed and any new agreements entered into at the date of initial application. The new standard is effective for annual reporting periods beginning after December 15, 2018. Management has adopted ASU 2018-08 for the year ended December 31, 2019. The amendments have been applied using the modified prospective method.

There was no cumulative effect of applying ASU 2018-08.

Basis of Accounting and Presentation

The financial statements of Wholesome Wave have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the accounts of Wholesome Wave are reported in the following net asset categories:

Net Assets Without Donor Restrictions

Net assets with donor restrictions represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent contributions that are restricted by the donor as to purpose or time of expenditure. Net assets with donor restrictions also represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit Wholesome Wave to expend the income earned thereon. Wholesome Wave does not currently have any net assets with donor restriction to be maintained in perpetuity.

Use of Estimates

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

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and certain highly liquid investments with original maturities of 90 days or less, exclusive of amounts held by brokers, which are considered to be investments.

Wholesome Wave places its cash deposits with high credit-quality institutions. Such deposits exceed federal depository insurance limits at times during the year. However, management believes that Wholesome Wave's deposits are not subject to significant credit risk.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 2 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes Wholesome Wave's gains and losses on investments bought and sold as well as held during the year. Realized and unrealized gains and losses and other investment income are reflected in the accompanying statements of activities and changes in net assets as net realized and unrealized gains and losses on investments and investment income. These amounts are reported in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions or net assets with donor restrictions as appropriate based on any donor stipulations or law.

Property and Equipment

Property and equipment acquisitions and improvements thereon that exceed \$1,000 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Repairs and maintenance are charged to expense as incurred.

Contributions Including Government Grants and Contracts

In accordance with ASU 2018-08, certain governmental grants and contracts received by a not-for-profit are generally considered to be contributions rather than exchange transactions since there was not commensurate value transferred between the resource provider and Wholesome Wave. Promises to give that are subject to donor-imposed conditions (i.e., a donor stipulation that includes a barrier that must be overcome and a right of return of assets) are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Unconditional contributions are recognized when promised or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor.

Wholesome Wave reports contributions of cash and other assets as donor-restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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. Contributions received whose restrictions are met in the same period are presented as net assets without donor restrictions.

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services recognized in the financial statements totaled \$12,459 and \$221,882 for the years ended December 31, 2019 and 2018, respectively. General volunteer services do not meet these criteria for recognition.

Wholesome Wave reports gifts of property and equipment as support without donor restrictions. Gifts of long-lived assets with explicit restrictions on how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Wholesome Wave reports expirations of donor restrictions when the assets are placed in service.

Conditional government grants and contracts not recognized as revenue as of December 31, 2019 and 2018 total \$-0- and \$262,549. Government grants and contracts are conditioned on incurring qualified program expenses

Program Income

Program income includes revenue received from local farmer's markets, third-party payers and others for services rendered. Wholesome Wave recognizes the revenue from these services when earned, which is when the services are performed. Amounts received in advance of earning these revenues are recorded as deferred revenue.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Such allocations are determined by management on an equitable basis. The expenses are allocated based on time and effort, usage or square footage.

Income Taxes

Wholesome Wave is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through December 7, 2020, which represents the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus to be a public health emergency.

On April 23, 2020, Wholesome Wave received a loan of \$359,674 pursuant to the Paycheck Protection Program (PPP) of the CARES Act. The loan bears interest at a rate of 1% and will be due April 23, 2022. Under the PPP loan program, Wholesome Wave may apply for forgiveness of all or a portion of the loan based on the amount of qualifying expenses incurred during the 8- to 24-week period subsequent to receipt of funds. The amount of loan forgiveness, if any, is not known at the date the financial statements were available to be issued.

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that Wholesome Wave has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

Financial Instruments Measured at Fair Value

The following is a description of the valuation methodologies and investment strategies used for assets measured at fair value:

Mutual Funds

Mutual funds are valued at the quoted net unit value of shares held by Wholesome Wave at year end.

There have been no changes in the methodologies used at December 31, 2019 and 2018.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Wholesome Wave believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of all investments are determined using quoted prices for identical assets in active markets in which Wholesome Wave has access (Level 1).

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable, which represent promises made by individuals and corporations, receivable in less than one year, consist of \$34,136 and \$536,376 at December 31, 2019 and 2018, respectively. Based on management's assessment of outstanding balances, it has concluded that no reserve is deemed necessary at December 31, 2019 and 2018.

NOTE 4 - NOTE PAYABLE

During 2018, Wholesome Wave entered into a note payable with Newman's Own Foundation for \$500,000 with an annual interest rate of 1.5%. The note has a maturity date and lump sum due on August 2, 2022. The purpose of this note payable is to provide working capital. There was \$500,000 outstanding on this note at December 31, 2019 and 2018.

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purpose or time periods at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Walmart - capacity building	\$ 857,896	\$ -
Food Insecurity Nutrition Initiative	16,517	73,047
Multi city fruit and vegetable prescription program	66,375	72,778
Produce Purchasing Power	47,904	50,000
In-School distribution channel program	40,000	40,000
Fruit and vegetable prescription program whitepaper	20,461	22,804
Los Angeles gift card program	-	1,226,540
Weight Watchers programs	-	77,219
Humana programs - Tampa	-	259,414
SNAP matching program	-	97,237
Chobani fruit and vegetable prescription program	-	92,205
Newman's Own fellowship programs	-	32,913
Individual contributions restricted	-	13,000
	<u>\$ 1,049,153</u>	<u>\$ 2,057,157</u>

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the following purpose or time restrictions for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Los Angeles gift card program	\$ 1,226,540	\$ 273,461
Humana programs - Tampa	259,414	60,586
Weight Watchers programs	77,219	127,781
SNAP matching program	97,237	2,763
Chobani fruit and vegetable prescription program	92,206	107,899
Food Insecurity Nutrition Initiative	56,530	6,953
Newman's Own fellowship programs	32,913	26,795
Individual contributions released	13,000	12,000
Multi city fruit and vegetable prescription program	6,403	789,050
Fruit and vegetable prescription program whitepaper	2,343	2,196
Produce Purchasing Power	<u>2,096</u>	<u>-</u>
Total Net Assets Released from Restrictions	\$ <u>1,865,901</u>	\$ <u>1,409,484</u>

NOTE 7 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Wholesome Wave's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 692,523	\$ 913,662
Accounts receivable	93,555	120,066
Contributions receivable	<u>34,136</u>	<u>536,376</u>
	820,214	1,570,104
Less net assets with donor restrictions	<u>(1,049,153)</u>	<u>(2,057,157)</u>
Deficiency of Liquid Net Assets	\$ <u>(228,939)</u>	\$ <u>(487,053)</u>

Liquidity Management

Wholesome Wave maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition to financial assets available to meet general expenditures over the next 12 months, Wholesome Wave operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

WHOLESOME WAVE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - ROYALTY AGREEMENT

During 2019, Wholesome Wave signed a royalty agreement with Wholesome Crave, LLC, for intellectual property licensing. Wholesome Crave will utilize certain trademarks owned by Wholesome Wave and in return will pay a royalty. During 2019, \$5,864 was received under this agreement.

NOTE 9 - LEASE COMMITMENTS

Wholesome Wave has an operating lease agreement for its office space in Bridgeport, Connecticut, expiring in June 2022 and a copier lease expiring in February 2021. Rent expense under these leases totaled \$128,987 and \$119,666 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments under these operating leases are as follows:

Year Ending December 31

2020	\$	112,500
2021		117,064
2022		<u>50,204</u>
Total	\$	<u>279,768</u>

NOTE 10 - RETIREMENT PLANS

Wholesome Wave sponsors a tax-deferred 401(k) profit-sharing retirement plan for its employees over the age of 21. An employee is eligible to participate in the plan after three months of service. Each plan year, Wholesome Wave may make discretionary profit-sharing contributions as determined by the Board of Directors for all eligible participants. Wholesome Wave did not make discretionary profit-sharing contributions for the years ended December 31, 2019 and 2018.

Wholesome Wave also maintains a nonqualified 457(b) deferred compensation plan for eligible employees. As of December 31, 2019 and 2018, assets that fully fund the related liabilities of \$124,147 and \$93,083, respectively, are included in investments - deferred compensation and the related liability is included in deferred compensation in the statements of financial position. During the years ended December 31, 2019 and 2018, deferred compensation expense totaled \$14,400 for each year.

NOTE 11 - FUTURE OPERATIONS

Due to the deficit in net assets without donor restrictions as well as the liquidity position of Wholesome Wave as disclosed in Note 7 above, management is working to reverse the deficit within net assets without donor restrictions. Wholesome Wave has filed Form 3505EZ to request forgiveness of the PPP loan in the amount of \$359,674 and expect forgiveness by December 31, 2020. Wholesome Wave will be meeting with representatives of the Newman's Own Foundation to initiate discussions about the feasibility of converting some or all of their \$500,000 note payable to a grant. Once the coronavirus epidemic wanes and the economy returns to some semblance of normalcy, management intends to start making payments on any remaining note payable.